

INFORMATION ON ANNUAL INCOME TAX RECONCILIATION IN 2017

The purpose of this document is to provide you with relevant information on annual tax reconciliation in 2017.

By the 15th of February 2018, every employee not obligated to file tax returns can request their last employer in 2017 to provide an annual income tax reconciliation from dependent activities, perquisites, and tax benefits.

Employees can request the annual income tax reconciliation by filling out the appropriate fields on the Income Tax Declaration form as well as presenting required conclusive documentation necessary for tax relief and annual tax-free allowances. Conditions to be met in order to gain tax relief, tax benefits, or tax bonuses are specified below.

The information below is intended to enable employees to effectively assess whether they meet the conditions for an annual tax reconciliation. If the employees meet the listed conditions, they must adhere to the deadlines and documentation requirements specified below.

We would like to inform you, that employee, who wants to apply for other tax reliefs than basic tax discount or student discount, and he **DOESN'T HAVE PERMANENT ADDRESS IN CZECH REPUBLIC**, has to ask to issue and provide Confirmation about tax domicil on the Tax Office according to his address. Without this Domicil, no other discounts will be applied.

1 Annual income tax RECONCILIATION can be provided to employees who:

- a. Received income from only one source (employer) over the course of the whole year
- b. Received income from several consecutive sources (employers)
- c. Signed Income Tax Declarations with each employer throughout the year, or retrospectively for any existing time gap, or signed for the whole year with their last employer for annual income tax reconciliation by the 15th of February 2018
- d. Paid solidarity tax throughout 2017 but did not reach the maximum assessment base for social insurance (CZK 1,355,136)
- e. Currently do not meet any conditions defined in Section 2 below (i.e. are not obligated to file a tax return)

2 Annual personal income tax Reconciliation cannot be provided to employees who:

- a. Have neither signed an Income Tax Declaration throughout 2017, nor signed retrospectively for 2017 by the 15th of February 2018
- b. Received income which was subject to advance tax from multiple employers concurrently in one month
- c. Received other types of income as defined by Sections 7 through 10 of the Income Taxes Act exceeding CZK 6,000 in total (e.g. from own business, other gainful activity, property lease, etc.);
- d. Received income from dependent activity abroad
- e. Are not tax-residents in the Czech Republic, and who claim tax relief on their spouse's lower income, a disability pension, or tax relief on a child
- f. Prematurely terminated a private life insurance contract
- g. Prematurely terminated a pension scheme contract
- h. Paid solidarity tax throughout 2017 and reached the maximum assessment base for social insurance (CZK 1,355,136)

● Employees who meet the conditions outlined in Section 1:

- Must request an annual income tax reconciliation by completing the Tax Declaration in section III no later than the 15th of February 2018.
- Should ensure the correct filling out of the form by following the model Tax Declaration in Czech
- Must present necessary dated, conclusive documentation by the 15th of February 2018 (In accord with the Income Taxes Act, documents with a later date will not be taken under consideration):
 - An applicant who has worked for multiple consecutive employers is obligated to present an original document confirming taxable income (*Potvrzení o zdanitelných příjmech*) and deducted advance taxes in 2017
 - An applicant who was not employed for part of the year must present a document from the Labor Office confirming start and end dates of registration as a job applicant (i.e. unemployed), or an honorable declaration stating that the applicant neither worked, nor was self-employed, and thus had no taxable income, etc.

POSSIBILITIES IN CLAIMING TAX RELIEF, TAX BENEFITS, BONUSES AND TAX-FREE ALLOWANCES AND THE APPROPRIATE DOCUMENTATION REQUIRED:

Tax relief on children:

- Minors (Under 18) - A copy of the birth certificate or a court ruling granting custody of the child, as well as an original document from the employer of one's spouse confirming that said spouse does not claim tax relief on children.
- Majors (Under 26) – Same documents as minors, along with an original confirmation of study letter for each individual school year.
- Documentation to be presented:
 - One-off manner
 - Copy of child's birth certificate
 - Original document from spouse's employer confirming that one's spouse does not claim tax relief on children (unless spouse changes employer or the number of children for which tax relief is claimed changes – if either or both occur, new documents must be presented)
 - Annually
 - Child's confirmation of study letter (if confirmation of study letter was presented during the year while claiming monthly relief, then it does not need to be presented again for the purposes of annual income tax reconciliation)

Tax relief on a spouse

- In the event that conditions for a common household with a spouse have been met and the annual taxable income does not exceed the amount of CZK 68,000, this fact will be stated in the Tax Payer's Declaration along with the personal data of the spouse.
- The income of the spouse is composed of: gross income gained from employment, illness remuneration, state subsidies during maternity, state subsidies during unemployment, income from own business efforts, tax-free income, disability pension, income reduced by withholding tax, income from leasing property, etc.
- Not included in the spouse's income are: state social welfare subsidies (parent subsidy, child subsidy, housing subsidy, etc.)
- Documentation is to be presented annually as part of the completion of the Tax Payer's Declaration

Student tax relief

- Original confirmation of study letter from the institution where the student is enrolled
- Tax relief can only be claimed by persons under 26 years of age (with the exception of full-time doctoral studies which can claim relief until 28 years of age)
- Confirmation of study letters must be presented annually for each school year
- In the event of completion of study sometime during the year, documentation confirming the completion of study (diploma, confirmation of completion of studies letter, etc.) must be provided
- Documentation must be presented annually. In the case that documentation has been presented during the year for the purposes of claiming monthly tax relief then it is not necessary to present documentation again for the purposes of the annual income tax reconciliation.

Tax-free allowance on donations

- Original confirmation from the recipient of a donation made for the purposes listed in the Income Taxes Act, or a copy of the signed donation contract
- The value of the donation(s) must be a minimum of CZK 1,000, or should exceed at least 2% of the employee's tax base (but to a percentage of no more than 15% of the employee's tax base)
- Every donation of blood or blood components is valued at CZK 2,000.
- Documentation must be presented annually for the purposes of the annual income tax reconciliation.

Tax-free allowance on interest from building savings and mortgage loans

- Mortgage loans must be spent on housing needs. Necessary documentation varies depending on the type of housing need. A more detailed specification can be provided upon request; alternatively, you can find this information in the Income Taxes Act.
- Documentation to be presented:
 - One-off manner
 - Loan contract (only necessary during the first claiming)
 - In case of mortgage loan refinancing, a copy of the new loan contract must be presented
 - Any additions made to contracts
 - In the case of building a house – building permit or tenancy agreement, etc.
 - Annually
 - The folio of ownership (i.e. a copy of the relevant entry in the Land Registry)
 - A document confirming the amount of interest paid

Tax-free allowance on voluntary pension scheme contributions paid by employee

- Confirmed statement of contributions for the given year produced by the pension fund
- The maximum amount for tax base reduction is CZK 12,000. The first CZK 12,000 saved up is not taken under consideration because up until this point contributions are subsidized by the state. In other words, in order to claim the maximum amount for tax base reduction, a total of CZK 24,000 must be saved up.
- Documentation must be presented annually for the purposes of the annual income tax reconciliation.

Tax-free allowance on voluntary life insurance paid by employee

- Confirmed statement of contributions for the given year produced by the insurance provider

- The maximum amount for tax base reduction is CZK 12,000.
- Documentation must be presented annually for the purposes of the annual income tax reconciliation.

Tax-free allowance for placing a child in a care-taking institution for pre-school aged children

- Confirmation of the expenses incurred by placing a child in pre-school produced by the institution – total expenses do not include meal expenses, only the expenses for placement in the institution.
- The confirmation must include the name of the child, date of birth, and the total amount paid expenses for the year.
- The tax benefit can only be claimed if this total amount is under or equal to the minimum wage (i.e. CZK 11,000)
- Documentation must be presented annually for the purposes of the annual income tax reconciliation.

All of the above mentioned documents are necessary for the successful claiming of any tax relief, tax benefits, tax bonuses, or annual allowances. Documents submitted or dated after the 15th of February 2018 will not be taken under consideration, and thus cannot be used to successfully claim the aforementioned tax deductions. It is not necessary to submit documents again that have already been submitted during the year.