SPECIAL ISSUE

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SPECIAL ISSUE ON THE DRAFT BILL AMENDING TAX AND INSURANCE LEGISLATION IN RESPONSE TO THE PUBLIC BUDGET DEFICIT

Changes to the Income Tax Act

Changes to the VAT Act

Changes to the Inheritance, Donation and Real Estate Transfer Taxes Act

Changes to the General Health Insurance Act

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This special issue of Tax News provides a brief summary of the basic changes included in the draft bill that is aimed at reducing the public budget deficit. The bill has already gone through the external consultation procedure.

Changes to the Income Tax Act

On 1 January 2013, stricter rules for tax-deductible percentages applicable to individuals are to come into force. Regarding the 40% expense rate that applies to, for example, the income of experts, insolvency administrators, attorneys, and interpreters or to income from authorship and artistic activities, percentage-based expenses cannot exceed CZK 800,000. For rental income the percentage of revenue method of calculating tax would be limited to 30% of the revenue and the final amount cannot exceed CZK 600,000. In other cases, such as income from agricultural production and small trades, the percentage of 80% and 60% should remain unlimited by the absolute amount.

For single-person businesses or self-employed taxpayers, including rental income, who deduct expenses in the amount of a certain percentage of their income, a limiting condition is proposed to possibly reduce tax by a deduction for a spouse and tax advantage for a dependant child. If the aggregate of the partial tax bases where the percentage of revenue method of calculating tax is applied exceeds 50% of their total tax base, the self-employed individuals will not be able to apply such tax relief.

A proposal has been made to introduce a progressive personal income tax known as a solidarity tax starting from 1 January 2013 through 31 December 2015. Personal income would be taxed by income tax (15% in 2013 and 19% as of 1 January 2014) plus 7% if the sum of the taxpayer's employment income and income from gainful self-employment exceeds 48-times the average salary. At the same time, income tax advances paid from employment where 4-times the average salary in the month in question is exceeded will also be subject to solidarity tax. In addition, all such taxpayers will be required to file a personal income tax return for the period in which they are subject to the solidarity tax.

Starting on 1 January 2013, persons who as of 1 January of the taxation period receive old-age pension or disability pension for third-degree disability from pension insurance or from foreign mandatory insurance of the same kind will not be entitled to the basic taxpayer discount.

The measures outlined above (save for the tax-deductible percentages restriction) shall have limited effectiveness – they shall apply from 2013 through 2015 only.

As of 1 January 2013, the 15% personal withholding tax applied to tax non-resident's income from sources in the Czech Republic is to be increased to 35%, with several exemptions applicable.

Changes to the VAT Act

From 1 January 2013 until 31 December 2015, the basic and reduced VAT rates will be increased to 21% and 15%, respectively.

At the same time, the number of goods subject to the reduced VAT rate is to be reduced. The basic VAT rate should newly apply to diapers and certain healthcare items and devices.

Changes to the Inheritance, Donation and Real Estate Transfer Taxes Act

As of 1 January 2013, real estate transfer tax is to be increased from the current 3% to 4%.

Changes to the General Health Insurance Act

A proposal has been made to terminate the maximum assessment base for calculating the general health insurance premiums from 1 January 2013 through 31 December 2015. This will naturally result in the

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termination of the maximum amount of advances for general health insurance.

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