**The Czech government's austerity package: How will it affect you?**

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From a change to VAT rates to a rise in several taxes, here are the most important points from Thursday's huge fiscal reform plans.

The government announced Thursday its large-scale fiscal reform package that sets out to narrow Czechia’s huge public deficit. Many of the measures announced – over 50 in total – will affect the lives of expats and locals alike in Czechia.

The government hopes to implement all these changes in January 2024, but the plan must first be passed in parliament.

### VAT

Perhaps the biggest news is the change to value-added tax (VAT) rates in the country. The current system of three VAT rates will merge into just two. The upper rate of VAT – 21 percent – will remain. However, the reduced rate will become 12 percent. This means that the current 10- and 15-percent VAT brackets will be abolished.

What does this mean for products and the average consumer? It all comes down to which VAT rate commodities will have. Bad news for beer drinkers and pubs – Czechia’s staple will likely get more expensive from next year, as VAT on draft beer will increase from 10 percent to 21 percent. Soft drinks will also now have the highest VAT rate.

Newspapers and hairdressing services will also become noticeably more expensive, as these will move into the highest VAT bracket from what was previously the lowest. This also applies to shoe repairs and bicycles.

Food products and housing, which have both soared in price in the past 12 months, will benefit from a lower VAT rate – this is good news for consumers. Their VAT rates will go from 15 percent to 12 percent.

Public transport, magazines, some medicinal drugs, and tickets for culture and sports events will become slightly more expensive. Their VAT rate will rise from 10 percent to the new 12-percent bracket. There will be no VAT on books.

### Taxes

In short, many people in Czechia will need to pay more in taxes (directly or indirectly) following the financial reform. This is due to the abolition of 22 tax exemptions and an increase in other taxes.

One huge change is in personal income tax. The threshold to pay the higher level of income tax – 23 percent – will be reduced from CZK 161,000 to CZK 121,000. Far more people, therefore, will be subject to higher levels of tax.

From 2025, corporate income tax will rise from 19 to 21 percent. Property tax will also roughly double across all levels. "For an average 70 square meter apartment in Prague 1 today, the owner currently pays CZK 1,700 CZK per year. The new [post-reform] price will be approximately CZK 2,500,” wrote the Ministry of Finance Thursday.

Excise duties on cigarettes, tobacco, and cigars will also jump by 10 percent next year and by a further 5 percent in each of the following three years. Gambling will also face an increase in tax.

Heated tobacco will increase by 15 percent each of the next four years. A new excise duty will also be introduced on nicotine pouches and refills for e-cigarettes. This will increase the cost of all items.

The state also plans to increase excise taxes on alcohol by 10 percent next year and 5 percent between 2025 and 2027 inclusive. Still wine, however, is exempt from tax.

Among the 22 tax exemptions that the government will remove are the student tax credit, the tax discount for placing a child in pre-school education, and tax relief on non-monetary employee benefits. Tax discounts for non-working spouses will end unless their child is under the age of three.

Drivers will also face an increase in the cost of so-called annual motorway stamps in Czechia, which will increase from CZK 1,500 to CZK 2,000. However, the cost of monthly and 10-week stamps will decline slightly, by CZK 10 and CZK 40 respectively. This will come into effect in March 2024.

### Pensions, insurance, and self-employed individuals

The government already set out its pension reform earlier this year, although Thursday’s press conference confirmed that pension growth would substantially slow in the next decade.

Minister of Labor Marian Jurečka said that the new reforms would see the retirement age set when someone reaches the age of 50, based on the life expectancy of the time. In essence, this means that those currently in their 30s and 40s will likely have a later retirement age than at present.

Self-employed people will need to pay higher insurance premiums from the start of next year. Between 2024 and 2026 inclusive, the minimum assessment base for social insurance will increase by 5 percentage points per year. Self-employed people will also pay insurance premiums of at least 55 percent of the tax base instead of the current 50 percent.

Employees will also now need to pay mandatory sickness insurance at a rate of 0.6 percent of their average monthly gross salary.

During his press conference Thursday, Prime Minister Petr Fiala acknowledged that these reforms would not be popular, but branded them "essential" and overdue in order to cut Czechia's public deficit by tens of billions of crowns. The austerity measures should achieve this – but to the detriment of swathes of the population.