

HR & Tax Alert

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Czech Republic - Changes in practice of Social Security authorities in granting Certificate of Coverage applications

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Executive summary

Changes in the recent practice of the Czech authorities has resulted in Certificates of Coverage being harder to obtain than they have been in the past, meaning that applications are taking longer, and are also less likely to be accepted.

Clients may therefore be exposed to higher Social Security costs than originally budgeted and potential interest charges where contributions are not paid from the beginning of the assignment.

Historic position

From 1 May 2004 when the Czech Republic joined the EU, the Social Security authorities tended initially to accept the majority of applications for Certificates of Coverage under the EU social security regulation where their consent was required.

Initially, the interpretation of what conditions were necessary to be met to obtain an E101 was relatively straightforward, and most rejections were for errors or omissions in the application. The arguments needed to demonstrate that it was in the assignee's best interest to remain in his or her home country system could be related to the personal benefit profile of the assignee, but could also include the economic argument that the Czech Republic was an expensive place to make contributions.

New position

Under the new position, the Czech authorities prefer to obtain their full combined 47.5% Social Security

and Health Insurance contribution, rather than allow individuals the right to remain in their home country system.

In particular, for applications under Article 17 (where mutual agreement of the two authorities is required to grant the E101), their list of reasons why they would permit individuals to remain in their home country system gets progressively smaller. Our contacts have indicated that no economic points of view shall be taken into account, however other reasons such as children, better health care, better doctors may be.

Specifically, their guidelines now explicitly state that the Czech contributions being higher than the home country rates (which would be the case in almost all circumstances) is not a permissible argument to permit granting of an E101.

Applications under Article 14, which require only the consent of the home country to continue to accept the contributions, are less affected by this interpretation.

Consequences

As Social Security and Health Insurance contributions should be paid from the commencement of the assignment, unless an E101 has been issued, the likelihood of an underpayment accruing where an expected E101 fails to materialise has increased significantly. In that case, clients can be exposed to interest on late payment and potentially penalties for non-withholding.

Clients should therefore consider making contributions where they feel there is a higher risk of an application being refused even when the application is in process, to avoid these exposures.

Overpaid contributions are refundable, and the Czech Republic remains a country where overpayments can usually be expected to be received in a timely manner.

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