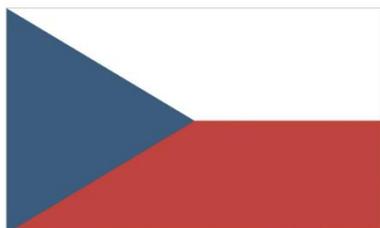


# THE OECD TAX-BENEFIT MODEL FOR CZECH REPUBLIC

Description of policy rules for 2019



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## Description of policy rules for 2019

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## Preface

This report provides a detailed description of the tax and benefit rules in the Czech Republic as they apply to individuals of working age and their dependent children. It also includes outputs from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the disposable income of families in different labour-market circumstances.

TaxBEN calculates tax liabilities and benefit entitlements for a broad set of *stylised* families (“vignettes”), e.g. a married couple of 40 years old adults with two children aged 4 and 6. Users can access the model through a user-friendly [web interface](#) that allows changing many of these family and individual characteristics. Available options include the age and number of children, the economic activity of adult members, working hours, wage rates, unemployment durations, and years of social security contributions. The OECD has updated the model annually since 2001 for most OECD and EU countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits as well as maternity and parental leaves benefits are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the policy rules that are relevant for family, individual and labour market circumstances that are within the scope of the TaxBEN model. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population but are not included in the model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and related analytical reports is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Czech Republic: Policy rules in 2019

### 1. Reference wages

Average wage [**AW**]: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#))<sup>1</sup>. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.

The minimum wage [**MIN**] in 2019 is CZK 13 350 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2019) by 12, i.e. CZK 13 350 \* 12 = CZK 160 200.

### 2. Unemployment benefits

#### 2.1. Means tested unemployment benefit (*Podpora v nezaměstnanosti*)

Code in the OECD tax-benefit model:<sup>3</sup> [**UI\_p**; **UI\_s**]

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable. 

##### 2.1.1. Eligibility conditions

Jobseekers are entitled to unemployment benefit if they: a) have gained 12 months of insurance within the pension scheme on the basis of their employment or self-employment in the last 2 years preceding the registration;<sup>4</sup> b) have applied for the unemployment benefit at the Labour Office (*Úřad práce*) while being registered as a jobseeker; c) are not recipients of a retirement pension.

**Behavioural requirements:**<sup>5</sup>  To be eligible for unemployment benefits the claimant has to meet a series of behavioural requirements. Among the others, the claimant:

1. Has to be registered with the Labour Office and actively seeking employment;

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<sup>1</sup> Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

<sup>3</sup> The variable names ending with “\_p” refer to the first adult (so-called “principal” adult) whereas those ending with “\_s” are related to the spouse.

<sup>4</sup> There are activities considered by law as a substitute period of employment while assessing the entitlement to unemployment benefit. Examples include: care responsibilities for dependent children under the age of 4 (or under the age of 10 in certain cases); care responsibilities for incapacitated family members who reside with the jobseeker; long-term civil service; temporary unfitness to work as a result of work injuries; work rehabilitation.

<sup>5</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion OECD reports..

2. Has to be ready to enter into employment relationships (they cannot refuse to take up a suitable employment or refuses to commence an agreed retraining programme);
3. Has to cooperate with the Labour Office when seeking work, e.g. they must attend meetings with the case worker and keep them updated;
4. Cannot work or be enrolled in full-time education.

Jobseekers who voluntarily quit their previous employment are still entitled to unemployment benefits but at a lower rate (see section 2.1.2). Unemployment benefits are not paid as long as the jobseeker is entitled to the severance pay higher than the unemployment benefit.. Jobseekers who are eligible for unemployment benefit are also entitled to participate in retraining courses and to receive a retraining allowance (see Annex).

TaxBEN assumes “involuntary” job loss and that all the behavioural requirements above are satisfied.

### 2.1.2. *Benefit amount*

The amount of unemployment benefit is a percentage of the last earned income net of tax and social security contributions. In the case of self-employment the amount will depend on the last assessment base). The amount decreases gradually: 65% in the first 2 months; 50% in the next 2 months; 45% in the remaining months.

The benefit amount is set at 45% of the previous average earnings for the entire period if a person voluntarily leaves their previous employment without “serious justifications” or upon agreement with the employer (i.e. they were not made redundant).

Unemployment benefit provided to jobseekers is capped at 0.58% of the national average wage calculated during the first three quarters of the calendar year preceding the year in which the application for unemployment benefits was submitted. This capped amount is received by those whose percentage calculation from previous earnings is higher than the set limit. In 2019 the capped amount is CZK 18 111 (0,58 \* CZK 31 225).

### 2.1.3. *Benefit duration*

The support period is: 5 months for job seekers under 50 years; 8 months for job seekers between 50 – 55 years; 11 months for job seekers over 55 years.<sup>6</sup>

### 2.1.4. *Tax treatment*

The benefit is not taxable.

### 2.1.5. *Interactions with other components of the tax-benefit system*

Unemployment benefit can be combined with family allowances, benefits in material need (*Dávky pomoci v hmotné nouzi*) and social assistance benefits for the disabled.

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<sup>6</sup> A job seeker who has exhausted the entire period of support in the past 2 years before being included in the register of jobseekers, has the right to receive unemployment benefit for the new whole support period if they, after exhausting this period, have started to work (or entered into gainful activities involving the obligation to pay premiums for pension insurance) for a period of at least 6 months. In certain circumstances the 6-month contribution period is not required, e.g. in cases when the job seeker terminated the employment for health reasons

### 2.1.6. Combining benefit receipt and employment/starting a new job

Unemployment benefit cannot be combined with earnings from work. However, if the benefit recipient is involved in retraining programmes and earns less than half of the minimum wage per month then the benefit is not revoked but only suspended during this period.

**Figure 1. Unemployment insurance amounts**  
By previous earnings, age and duration of benefit receipt



Note: Amounts are “annualized”, i.e. they are monthly values multiplied by 12. Panel A shows amounts calculated during the second month of benefit receipt. Panel B shows amounts calculated for a jobseeker with previous gross earnings equal to the average wage in 2019 (available [here](#)).

Source: [OECD tax-benefit model, 2019](#).

## 3. Social assistance and housing benefits

### 3.1. Allowance for living (*příspěvek na živobytí*)

Code in the OECD tax-benefit model: [\[SA\]](#)

This is a non-contributory benefit, means-tested and not taxable.

This benefit is for households with insufficient income who are unable to improve their situation through their own efforts. This programme helps applicants cover the costs of living (*příspěvek na živobytí*, see below), i.e. food, clothing and other basic needs, as well as basic housing costs (*doplatek na bydlení*, see below). A one-off lump-sum payment of other costs can be requested in exceptional cases.

Low-income households who are not necessarily in material need but lack of funds to pay for some extraordinary and immediate expenses can apply for the so called extraordinary immediate assistance payment (*mimořádná okamžitá pomoc*).

A care allowance as well as, in certain circumstances, a mobility allowance and a one-off grant for special aid, are provided to persons with reduced abilities. As these benefits are beyond the scope of the OECD tax-benefit model they are described in the annex.

#### 3.1.1. Eligibility conditions

To become eligible for the Assistance in material need benefit one has to reside in the country and proves the impossibility to increase his/her own income above the living minima by using their own means, in particular by gainful activities or through the application of entitlements and claims, or through the sale or rent of the persons' property.

In case of unemployment, the unemployed person has to be registered as a jobseeker, 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 or public works programmes.<sup>7</sup> Work-availability or job-search requirements must be met by all members of the household as relevant.

TaxBEN assumes that the work-availability and job-search requirements are satisfied for all household members.

### 3.1.2. Benefit amount

The benefit amount of allowance for living (*příspěvek na živobytí*) is equal to the difference between living minimum (i.e. the minimum living amount, see below) and the relevant household income minus the housing costs. In practice:

Social Assistance = minimum living amount – (relevant household income – reasonable housing costs).

‘Reasonable’ housing costs include the rent, up to specific limits stipulated by law, as well as services related to housing and energy costs. Housing costs are the same as those that enter the calculation of the housing allowance (Section 3.2).

TaxBEN note: For the purpose of the OECD tax-benefit model, the upper limits of the reasonable housing costs are those listed in Section 3.2.2.

The relevant household income is the sum of net earnings from employment and/or self-employment (i.e. after the deduction of contributions to health and social insurance and income tax), plus any other incomes specified by the tax legislation (e.g. alimony/maintenance payments from the absent parent), pensions, sickness and unemployment benefits, and family benefits (child and parental allowances). Note: disability benefits as well as the housing allowance (Section 3.2) are not included in the relevant household income.

Net earnings from work activities, sickness and unemployment benefits are partially disregarded when calculating benefit entitlements. The relevant amounts are 70% in case of net earnings from employment, 80% in the case of sickness insurance, pensions and unemployment benefits, 100% in the case of other incomes including parental and child allowances. Recipients who do not collaborate e.g. in job-search receive lower benefits (the calculation base is ‘subsistence minimum’ – see below).

#### **Living minima (monthly amounts):**

First person in household (or single-person households): CZK 3 140

Second and other persons who are not a dependant child: CZK 2 830

Dependent child: under 6 years: CZK 1 740; between 6 and 15 years: CZK 2 140; between 15 - 26 years: CZK 2 450

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<sup>7</sup> Effort to obtain income through working is not required from old-age and disability pensioners; persons over 68; care-dependent persons in dependency of grade II, III, IV; dependent children; parents caring for children; careers of care-dependent person, and persons who are temporary sick. In case of family with children, proper compulsory school attendance of children is required.

For instance, the maximum monthly amount for a family with two adults without children is CZK 3140+2830. This amount does not depend on whether the adults work or not, as long as they comply with any relevant job-search / activation requirement.

**Subsistence minimum (monthly amount): CZK 2 200**

The subsistence minimum, instead of the living minimum, is used for the calculation of the allowance for living adult person as a “sanction” for not meeting certain conditions prescribed by the law.<sup>8</sup> Similarly, after six months receiving the allowance for living, the claimant starts receiving the subsistence minimum unless one of the following conditions apply:

- The person is not obliged to increase income via work activities (see Footnote 7);
- The person eligible for unemployment benefit;
- The person is participating in PES projects;
- The person is employed or working in public service for at least 20 hours a month;
- The person has a second grade of disability.

For families with two adults, the penalization applies also to both adults unless at least one of the conditions above applies to each of them.

TaxBEN note: the penalization above applies to adults who receive the allowance for living for more than six months if they are i) without employment, ii) without children, iii) not entitled to unemployment benefit.

**Housing supplement** (*doplatek na bydlení*)

Code in the OECD tax-benefit model: **[HBS]**. This benefit is classified in the macro category of housing benefits **[HB]**.

A precondition to be entitled for the housing supplement is the existence of an entitlement to the housing allowance (Section 3.2) and the allowance for living. The housing supplement is calculated so as to ensure that a family receiving social assistance and housing allowance still receives the minimum living amount (as defined above) after paying the housing costs. More precisely, the housing supplement is the amount that remains after subtracting from the living minimum amount the relevant net household income (as defined above for the calculation of the allowance for living) minus the reasonable housing costs (as defined above) plus the housing allowance (Section 3.2) and the allowance for living (as defined above): In practice:

Housing supplement = (reasonable housing costs – Housing Allowance) – (relevant household income + allowance for living – Living Minimum).

*3.1.3. 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.

*3.1.4. Tax treatment*

The benefit is not taxable.

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<sup>8</sup> For instance, if a family member does not comply with the prescribed conditions of employment activity s/he is not considered as a person in material need.

### 3.1.5. Interaction with other components of the tax-benefit system

This benefit can be received at the same time as other benefit, including unemployment benefits, family benefits, and benefits for people with disabilities.

### 3.1.6. Combining benefit receipt and employment/starting a new job

The benefit is compatible with earnings as well as the receipt of other benefits.

## 3.2. Housing allowance (*Příspěvek na bydlení*)

Code in the OECD tax-benefit model: [\[HA\]](#)

The housing allowance is designed to assist low-income households to cover expenditure connected with housing. It is a non-contributory benefit, income-tested and not taxable.

### 3.2.1. Eligibility conditions

Housing benefits are granted irrespective of the type of housing.

### 3.2.2. Benefit amount

The benefit amount is calculated as the difference between the “prescriptive housing costs” (see table below) and the relevant household income multiplied by a coefficient of 0.30 (0.35 in Prague – the TaxBEN model applies a coefficient of 0.30). If the relevant household income is lower than the living minimum of the family (Section 3.1), the living minimum of the family shall be used for the calculation. Actual housing costs shall be used for the calculation of housing benefits if they are lower than the prescriptive costs.

The relevant household income is the sum of earnings from employment and/or self-employment, after the deduction of contributions to health and social insurance and income tax, pensions, sickness and unemployment benefits, plus any other incomes by the tax legislation (e.g. income from rent or alimony/maintenance payments from the absent parent). The relevant household income includes also the child allowance (Section 4.1) and the parental allowance (Section 4.2).<sup>9</sup> Social assistance (Section 3.1) as well as disability benefits are not part of the relevant household income.

The Table below shows the prescriptive housing costs for rental accommodations.<sup>10</sup>

#### Prescriptive housing costs for rental accommodations in CZK per month

Valid from Jan 1 2019 to Dec 31 2019

| Number of persons in household | Size of municipality |                          |                             |                             |                         |
|--------------------------------|----------------------|--------------------------|-----------------------------|-----------------------------|-------------------------|
|                                | Prague               | over 100 000 inhabitants | 50 000 - 99 999 inhabitants | 10 000 - 49 999 inhabitants | under 9 999 inhabitants |
| 1                              | 8233                 | 6541                     | 6233                        | 5314                        | 5117                    |
| 2                              | 11444                | 9129                     | 8708                        | 7450                        | 7180                    |
| 3                              | 15288                | 12260                    | 11710                       | 10065                       | 9712                    |
| 4+                             | 18805                | 15154                    | 14491                       | 12507                       | 12082                   |

The OECD tax-benefit model assumes that the accommodation is located in a municipality of 50 000 - 99 999 inhabitants.

<sup>9</sup> The reference time period for the calculation of the household income as well as the housing cost is previous calendar quarter.

<sup>10</sup> Costs for other types of accommodations, e.g. cooperatives or private accommodations are omitted.

### 3.2.3. Benefit duration

Benefit is provided as long as the given conditions are fulfilled. Persons can apply or re-apply for benefits always when they have not sufficient resources to cover housing costs and the office has to accept and to judge their application.

### 3.2.4. Tax treatment

This benefit is not taxable

### 3.2.5. Interaction with other components of the tax-benefit system

This benefit can be received at the same time as other benefit.

### 3.2.6. Combining benefit receipt and employment/starting a new job

The benefit is compatible with earnings.

#### Box 1. Example of calculation of housing and social assistance benefits

Let us consider a single person without children with annual gross earnings of CZK 30353 (about 7% of the 2019 average wage) and annual housing costs of CZK 20509 (about 5% of the 2019 average wage).

This person pays CZK 3339 / year of employee social security contributions (SSCs), which means that the gross earnings minus SSCs are equal to CZK 27014. As this person does not have dependent children, CZK 27014 is the reference income (RY) for the calculation of the housing allowance (Section 3.2):

$$\begin{aligned} \text{HA} &= \text{housing costs} - \max(\text{Living Minimum}, \text{RY}) * 0.30 \\ &= 20509 - \max(40920, 27014) * 0.30 = \text{CZK } 8233. \end{aligned}$$

Social assistance entitlements are calculated as follows (Section 3.1):

$$\begin{aligned} \text{SA} &= \text{Living Minimum} - 0.7 * \text{RY} - \text{housing costs} \\ &= 40920 - 0.7 * 27014 - 20509 = \text{CZK } 1501 \end{aligned}$$

Finally, the housing supplement is equal to

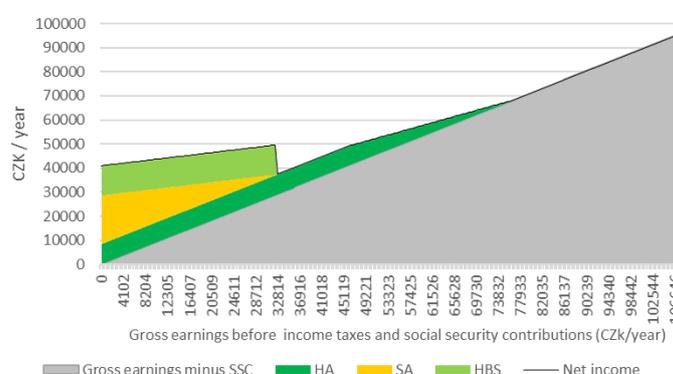
$$\begin{aligned} \text{HBS} &= (\text{housing costs} - \text{HA}) - (0.7 * \text{RY} + \text{SA} - \text{Living Minimum}) \\ &= (20509 - 8233) - (0.7 * 27014 + 1501 - 40920) = \text{CZK } 12276 \end{aligned}$$

The final net income is equal to:

$$\text{NET} = \text{RY} + \text{SA} + \text{HA} + \text{HBS} = 27014 + 1501 + 8233 + 12276 = \text{CZK } 49024.$$

The application of these rules at different earnings levels produces the results shown in Figure B1 below.

Figure B1. Net household income at selected earnings levels



Note: results for a single person without children. Housing costs are fixed at CZK 20509. HA= housing allowance (Section 3.2), SA = Social Assistance, HBS = housing benefit supplement (Section 3.1).

Source: [OECD tax-benefit model, 2019](#)

## 4. Family benefits

Code in the OECD tax-benefit model: [\[FB\]](#)

### 4.1. Child allowance (*Přídavek na dítě*)

Code in the OECD tax-benefit model: [\[ch\\_allow\]](#)

The child allowance is an income-tested benefit provided to a dependent child with the objective to contribute to the coverage of costs incurred in his upbringing and sustenance. It is a non-contributory benefit and not taxable.

#### 4.1.1. Eligibility conditions

Eligibility depends on the household income (See Section 4.1.3) and the presence of dependent children in the household. A dependent child is a child up to the age of compulsory school attendance (under 15 years) and further if the child systematically prepares for future occupation (in full-time education at secondary school and university), or is not able to prepare for future occupation due to health reasons or is not able to work due to disability, but maximum up to the age of 26 years.

#### 4.1.2. Benefit amount

For those families with incomes below the eligibility threshold (Section 4.1.3), the basic amount of the child allowance depends on the age of children (table below). As of January 2018, there is also an ‘increased amount’ (see table below) that depends on the amount of earnings of the primary household earner (Section 4.1.3).

#### Monthly mount of child allowance according to the child’s age, CZK per month in 2019

| Age of the Dependent Child | Basic amount | Increased amount |
|----------------------------|--------------|------------------|
| under 6 years              | 500          | 800              |
| 6-15 years                 | 610          | 910              |
| 15-26 years                | 700          | 1 000            |

#### 4.1.3. Means test

Entitlement to the basic child allowance depends on certain income criteria. Income of the family in the previous calendar quarter (effective since October 2017) must be under 2.7 family’s living minimum (See section 3). The relevant household income is the sum of earnings from employment and/or self-employment (after the deduction of contributions to health and social insurance as well as income taxes), pensions, sickness and unemployment benefits and parental allowance. The means test includes also other income components specified by the tax legislation which, however, are not included in the TaxBEN model (e.g. income from rent or alimony/maintenance payments from the absent parent).

Note: social assistance, disability and the housing allowance do not qualify as incomes for the entitlement to the child allowance (State social support act No. 117/1995 Coll.).

The increased amount of child allowance is a new legislation from January 2018. To qualify for the increased amounts there must be at least one person in the household with an income from employment or from certain social benefits higher than the living minimum for a single person (see Section 3). The relevant reference income is the sum of earnings from employment and/or self-employment (after the deduction of contributions to health and social insurance as well as income taxes), pensions, sickness and unemployment benefits, parental allowance and other items specified by the tax legislation (e.g. alimony/maintenance payments from the absent parent).

#### 4.1.4. Tax treatment

The benefit is not taxable.

#### 4.1.5. Interaction with other components of the tax-benefit system

The allowance can be received at the same time as any other benefit or earned income.

### 4.2. Parental allowance (*rodičovský příspěvek*)

Code in the OECD tax-benefit model: [\[pa\\_allow\]](#)

This is the primary form of support for families with small children. It is for parents caring for the youngest child (up to the age of four) in the family.

#### 4.2.1. Eligibility

A biological or foster parent with residence or employment in the Czech Republic is eligible for parental allowance so long as they personally provide full-time regular care for a child up to the age of four. This benefit can only be received for the youngest child in the family. Parental income and working activity has no effect on eligibility.

This benefit can still be claimed if the child attends pre-school. Such attendance is limited however to a maximum of 46 hours (5.75 days) per month up to the age of two (included) whereas the time that children older than two years spend in a nursery or kindergarten is not relevant for eligibility to the parental allowance.<sup>11</sup> Note: parents have the right to receive this benefit even if they work full time as long as they can assure that the child is in the care of another adult.

TaxBEN note: for families that use centre-based childcare, the amount of work provided (in terms of working hours) corresponds to the hours of centre-based childcare. For two-earner couples TaxBEN assumes that the hours of childcare correspond to the minimum hours of work of the parents. Hence, if each partner work, say, 25 hours per month, and they use childcare for their 2-years-old child, they are still entitled to the parental allowance. Similarly, if one partner works 25 hours per month and the other works 47 hours per month, the family preserves eligibility to the parental allowance. However, if both parents work more than 46 hours per month, they lose eligibility to the parental allowance.

#### 4.2.2. Benefit amount

A parent is entitled to claim a maximum benefit of CZK 220 000 until the child is 48 months old (included). As of January 2018, in the case of multiple childbirths the total amount of benefit extends to CZK 330 000. If at least one parent has a sickness insurance policy<sup>12</sup>, parents may select the amount of monthly parental allowance and thus the period of its distribution. For instance, if the parents distribute the benefit over 36 months, the monthly rate will be CZK 220 000 divided by 36. The beneficiary of parental benefit can alter the distribution of the parental allowance over time every three months. The longest option is

<sup>11</sup> There are certain exceptions concerning disabled children or disabled parents related to the child attendance in childcare facilities. While receiving parental allowance it is possible to place the child under two years of age into a pre-school care facility for 4 hours, and in some special cases for 6 hours a day.

<sup>12</sup> The sickness insurance policy refers to the sickness insurance system and is not related to the social security contribution for sickness insurance described in Section 7.

until the child is 48 months old and the shortest option is individual according to Daily Assessment Base (see below).

In case of shorter options, the maximum monthly amount of parental allowance cannot be higher than 70% of the Daily Assessment Base (DAB) multiplied by 30, in 2019 with a ceiling of CZK 40 080 per month. The daily assessment base is used for calculating the maternity benefit allowance and is derived from the average daily earnings over the past 12 months. Parents may select the monthly amount up to 7 600 CZK.

When both parents have a sickness insurance policy, the higher assessment base is used for the calculation. Parents may apply to change the amount of the allowance once every three months. If none of the parents have a sickness insurance policy (e.g. because they are students, unemployed or self-employed who have not paid voluntary sickness insurance contributions), they may select the monthly amount up to CZK 7 600. As of January 2018, in the case of multiple childbirths the monthly amounts are adjusted appropriately. While parents can alternate the reception of the parental allowance, only one of them is entitled to the benefit at each time.

TaxBEN note: the model assumes that the family claims the benefit for 36 months when the child is between 12 and 48 months old, and independently of the economic activity status of the parents. This is equal to CZK 6 111 per month.

#### 4.2.3. Tax treatment

Not taxable.

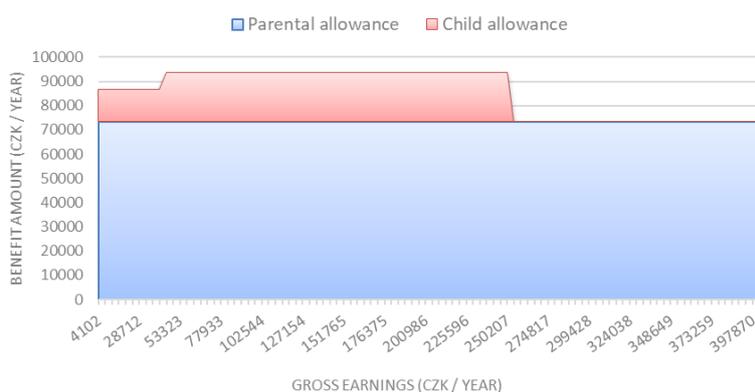
#### 4.2.4. Interaction with other components of the tax-benefit system

Parental allowance can be received at the same time as child allowance, unemployment benefits, benefits of assistance in material need or benefits for disabled.

#### 4.2.5. Combining benefit receipt and employment/starting a new job

Parental allowance can be received at the same time as earning as long as the child is in the care of another adult (see also section 4.2.1).

**Figure 2. Amount of family benefits, by type and earnings levels.**



Note: results for a single person with two children aged 4 and 6. Calculations for the parental allowance assume that the parent claims the benefit for 36 months when the child is between 12 and 48 months. This corresponds to CZK 6 111/month (CZK 73 332/year). The child allowance shown in the figure increases when the earnings of the parent become higher than the living minimum for a single person (Section 3.1).

Source: [OECD tax-benefit model, 2019](#).

## 5. Net costs of Early Childhood Education and Care

Childhood Education and Care is compulsory for children only for the last year before the compulsory school attendance (from the age of 5 to 6 years). According to the current legislation, the following facilities can provide childcare services:

- Kindergartens (regulated by the Education Act and under the responsibility of the Ministry of Education, Youth and Sports);
- Children's Groups (regulated by the Children's Group Act and under the responsibility of the Ministry of Labour and Social Affairs);
- Private childcare facilities (under the Trade Licensing Act);
- Micro-nurseries (a pilot EU co-funded programme).

Kindergartens cover the majority of pre-school children between 3 and 6 years old. Children who do not reach 2 years of age by 31<sup>st</sup> of August cannot be admitted to a kindergarten on the 1<sup>st</sup> of September (i.e. at the beginning of the school year). In the school year 2018/2019, the coverage of children aged 2 to 3 years (included) enrolled in kindergartens was 40.20% of the entire population of 2 and 3 year olds.<sup>13</sup>

Children's Groups (CGs) are services provided on a non-commercial basis by, e.g. private companies, public institutions and NGOs. CGs can provide care for children starting from the age of 1 and until the start of compulsory primary school education (the age of 6 on average). They were created in 2014 because of the insufficient capacity of kindergartens and the related large number of rejected applications for admission of two- and three-year-olds. The basic difference between kindergartens and CGs is the type of service. While kindergartens are mainly educational facilities, Children's Groups do not provide a systematic education and focus more on meeting the care needs of the child, developing their abilities, and teaching cultural and hygienic habits. The coverage of children's groups is 2% for the population of 1 and 2 years old children, and 3% for the population of 3 to 5 years old children (see table below).

Table: Coverage rates of Children's groups, by age of children

|                         | Population<br>(end of 2018) | Children's groups<br>(October 2019) | Coverage, in % |
|-------------------------|-----------------------------|-------------------------------------|----------------|
| Children aged 1-2 incl. | 228 717                     | 4 640                               | 2              |
| Children aged 3-5 incl. | 333 936                     | 10 400                              | 3              |

Private childcare facilities provide childcare for children up to three years of age on a daily or weekly basis. The service can be provided at the child's home or at the provider's premises. Micro-nurseries are part of a project launched in January 2016. They are designed for children from six months of age to four years and ensure individual childcare to small group of children (maximum four). The qualification requirements for care-takers are the same as for Children's group. Providers are primarily municipalities or NGOs in cooperation with the municipality. The advantage of micro-nurseries is also a fact that it can be founded e.g. by mothers on parental leave themselves.

<sup>13</sup> Since September 2017, the Education Act guarantees places for all children older than 4 years. From 2018, an amendment to the Education Act guarantees places for all children older than 3 years. The same amendment aimed at guaranteeing places for all children older than 2 years starting from 2020. However, the government cancelled this provision in June 2018 due to the inappropriateness of kindergartens for such young children and because of the massive burden on municipalities

### 5.1. Gross childcare fees

Code in the OECD tax-benefit model: [\[CZcc\\_cost\]](#)

**Kindergartens** (*mateřská škola*): In 2019, the monthly fee for the care service (excluding meals) in public kindergartens ranged between 0 and 1000 CZK, excluding meals costs.<sup>14</sup> This variability stems from the fact that the individual providers have discretion in setting the kindergarten fee, with the sole constraint that the final monthly amount paid by the parents cannot exceed 50% of the average non-investment costs per child per month in the past calendar year. In addition, if the municipality provides a kindergarten with sufficient funds to cover non-investment costs, the kindergarten's manager may also provide the care service free of charge. Finally, education in public kindergartens is provided free of charge for all children of 5 years of age until they start the primary school.

Parental fees pay the service for the period between September 1 and August 31. The fee is the same for all children of a selected kindergarten, independently of their socio-economic background. However, according to the decree 14/2005 on pre-school education, families who receive a recurrent benefit in material need (Section 3.1), families entitled to the increased care allowance (Annex), and families who receive foster care benefits for the purpose childcare, do not pay childcare fees.

The amount of meal costs in public kindergartens for children up until 6 years of age is determined by the regulation No. 107/2005 Coll. as follows: half day attendance 23-39 CZK/day; full day attendance 29-48 CZK/day, full day and night attendance: 48-80 CZK/day.

**Children's group:** Each CG set the fees based on their costs. Currently, there is no maximum limit for the fees set in CGs. Fees are the same for all children enrolled in the same facility independently of the socio-economic background of the family. In 2019, the fee (without meals) ranged from CZK 0 to 16 000, the average was CZK 3 136 per month. Meals cost ranged from CZK 0 to 121, the average was CZK 54 per day.

Monthly fees as of October 2019, for selected regions of Czech Republic

|                  | Range of fees per month (in CZK) |         |         | Price of meals per day (in CZK) |         |         |
|------------------|----------------------------------|---------|---------|---------------------------------|---------|---------|
|                  | Lowest                           | Highest | Average | Lowest                          | Highest | Average |
| České Budějovice | 200                              | 6990    | 2280    | 15                              | 90      | 54      |
| Karlovy Vary     | 900                              | 4500    | 1975    | 40                              | 60      | 33      |
| Praha            | 800                              | 16000   | 5205    | 30                              | 121     | 67      |
| Average in CZ    | 0                                | 16000   | 3136    | 0                               | 121     | 54      |

Note: the averages shown in the table consider the fees of all CGs, including those where the fee is zero.

For the purpose of the OECD tax-benefit model, the gross childcare fee in 2019 for children between 1 and three years old (included) is the average monthly fee calculated in selected public kindergartens of the city of Prague.<sup>15</sup> This is equal to 700 CZK per month for the care service, plus 1052 CZK per month for the meals (i.e. the maximum daily cost established by the regulation No. 107/2005 Coll., multiplied by 22 days of attendance). For children older than three years of age, the model assume that the child attend a public kindergarten where the service is provided free of charge.

<sup>14</sup> The average cost is 400 CZK (Ministry of Education, Youth and Sports). This amount considers the fees of all public kindergartens, including those where the service is provided free of charge.

<sup>15</sup> Public kindergartens in Prague provide the amount of parental fee in their websites. Examples include the following providers of Prague – District 1: [provider 1](#), [provider 2](#), and [provider 3](#). The full list of public kindergartens in Prague-District 1 is [here](#).

### 5.1.1. *Discounts for part-time usage*

The cost of meals for half-day attendance is between 23-39 CZK/day (regulation No. 107/2005 Coll.).

## 5.2. *Childcare benefits*

Variable name: `[cc_benefit]`

Childcare benefits are support measures that depend explicitly on the use of centre-based childcare: a family that does not use centre-based childcare is not eligible for this type of benefits. In general, childcare benefits take the following forms:

- Fee discounts / rebates (including fee provision) applied directly by the childcare centre to reduce the cost of the fees charged to parents in particular circumstances (e.g. for low-income families, large families, lone parents, etc.).
- Allowances related to the use of centre-based childcare (including the purchase of meals at the childcare centre);
- Top-ups or supplements to other cash benefits (e.g. social assistance or family benefits) in order to reduce the cost of centre-based childcare;
- Tax concessions related to family expenditures on centre-based childcare.

### 5.2.1. *Fee discounts and free provision*

Recipients of Social Assistance (Section 3.1) do not pay childcare fees.

### 5.2.2. *Child-care allowances for children using centre-based care*

There are no benefits whose eligibility depends on the use of childcare centres (including public kindergartens and Children's groups).

### 5.2.3. *Child care allowance for children not using child care centres*

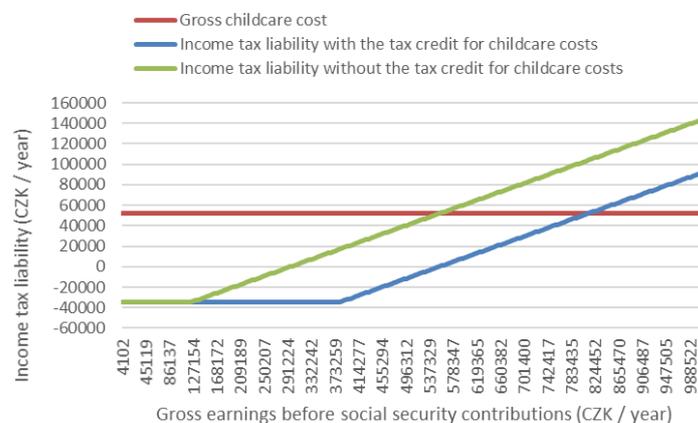
There are no benefits whose eligibility depends on NOT using of childcare centres (e.g. "home-care" allowances).

### 5.2.4. *Tax concessions for childcare expenditures*

Since 2015, there is an income tax credit (non-refundable) for parents-employees. The tax relief is designed as a tax relief in the amount of costs paid by taxpayer to the early childcare facility up to the amount corresponding to the minimum wage, i.e. CZK 13350 in 2019. In the context of other tax allowances, especially the tax advantage for children living in a household with taxpayer, which might be partially or in the whole amount paid back to the taxpayer depending on their total amount of the income tax, this instrument can be used by low-income families as well.

TaxBEN note: TaxBEN computes the income tax credit related to childcare expenditures during the calculation of the personal income tax. Figure 3 shows the amount of income tax liabilities at selected earnings levels, with and without accounting for childcare costs.

**Figure 3. Childcare costs and overall income tax liabilities with and without accounting for childcare costs.**



Note: results for a single person with two children aged 3 and 6, respectively. See Section 8 for the calculations of the income tax.

Source: [OECD tax-benefit model, 2019](#).

## 6. Employment-conditional benefits

None.

## 7. Social security contributions and payroll taxes

### 7.1. Social security contributions (*Příspěvky na sociální zabezpečení*)

Variable names: [\[SOCSEC\\_p; SOCSEC\\_s; SSCR\\_p; SSCR\\_s\]](#)

Compulsory contributions of 11.0 per cent of gross earnings are paid by all employees. 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                | 0.00                         | 2.30         | 2.30         |
| Pension                 | 6.50                         | 21.50        | 28.00        |
| State employment policy | 0.00                         | 1.20         | 1.20         |
| <b>Total</b>            | <b>11.00</b>                 | <b>34.00</b> | <b>45.00</b> |

The total contribution for employers is 34 per cent of gross earnings. The contribution consists of the health insurance contribution (9 per cent of gross wages and salaries) and social insurance (25 per cent).

The maximum annual earnings used to calculate social security contributions and contributions to the state employment policy are 48 times the national average monthly wage (CZK 1,438,992). There is no ceiling for health insurance contributions.

## 8. Taxes

### 8.1. Personal income tax

Code in the OECD tax-benefit model: [\[IT\\_p; IT\\_s\]](#)

### 8.1.1. Income tax schedule

Single rate of 15%, levied on gross earnings augmented with employer social security contributions.

From 1 January 2013, in addition to the standard 15 percent flat rate, a 7 percent solidarity tax increase levied on the same tax base (i.e. gross earnings plus the employer social security contributions), if the total annual income exceeds CZK 1,569,552. The solidarity tax is paid only from the surplus. This means that the 15+7 tax rate applies only to the fraction of annual income above CZK 1,569,552. In the case of employees, the solidarity tax increase is applied monthly on income exceeding 1/12 of the above annual threshold as an advance payment.

### 8.1.2. Tax credits

- Credit of CZK 24 840 per taxpayer.
- Credit of CZK 24 840 per spouse (husband, wife or registered partner) living with a taxpayer in one household provided that the spouse's own income does not exceed CZK 68 000 in the taxable period.
- Credit for children: Payable tax credit of CZK 15 204 for first child, credit of CZK 19 404 for second child, credit of CZK 24 204 for third and each additional child (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 cannot receive full-time education due to disease or injury, or due to long-term adverse health status.

The taxpayer can claim the tax credit for children in the form of tax reliefs or tax bonuses. If the income tax liability is lower than the tax credit for children, the difference is paid as a tax bonus through the tax administrator or tax remitter. By contrast, the tax credit of CZK 24 840 per taxpayer as well as the tax credit of CZK 24 840 per spouse both operate in the tax system as traditional tax reliefs reducing the taxpayer's tax liability, which are applicable only up to the amount of the taxpayer's tax liability.

If the child is severely disabled, the tax credit doubles. Should more taxpayers maintain a child in one household, only one of them may apply for the tax credit during a taxable period or in the same calendar month of a taxable period. The maximum amount of tax credits which the taxpayer may claim as tax relief is given by his/her tax liability. Tax bonus represents the balance between tax credit and tax relief. The taxpayer can apply a tax bonus up to a maximum of CZK 60 300 per annum in 2019.

- *Credit for child care costs:* Since January 1<sup>st</sup>, 2015 a new income tax credit (non-refundable) is introduced for employed parents. Tax credit in the form of tax relief equals to the amount of annual costs paid by taxpayer to the early childcare facility up to the amount not exceeding to the monthly minimum wage (CZK 13 350 in 2019) for each maintained child. TaxBEN note: the parent with the highest taxable income applies for this credit.

The tax deductible costs of employer (since January 1<sup>st</sup>, 2015) include operating costs of own early childcare facility or contributions to outsourced childcare facility used by employees' children.

## 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for the Czech Republic in 2019 (Figures 4). The main output of the TaxBEN model is the net household income (**black line**) as well as the related income components (**coloured stacked areas**) for selected family and individual circumstances (“vignettes”, e.g. a lone parent with two children working at different earnings levels – users are free to select many family and individual characteristics using the [online web interface](#)). Figures 4 and 5 show output for four scenarios:

- By percentage of the national full-time average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the household income components. Note that each component can contain more than one benefit. The table of content of this report describes the benefits included in each category.

Results in Figure 4 – Panel A refer to a couple with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefits are assumed to be available in all the four scenarios, provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met. Figure 4 – Panel B refers to a couple without children and without entitlements to housing benefits.

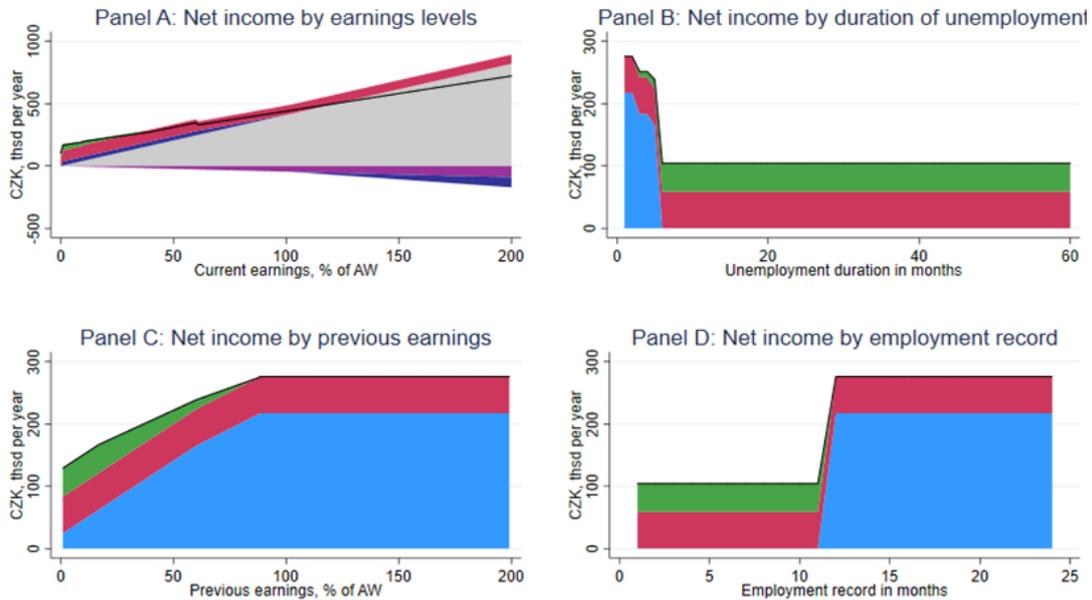
Panel A assumes that one of the partners (precisely the ‘second adult’ member, using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired). The other partner (so-called ‘first adult’) is employed full-time / full-year at earnings levels ranging between 0 and 200% of the Average Wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits but claiming social assistance, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult has a ‘long’ employment record of 264 consecutive months before the job loss. The x axis in Panel B measures the time of benefit receipt, starting from the first month. The x axis in Panel C shows the amount of previous gross earnings (before social contribution payments). Results in Panels C and D refer to the 2<sup>nd</sup> month of unemployment benefit receipt whereas Panel D consider the case of previous earnings equal to the average Wage. Previous earnings in Panel B are also equal to the average wage.

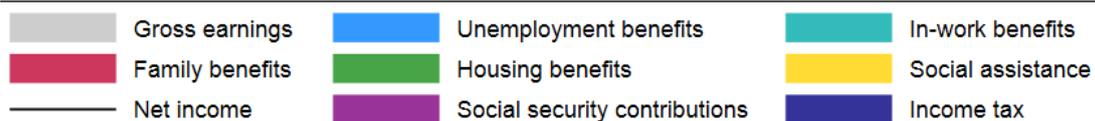
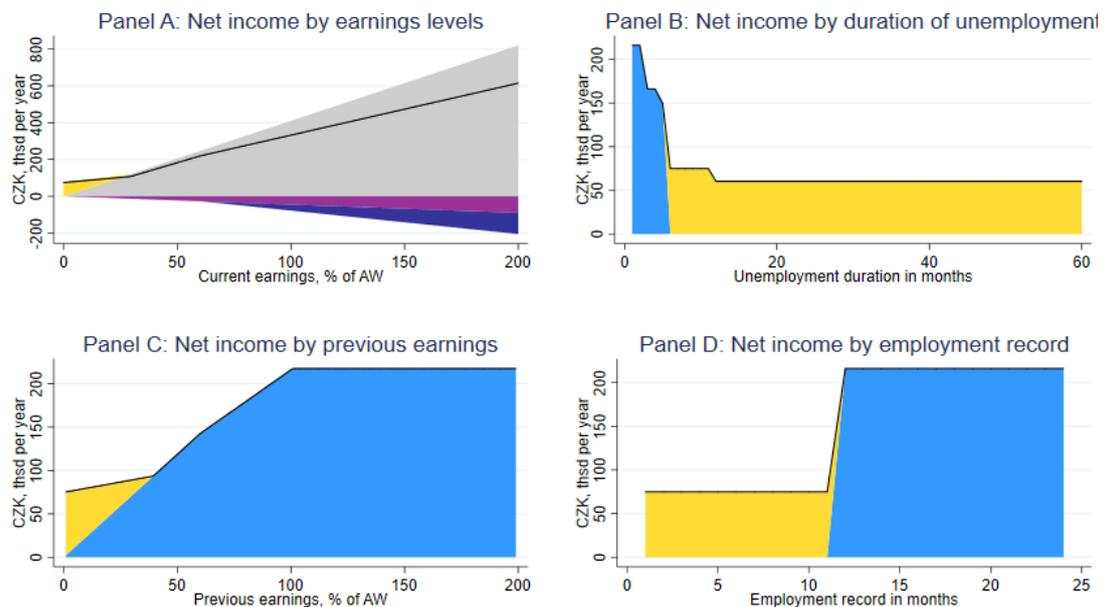
All results assume a private market rent plus other relevant charges amounting to 20% of the full-time average wage in all the four scenarios.

**Figure 4. Selected output from the OECD tax-benefit model**

**Panel A: Couple with two children with eligibility to the housing allowance**



**Panel B: Couple without children and without eligibility to the housing allowance**



*Note:* Section 9 provides more information on the simulation settings that apply to the four panels. Amounts are “annualized”, i.e. they are monthly values multiplied by 12. The average full-time average wage used to produce the charts above is CZK 410175.

*Source:* [OECD tax-benefit model, 2019](#).

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Czech Republic that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### *Retraining allowance (Podpora při rekvalifikaci)*

Jobseekers who meet the eligibility conditions for receiving unemployment benefits are also entitled to a retraining allowance if they participate in a retraining course provided by the regional branch of Labour Office. The retraining allowance shall not be paid during the provision of old-age pensions or sickness benefits. A disabled person who does not receive sick payments, old age benefits or earnings from work can be entitled to the retraining allowance on the basis of the decision of the Labour Office even if they are not registered as jobseekers. During the period of retraining, the jobseeker engaged in retraining activities receives 60% of last earned income net of tax and social security contributions; the maximum amount of retraining allowance is set at 0.65 times the average national wage for the first to third quarter of the calendar year  $r$  in which the jobseeker enrolled for retraining (in 2018 CZK18 695). If the jobseeker is not entitled to regular retraining allowance the allowance shall be set at 0.14 times the average national wage for the first to third quarters of the calendar year preceding the year in which the jobseeker enrolled for retraining. During the retraining programme, the jobseeker is not entitled to unemployment benefits.

### *Extraordinary immediate assistance (mimořádná okamžitá pomoc)*

Extraordinary immediate assistance is provided to persons who find themselves in situations that have to be resolved immediately. The law provides for six situations that justify these additional benefits:

- When persons, due to a lack of funds, face a serious threat to their health. The benefit tops up a person's income so that it is in line with the subsistence minimum.
- When persons face extraordinary event such as a natural disaster, storms, fire, etc. The maximum amount is CZK 51 150.
- When persons do not have sufficient funds to pay one-off expenditure connected, e.g. with the payment of administrative fees. The maximum amount is the amount of the one-off expenditure.
- Where persons do not have sufficient resources to buy or repair basic furniture. The maximum amount cannot exceed CZK 34 100.
- Where persons do not have sufficient resources to cover justified costs relating to the education or special interests of dependent children, or ensuring necessary activities of social and legal protection of children. The maximum amount must not exceed CZK 34 100.
- Where persons are at risk of social exclusion, e.g. if they have been released from custody or prison, have left an orphanage, foster care on reaching adulthood, or have completed treatment for an addiction. A benefit up to CZK 1 000 may be granted. The benefit may be awarded repeatedly, but the sum cannot exceed CZK 13,640.

### *Care allowance (příspěvek na péči)*

This allowance is provided to persons who are dependent on another person's assistance due to their long term unfavourable health conditions. There are 4 levels of dependence: Grade I (slight dependence); Grade II (medium-heavy dependence); Grade III (heavy dependence), and Grade IV (total dependence). The grade is assessed by analysing the ability to manage a series of the following basic needs: mobility, orientation, communication, self-feeding, putting on clothes and footwear, washing oneself, toileting, looking after one's health, personal activities, household tasks. The allowance provided to persons below 18 years of age in a calendar month is:

- a) CZK 3 300, in the case of grade I (slight dependence),
- b) CZK 6 600, in the case of grade II (medium-heavy dependence),
- c) CZK 9 900, in the case of grade III (heavy dependence), CZK 13 900 since July 2019\*,
- d) CZK 13200, in the case of grade IV (total dependence), CZK 19 200 since April 2019\*.

Children under one year of age are not entitled to the allowance. The allowance provided to persons over 18 years of age in a calendar month is:

- a) CZK 880, in the case of grade I (slight dependence),
- b) CZK 4 400, in the case of grade II (medium-heavy dependence),
- c) CZK 8 800, in the case of grade III (heavy dependence), CZK 12 800 since July 2019\*,
- d) CZK 13 200, in the case of grade IV (total dependence), CZK 19 200 since April 2019\*.

\*The increase in 2019 refers only to recipients not using residential social services.

The allowance is increased by CZK 2 000 for recipients who are dependent children below 18 years of age and parent of dependent children below 18 years of age if the income of the family is under 2.0 family's living minimum. The allowance is also increased by CZK 2 000 for recipients who are children from 4 to 7 years of age in grade III or IV, this title for increase is abolished as of August 1, 2019, resp. May 1, 2019.

### *Mobility allowance and special aid grant (příspěvek na mobilitu and příspěvek na zvláštní pomůcku)*

There are two a non-contributory benefits for people with disabilities that aim at reducing the social consequences of disability and supporting of social inclusion: 1) a recurrent mobility allowance of CZK 550 per month (since January 2018) for people who are holders of Certificate of person with disability at the level labelled by a sign ZTP or ZTP/P (i.e. their abilities in mobility or orientation are worse due to long-term unfavourable health status); 2) a one-off grant for people with severe disabilities of support and motion apparatus, blind and deaf enabling. This grant seeks to support self-reliance, working activities, education, social contacts, buying or modification of a motor vehicle, adjustment of a flat.