



# COVID-19: EY Czech Republic

## Relief measures

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# COVID-19: Relief measures



## Legal framework

- ▶ “Liberation packages” published as Financial Bulletins no. 4/2020, 5/2020 and 6/2020 by Ministry of Finance of the Czech Republic
- ▶ Targeted Employment Support Program “Antivirus” adopted on 31 March 2020 by the Czech Government
- ▶ Law Bill aimed at mitigating the negative economic impacts of emergency measures on tenants as passed by the Chamber of Deputies on 8 April 2020
- ▶ Law Bill adopting moratorium on loans, borrowings and other similar finance services as passed by the Chamber of Deputies on 8 April 2020
- ▶ Other Governmental measures and law amendments

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## Areas being addressed:

1. Targeted Employment Support Program “Antivirus”
2. Support of self-employed individuals
3. Program “COVID I”, “COVID II”, “COVID Praha”, “COVID III” and “COVID Plus”
4. Moratorium on loans
5. Postponement of rent payments
6. Other COVID-19 related relief measures

The Government partially compensates employers for the costs of wage compensations paid to employees during periods of work-related obstacles caused by the quarantine and/or closure/limitation of operations of the employers due to various reasons related to COVID-19 infection.

### Who is eligible?

The key conditions for entitlement to compensation under the Antivirus Program include:

- ▶ The employer is a company in the business sphere, i.e. wage costs are not covered from public budgets;
- ▶ Employees are in an employment relationship and participate in Czech sickness and pension insurance;
- ▶ The employer operates in strict accordance with the Labour Code;
- ▶ The employee is not on notice and has not been dismissed;
- ▶ The employer pays the employee the wage compensation and pays the related social and health insurance premiums (for itself and for employees); and
- ▶ If the employer is an employment agency, the employment relationship of the employee must have started before the date of the emergency declaration on 12 March 2020 and must have been agreed at least till 30 April 2020.

### What does it cover and how is it accessed?

Support will be provided under two schemes:

- ▶ Scheme A: This is intended for cases of (i) business closure or restriction of business operations as a result of the crisis or emergency measures and (ii) for situations where the employee could not work due to quarantine.
- ▶ The contribution to the employer by the Government will be in the amount of 80% of paid wage compensation (including the employer’s statutory contributions), up to a maximum of CZK 39,000 per month per employee.
- ▶ Scheme B: This applies to employers whose employees do not work due to obstacles on the part of the employer in relation to the spread of COVID-19.
- ▶ The Government contribution should reach 60% of paid wage compensation (including statutory contributions), up to a maximum of CZK 29,000 per employee per month.

### Practicalities

- ▶ The eligibility period was provisionally set to 30 April 2020; however, given the evolution of COVID 19, the Ministry of Labor and Social Affairs extended its application to 31 May 2020.
- ▶ The program is made available via a web-based application portal (<https://antivirus.mpsv.cz/>).
- ▶ The payment of Government contribution requires filing of monthly reconciliation.
- ▶ Audits are expected in the future reviewing the entitlement to the Government contributions.

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Self-employed persons may apply for a one-off cash subsidy of CZK 25,000 from the Government to compensate for the effects of the COVID-19 related crisis.

Moreover, the obligation to pay the minimum social security and health insurance payments for all self-employed individuals is waived for the period March to August 2020.

#### One-off cash subsidy of 25,000 CZK

- ▶ The subsidy is aimed at individuals affected by the COVID-19 related crisis who have business as a primary and secondary activity (although individuals who are simultaneously employed and their income is subject to social security contribution to sickness insurance are excluded from the program)
- ▶ The subsidy covers the period from 12 March to 30 April 2020, the individual needs to apply for it until 29 June 2020.
- ▶ Business activities for these purposes are any sole freelancer activities considered as self-employment activities based on the Czech pension insurance act.
- ▶ The subsidy will not be subject to personal income tax and social security and health insurance payments.

#### Waiver of social security and health insurance payments

- ▶ All self-employed persons, irrespective of whether they engage in main or secondary business activities, are not obliged to pay the minimum social security and health insurance payments ("SSHI") from March to August 2020.
- ▶ In cases where a self-employed person would have been obliged to pay a higher SSHI payments than the minimum amount, the corresponding SSHI for the period from March to August 2020 will be calculated and settled in the annual reconciliation, i.e. in 2021. However, the final amount of SSHI due will be lowered by the amount of minimum payments waived.
- ▶ If a self-employed person has already made advance payments for March, the advance payment will be considered as the advance payment for the month of September.

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Employees that cannot work due to taking care of their children up to 13 years who stay at home during school closure may receive state benefit in the amount of 80% of their reduced average earnings.

Self-employed persons in the same situation may apply for a subsidy.

#### State benefit for employees

- ▶ Employees who have to stay at home to take care of their child/ren are entitled to a childcare benefit paid by the Czech social security authority as a compensation for their absence from work.
- ▶ The period of provision of the benefit provision has been temporarily extended for the entire period of schools closure while the child age limit has been temporarily increased from 10 years to 13 years.
- ▶ The amount of the state benefit is temporarily increased from 60% to 80% of the reduced average earnings.
- ▶ Only one parent may receive the benefit at the same time, yet recipients may change – e.g. two days a week one parent, three days a week the other parent.
- ▶ The benefit is not subject to personal income tax and social security and health insurance payments.

#### Childcare benefit for freelancers

- ▶ Due to the current situation, Czech Government intends to reimburse also self-employed individuals who have to take care of their child/ren and cannot thus perform self-employment activities.
- ▶ Similarly to employees, this support aims at individuals having child/ren of the age of up to 13 who cannot attend schools during the general closure.
- ▶ The amount of the benefit is CZK 424 per day for March and CZK 500 per day as of April.
- ▶ The benefit is provided by the Czech Ministry of Industry and Trade as a form of a subsidy.
- ▶ The subsidy can be claimed by the freelancer only if nobody else is claiming this subsidy or employee childcare benefit on the very same child.
- ▶ The subsidy is generally subject to personal income tax and social security and health insurance payments.

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# Closed Programs “COVID I”, “COVID II” and COVID PRAHA

The purpose of the COVID I and II programs were to provide access to business finance for sole entrepreneurs, along with small and medium-sized businesses.

It was intended for those whose economic activities are limited due to the occurrence of COVID-19 infection and related preventive measures.

## Who was eligible?

- ▶ The COVID I and II programs were made available for sole entrepreneurs and small and medium-sized businesses carrying on their business activity outside of Prague.
- ▶ COVID Praha program was made available for sole entrepreneurs and small and medium-sized businesses carrying on their business activity in Prague.
- ▶ Programs were in the form of guarantees for loans up to CZK 15m. The guarantees were to allow for:
  - ▶ An annual deferral of repayments; and
  - ▶ To have the Czech-Moravian Guarantee and Development Bank subsidizing the interest rate.
- ▶ The application process for COVID I COVID II and COVID PRAHA programs has now been closed.

## What did it cover and how was it accessed?

The Government introduced the COVID I loan program in the amount of CZK 5bn (approximately €180m, being 0.1% of GDP). The purpose of this program was to enable eligible businesses to apply for a direct interest-free loan in the range of CZK 0.5m to 15m. The loans were to be:

- ▶ Granted in an amount of up to 90% of eligible expenditure;
- ▶ Have a maturity of 2 years; and
- ▶ With the possibility of deferred repayment for up to 12 months.

The government also approved the COVID II loan program with another 5bn CZK in the form of guarantees for loans up to CZK 15m held with commercial banks. In order to facilitate the distribution of up to CZK 30bn among the program participants, the guarantees were to allow for:

- ▶ An annual deferral of repayments; and
- ▶ To have the Czech-Moravian Guarantee and Development Bank subsidizing the interest rate

COVID PRAHA was generally the same as the COVID II.

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# Programs “COVID III”, “COVID Plus”

The purpose of the COVID III and COVID Plus programs are to provide access to business finance for sole entrepreneurs, along with small and medium-sized businesses and large enterprises.

They are intended for those whose economic activities are limited due to the occurrence of COVID-19 infection and related preventive measures.

## Who is eligible?

- ▶ The COVID III is made available for sole entrepreneurs and small and medium-sized businesses up to 500 Employees carrying on their business activity in whole area of the Czech Republic (including Prague).
- ▶ The COVID Plus is made available for large enterprises from 250 Employees carrying on their business activity in whole area of the Czech Republic (including Prague).
- ▶ Programs are in the form of guarantees for loans up to CZK 50m in program COVID III and from 5m to 2bn in program COVID Plus. The guarantees were to allow for:
  - ▶ An annual deferral of repayments; and
  - ▶ To have the Czech-Moravian Guarantee and Development Bank subsidizing the interest rate.
- ▶ The application process for COVID III COVID Plus programs are expected to open in the beginning of May.

## What does it cover and how is it accessed?

The Government introduced the COVID III loan program of CZK 150bn (approximately €5.5bn). The purpose of this program was to enable eligible businesses to apply for a loan up to CZK 50m. The loans are made to cover:

- ▶ Acquisition of small tangible or intangible assets;
- ▶ Acquisition and financing of inventories or materials; and
- ▶ other operating costs/expenses of the beneficiary.

Another introduced program is COVID plus program, where guarantees for loans are provided through the Export Guarantee and Insurance Corporation (EGAP) with minimal amount of loan CZK 5m. EGAP covers the loan principal up to 80%. In order to maintain business, the loans are made to cover:

- ▶ Operation costs
- ▶ Working capital
- ▶ Innovation and improvement of production

At least 20% of sales of goods, products and services must be from exports (for the last accounting period).

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# Moratorium on credits, loans and liabilities from similar financial services

The Law adopting the moratorium on loans ("Moratorium") was approved by the Parliament and is now effective.

Upon the request of the borrower, the financial institutions are obliged to provide deferral of repayments of credits, loans and liabilities arising on similar financial services such as financial leases ("loans").

## Who is eligible?

The scope of eligibility for the Moratorium is wide, i.e. it applies to all loans granted before 26 March 2020.

However, the Moratorium does not apply mainly to:

- ▶ Liabilities which are overdue more than 30 days;
- ▶ Investment instruments (e.g. bonds);
- ▶ Credit card obligations; and
- ▶ Liabilities from operating leases.

## What does it cover?

The time of fulfilment of the debtor's monetary debts to the creditor is postponed by the length of the protection period that lasts from the first day of the calendar month following the notification (at the earliest from 1 May) to

- ▶ 31 October 2020 or
- ▶ 31 July 2020, if the debtor so requests).

During the protection period, the creditor is entitled to:

- ▶ the maximum interest rate equal to the repo rate as published by the Czech National Bank increased by 8 p.p. (i.e. 9% in total) where the debtor is a consumer;
- ▶ the interest rate as agreed in the original loan agreement where the debtor is an entrepreneur.

This interest shall not bear interest.

The maturity of this interest is postponed until the end of the loan repayment period for natural persons; for legal entities, the interest is payable at the time agreed.

Debtors - natural persons (regardless of whether they have used the protection periods or not) - will not be subject to penalties for late payment until 31 October 2020.

## Practicalities

The debtor notifies its intention to use the Moratorium for the protection period which starts from the first day of the calendar month after the notification was made.

The Law Bill has been approved and is effective from 17 April 2020.

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The Law enables a deferral of rent payments due between 12 March 2020 and 30 June 2020.

However, the tax obligations of landlords will generally remain the same and contractual sanctions should still be applicable to tenants.

## General information

The Law allows for the following:

- ▶ Tenants of business premises: tenants can postpone the payment of rent due in the period from 12 March 2020 to 30 June 2020 (unless the emergency measures are terminated earlier) until the end of 2020.
- ▶ Until 30 June 2020, landlords will not be able to unilaterally terminate a lease due to a delay in the payment of rent referable to the aforementioned period as a result of emergency measures in an epidemic. However, this is not applicable to utilities and services payments.
- ▶ Tenants of residential apartments: this is similar to that for tenants of business premises, except that the protection period lasts until 31 July 2020.

It should be noted that the Law neither attempts in any way to mitigate the related financial impact on landlords, nor their tax obligations to the Government. Further, contractual sanctions based on the respective rent agreement should still be applicable to tenants in the protection period.

Most landlords will be required by law to pay VAT on these rentals by the regular deadlines and apply the income tax for 2020 also to revenue that may remain unpaid.

On the other hand, tenants who are in arrears with invoice payment are not prevented by the new rules from claiming the VAT deduction (if the standard conditions are met), meaning they will receive an additional cash flow advantage at the expense of the landlord.

## Practicalities

Both landlords and tenants should not underestimate this area and consider timely and appropriate adjustments to existing contractual arrangements (taking into account the related tax implications).

The Law became effective on 27 April 2020.

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Due to the COVID-19 pandemic, the Ministry of Finance announced various tax liberation measures such as the relief of various sanctions for late filing of selected tax returns and related tax payments.

### Tax deferrals

The following tax deferrals have been put in place:

- ▶ For entities with a standard deadline of 1 April 2020, both the corporate / personal corporate income tax returns and annual withholding tax statements for 2019 may be filed (and the related tax paid) by 1 July 2020 without a penalty or related late payment sanctions;
- ▶ The automatic removal of penalties for the late filing of real estate acquisition tax returns and related late payment sanctions provided the tax return is filed by 31 August 2020; and
- ▶ The automatic removal of penalties for late payment of road tax prepayments due on 15 April 2020 and 15 July 2020, provided the tax prepayments are settled by 15 October 2020.

### Electronic records of sales suspension

Obligations from filing of electronic records of sales during the state of emergency and also during the three subsequent months have been suspended. In addition it has been announced that the suspension will be extended until the end of 2020.

### Waiver of tax payments

- ▶ For taxpayers with a calendar year tax period, the requirement to pay the June advance payment of corporate income tax has been removed. This removal is automatic and taxpayers will not be required to file any application.
- ▶ Since 12 March 2020 until the end of the emergency measures, VAT on free-of-charge supply of goods or services to selected recipients is waived.

### Tax loss carry-back

Introduction of Tax Loss Carry-Back for 2020 tax losses to be potentially deducted against 2019 and 2018 tax losses. This Law Bill is still subject to the approval of the Parliament of the Czech Republic.

### Intention to abolish the real estate acquisition tax

Based on the Government's Law Bill, the real estate acquisition tax is to be abolished with respect to transfers registered in the real estate cadaster since December 2019. However, this Law Bill is still subject to the approval of the Parliament of the Czech Republic.

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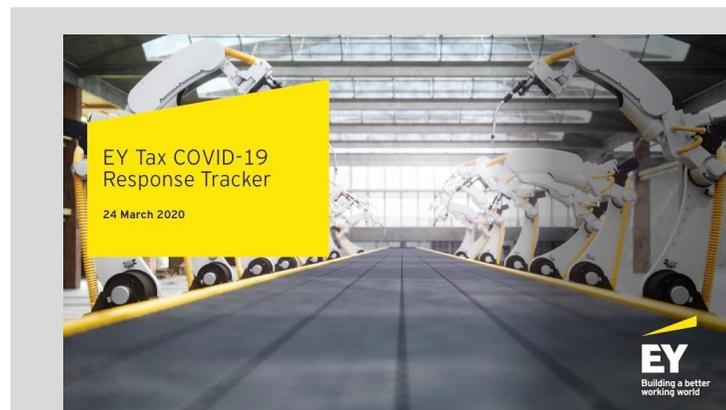
Our tracker provides a snapshot of the policy changes that have been announced in jurisdictions around the world in response to the COVID-19 crisis.

Policy changes across the globe are being proposed and implemented on a daily basis.

The document will be updated on an ongoing basis but not all entries will necessarily be up to date as the process moves forward.

Key jurisdictions covered by the Response Tracker include:

- ▶ Australia
- ▶ Austria
- ▶ Belgium
- ▶ Brazil
- ▶ Canada
- ▶ China
- ▶ Colombia
- ▶ Cyprus
- ▶ Czech Republic
- ▶ Denmark
- ▶ France
- ▶ Germany
- ▶ Greece
- ▶ Hong Kong
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