

The main legislative event of the fall is undoubtedly the adoption of the State Budget for 2010 and the related **low-budget package**, which shall reduce the deficit from CZK 230 billion to CZK 163 billion. The low-budget package brings, for example, a rise in the VAT rate or consumer tax, but it also changes several acts in the employment law area, mainly social security and health insurance, sickness benefits or state social support. That is why we prepared this special edition of HR News for you, where we will acquaint you with the numerous **changes brought by the package from an HR manager's perspective**. We will take a practical look at individual changes, by **comparing current legal regulations with the ones after the effective date of the low-budget package** - 1 January 2010.

On page 2 you will find an invitation to the November **Randis HR Exchange Meeting**, this time with the topic "Home office and how to do it legally". After the success of the first Meeting we very much look forward to seeing you again.

SOCIAL SECURITY AND HEALTH INSURANCE

The admission of the low-budget package (parliamentary print No. 917) will influence insurance payments in several ways. Most of these changes will impact only employers, specifically the abolition of discounts on social security insurance and the arrangements of health security rates. But the increase of the maximum assessment basis for health and social security insurance affects both high-income employees and their employers.

Amendment to Act No. 589/1992 Coll., on Social Security Insurance, and Act No. 592/1992 Coll., on General Health Insurance

Discounts on social security insurance were introduced as of 1 August 2009 by Act No. 211/2009 Coll. According to this Act employers should have had the possibility to apply discounts until the end of 2010. But after a few months the situation has changed, and because of the government's economic measures employers will be allowed to take a discount on insurance for the last time for December 2009. Once the low-budget package is in effect, the discounts will be completely abolished.

Adoption process of the low-budget package

- government presented on 21 September
- Chamber of Deputies adopted it on 25 September (state of legislative emergency announced)
- Senate approved it on 5 October
- President signed it on 9 October

Another aspect of the low-budget package affecting employers in the social security insurance area is a *suspension of changes in sickness insurance rates*, which were planned in connection with the passage of the new Act on Sickness Insurance. Currently, sickness insurance payment for employers is 2.3% of the employer's assessment basis (which includes the assessment bases of all employees) and the employer deducts from the amount of the insurance one-half of the amount it paid out in the relevant month to all its' employees on wage compensation for the period of temporary incapacity to work.

According to legal regulations currently in effect the insurance rate should have decreased in 2010 to 1.4% of the assessment basis, but the employer would deduct from this amount of insurance only one-half of the amount it paid out in the relevant month to its disabled employees on wage compensation for the period of temporary incapacity to work. From 2010 small employers (who have less than 51 sickness-insured employees) should have an option to pay a higher sickness insurance rate – 3.3%, and in exchange

they would deduct from the amount of their sickness insurance one-half of the amount they paid out in the relevant month to all their employees on wage compensation for the period of temporary incapacity to work. The total social security insurance rate for employers would be 24.1% of the assessment basis or 26% if they choose the higher sickness insurance rate.

But the low-budget package postpones to 2011 the changes described above. This means that in 2010 there will be no changes to the 2009 insurance rates, and all employers will pay 2.3% on sickness insurance and deduct one-half of the amount they paid out in the relevant month to all their employees on wage compensation for temporary incapacity to work.

The last change in the insurance area is an *increase of the maximum assessment basis for health and social security insurance*. The ceiling for insurance payments in 2010 will change from the current 48 times the average monthly wage to 72 times the average monthly wage. In practice it means the present ceiling of CZK 1.13 million will increase to approximately CZK 1.7 million per year. While the insurance ceiling for social insurance payments will increase only temporarily, for 2010, the amendment to the Act on General Health Insurance surprisingly doesn't include this time limitation.

The increase in the maximum assessment basis will affect employees whose gross monthly wage is over CZK 94,200. The new ceilings will be reached by employees whose gross monthly wage is over CZK 142,000; these employees will also be the most affected by changes introduced by the low-budget package, because in 2010 they will pay more than CZK 92,000 more than this year for insurance (with the same wage). Employees with high wages will consequently pay higher income taxes too because their "super-gross" wage (the gross wage plus employer insurance contributions, which will be higher in 2010), which is the basis for tax calculation, will increase.

For employers' insurance contributions the increase in ceilings will be even more significant. This year for one employee employers paid a maximum of CZK 384,418 per year for social and health insurance. Next year they will pay up to CZK 576,626 per year. E.g. This means for an employee with a gross monthly wage of CZK 150,000 the employer will pay in 2010 CZK 192,208 more than this year.

Act on Promotion of Social Growth adopted

- Presidents' veto overruled on 9 September
- Act published under No. 326/2009 Coll.
- changes e.g. wage compensation during sickness of shift workers
- effective as of 9 October 2009

SICKNESS BENEFITS

The amendment to the Sickness Insurance Act will mostly affect long-term (for more than 1 month) sick employees and women on maternity leave in 2010.

Amendment to Act No. 187/2006 Coll., on Sickness Insurance

As regards sickness benefits paid by the Czech Social Security Administration, at present the rule is that the longer the employee is in temporary incapacity to work, the higher the sickness benefit he/she receives. From the 15th to 30th day the sickness benefit is 60% of the daily assessment basis. From the 31st to 60th day it is 66% of the daily assessment basis and from the 61st day on it is 72%. Wage compensation for the first two weeks of sickness is paid by employers.

Because of the low-budget package, next year the share of the daily assessment basis will be 60% as of the 15th day through the rest of the temporary incapacity to work period. For example, an employee with a gross wage of CZK 20,000, who is sick for 90 days, currently receives approximately CZK 30,000 from the state; in 2010 it will be CZK 27,000.

Maternity benefits changes will be even more noticeable. The share of the daily assessment basis will be reduced from the current 70% to 60%. In addition, the calculation of the daily assessment basis will change. The employee's entire earnings will not be calculated into the first reduction border (at CZK 786) anymore, but only 90% of it.

The amount of maternity benefit, which mothers receive for a total of 28 weeks, will be cut depending on the mother's earnings by 20%-23% because of the changes described above. For example, a mother, who had a gross wage of CZK 25,000, today would receive a maternity benefit of approximately CZK 16,950 a month; from January it will be CZK 3,800 less.

Changes in the Sickness Insurance Act will influence the attendance allowance as well. In 2010 it will be paid out by the Czech Social Security Administration from the 4th (no longer from the 1st) calendar day of attendance or caretaking. So the period of providing attendance allowance will be 3 days shorter (6 days, or 13 days for lonely employees).

All changes in sickness benefits were enacted for only a temporary period – from 1 January to 31 December 2010. From 2011 the benefits should increase again to the current levels, if there are no other amendments enacted to the Sickness Insurance Act.

New Coordination Regulation

- coordination of social security systems in the EU will have a new regulation as of 1 May 2010
- extension of posting period from 12 to 24 months
- electronic communication between national offices

STATE SOCIAL SUPPORT

The Act on Promotion of Economic Growth and Social Stability hardly became effective, and already some of the introduced changes in the state support area are being abolished.

Amendment to Act No. 117/1995 Coll., on State Social Support, and Act No. 435/2004 Coll., on Employment

As a result of the low-budget package, increased child benefits will only be provided for several months. From 1 January 2010 they will be reduced to their previous level.

The low-budget package also completely abolishes the amendment to the Employment Act raising the unemployment benefit and extending the length of providing unemployment benefits. The amount of benefits should have been 80% of the average net monthly wage for the first 2 months and 55% for benefits provided after that. But it

remains at its present level without changes. The length of providing unemployment benefits should have been 1 month longer as of November 2009, but it also remains unchanged.

OTHER REGULATIONS UNDER DISCUSSION

Parliament – Chamber of Deputies

Amendment to the Labour Code (wage compensation during sickness)

Parliamentary document 788, 2nd reading

Cancellation of maximum assessment base for social insurance and health insurance

Parliamentary documents 793 and 798, 2nd reading

Amendment to the Bank Holiday Act

Parliamentary document 707, 1st reading

Proposed new Act on Family Support

Parliamentary document 863, 1st reading

Proposed new Civil Code and Commercial Code

Parliamentary documents 835 and 836, 1st reading

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