

HR & Tax Alert



Quality In Everything We Do

Czech Republic - New Sickness Insurance Act

August 2006

Executive Summary

Changes to the Czech social security laws have been passed into law and will come into effect on 1 January 2007. Assignees into the Czech Republic from countries outside the EU, and countries with which there is no social security totalisation agreement with the Czech Republic, will no longer be exempt from Czech social security under domestic law. As a result, the cost of sending assignees from, for example, the United States or Japan will increase.

This Alert highlights the changes regarding Social Security due on foreign employment contract arrangements.

Sickness Insurance Act

The new Sickness Insurance Act is due to come into force on 1 January 2007. The new Sickness Insurance Act changes:

- The definition of the sickness insurance participants;
- The responsibilities of the employer.

'Sickness insurance' is part of the Czech Social Security system and means the payments that must be made to employees who are ill or, for example, on maternity leave.

Czech law also provides for 'health insurance' (state medical care), and the rules for contribution to both systems are related and interconnected.

The health insurance law is currently unchanged, but could be amended in line with the sickness insurance changes.

New sickness insurance participants

With effect from 1 January 2007, sickness insurance participants, and therefore social security insurance participants, will include employees from all countries.

This means that compared to current legislation, the definition is extended to include those countries with which the Czech Republic has not concluded an international Social Security Treaty. Previously, employees of employers based in those countries could be exempted from making contributions.

European Union Member States are considered as countries with which the Czech Republic has concluded a Social Security Treaty.

New Definitions

The new legislation introduced the following terms:

- A 'foreign employer' is an employer whose registered office is in a country with which the Czech Republic has not concluded an international Social Security Treaty.
- A 'contractual employee' is an employee of a foreign employer who is working in the Czech Republic 'at the office of' the contractual

employer (although 'at the office of' is an interpretation of the Czech original language).

- A 'contractual employer' is a corporate entity or natural person (i) who has his registered office on the territory of the Czech Republic, (ii) at whose office employees of a foreign employer are active in the Czech Republic, and (iii) pursuant to a contract concluded with the foreign employer, the income of the contractual employees is paid by the contractual employer or reimbursed by the contractual employer to the foreign employer.

With effect from 1 January 2007 contractual employees will become liable for sickness insurance and therefore the Czech social security. The employee will therefore pay contributions to these systems and be entitled to benefits.

If a contractual employee is also insured in the country in which his employer has its registered office, the employee is only required to become a participant in the insurance scheme after a period of 270 calendar days' employment in the Czech Republic.

The law is silent on whether days spent in the Czech Republic before 1 January 2007 will be included in

the 270-calendar days calculation or not, but according to current interpretation, it is thought they will not.

Consequences

Assignees who were not previously subject to Czech social security system could now become subject to Czech social security (and as a consequence, potentially to health insurance). Contributions will be paid monthly on the employee's total taxable remuneration, and will be at a rate of 8% employee contributions and 26% employer contributions. Under the new law the employer contributions are required to be paid by the local employer on behalf of the contractual employee.

If the legislation regarding health insurance contributions is similarly amended, this would lead to a further 4.5% of employee contributions and 9% of employer contributions.

Therefore, companies operating in the Czech Republic should review their current expatriate arrangements to plan and account for the potential increases in cost of sending assignees to the Czech Republic, as well as ensuring they are able to meet the monthly social security compliance requirements for affected assignees. We will continue to keep you updated of further developments in future Alerts.

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