

Czech Republic: The Consolidation Package and its impact on Labour Law and HR

Practical Effects & Future Outlook

19 February 2024

As of 1 January 2024, a significant portion of the Consolidation Package (Act No. 349/2023 Coll.) came into effect. However, certain modifications introduced by the Consolidation Package in the field of labour law have not yet been fully implemented in practice, while some other notable changes will take effect from 1 July 2024. In our article, we outline key changes and highlight areas for which there are further legislative changes in the pipeline.

Payroll costs on agreements to complete a job

The Consolidation Package includes major changes to agreements to complete a job (in Czech: *dohoda o provedení práce*). These changes will become effective **from 1 July 2024**. Stricter conditions will apply for the exemption of remuneration from social security contributions and health insurance premiums. In addition to the right to annual leave, which is granted to employees working under an agreement to complete a job from 1 January 2024, and the right to certain additional payments (e.g. for work on bank holidays, on weekends or during night hours), both introduced by the major amendment to the Labour Code, this is another change that may significantly increase employer's costs related to the work of an employee that is working under an agreement to complete a job.

The current rule, under which a monthly remuneration below a fixed limit of CZK 10,000 is exempt from social security contributions, will be replaced by a new system. This will be based on two new limits calculated as a percentage of the national average wage and the number of employers an employee works for. The new limits will be as follows:

- A limit of 25% of the national average wage, which is CZK 10,500 per month (in 2024), will apply to agreements made with a single employer.
- A limit of 40% of the national average wage, which is CZK 17,500 per month (in 2024), will apply if agreements are made with multiple employers.

If one of the limits is exceeded, both the employee and the employer will be liable to pay social security contributions and health insurance premiums from the entire remuneration. The limit of 25% of the national average wage will also be relevant for the deduction of personal income tax. If remuneration does not exceed the limit, employers can, under certain conditions, deduct (final) withholding tax instead of regular payroll income tax advances.

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The new system also requires administrative changes, which include the introduction of a central register of all agreements to complete a job and employers' obligation of notification and monthly reporting, which includes the amount of remuneration. Furthermore, the employer will have an obligation of notification vis-à-vis the employee regarding a potential obligation to pay social security contributions in cases of agreements to complete a job with multiple employers, no later than on the day of the commencement of the employment. On the other hand, the employee must inform the employer of agreements to complete a job made with other employers. Employees who do not fulfil this obligation may be required by the competent authorities to pay the social security contributions themselves.

Expert debates raised issues in relation to the second cumulative limit. Employers may learn about their obligation to pay social security contributions and health insurance premiums with a delay - retrospectively. Also, the Consolidation Package has not introduced all appropriate changes to the health insurance legislation. Therefore, further legislative changes are expected, in order to remedy the situation. A new system with two limits applying to individual agreements is considered, whereby a higher limit of 25% of the national average wage (CZK 10,500 in 2024) would apply to one agreement, which is notified to the social security authorities, and a lower limit of CZK 4,000 would apply to any other agreements.

Employee benefits in light of the new guideline of the General Financial Directorate

Given that the changes to the taxation of employee benefits, introduced by the Consolidation Package as of 1 January 2024, are significant and there is interpretational uncertainty of how to apply the new rules, the General Financial Directorate has issued a guideline that seeks to clarify the approach of the tax administration when interpreting the new provisions.

The main change consists of the introduction of an overall limit for the tax exemption of employee benefits (other than meals), which is calculated as one half of the national average wage – the overall limit is **CZK 21,983.50 for 2024**. Under the previous rules, separate limits applied only to certain benefits, such as accommodation (monthly limit of CZK 3,500) and recreation and trips (annual limit of CZK 20,000). Under the new rules, employers will need to determine the value of individual benefits and calculate the cumulative amount provided to employees during the year. Once the limit is exceeded, the exceeding value of the benefits will become taxable.

The guideline defines the term "employee benefit" (where the limit applies) and distinguishes it from situations, where costs are incurred by the employer with the aim to support efficient job performance by the employees and where the employer's interest is dominant. . It discusses, for example, whether the limit applies to snacks or drinks provided free of charge by the employer to employees at the workplace, or to sports equipment intended to be used by employees to relax during their work.

Although the legislator declared the intention to simplify the taxation of employee benefits, the rules are still complex and employers should carefully categorise employee benefits and other performances provided to an employee for the purposes of corporate income tax, payroll income tax and social security contributions and health insurance premiums, in order to choose the most tax and cost-efficient ones. Further legislative changes are expected to provide more legal certainty.

Workshop regarding the practical impacts & what is to come

Given the breadth of these topics and the legal changes which are expected, we are planning an **employment law workshop that will take place on 6 March 2024**. At this workshop, we will discuss the new obligations of employers in relation to employees working under an agreement to complete a job and other practical implications of the amendment to the Labour Code and the Consolidation Package, as well as other legislative changes that are in the pipeline.

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