

Czech Employment Law Basics

We have prepared this brief guide to provide our foreign clients with the basics of Czech Labour Law regulations. We start with a general overview of the **scope of Czech Employment Law**. We then focus on the requirements for **employment contracts** and possibilities of collective agreements. A key part of this guide is a list of the main **employee entitlements** (e.g. maximum working time, minimum holiday, minimum wage, parental rights, etc.). Part three addresses **terminations of employment relationships** and provides useful tips for employers should they undergo a company reorganisation. Finally we look at **employment taxation**, including obligatory health insurance and social security contributions.

We hope that the **Czech Employment Law Basics** will provide a general understanding of Czech employment law and make your decisions in this area easier. If you have any questions concerning the information provided in this guide, or if you need more specific information/legal advice on Czech employment law, please don't hesitate to contact us at employment@randls.com.

GENERAL INFORMATION

All employment relationships involving Czech parties in the Czech Republic have statutory protection under the Labour Code (Act No. 262/2006 Coll.). The Labour Code also applies to foreign parties (even if only one party is foreign) in employment relationships performed in the Czech Republic, unless the parties have chosen another jurisdiction as governing law.

Foreign employees from EU/EEA member states posted to work in the Czech Republic are subject to certain statutory provisions of Czech law.

Employment of foreigners

The principles of free movement of labour apply to all EU/EEA citizens working in the Czech Republic, as well as workers from Switzerland. No work permit is needed for employees from these countries so long as they possess travel documents or an identity card.

Citizens from other countries must obtain a work permit and residence visa, or they must be holders of the newly enacted Green Card (some exemptions apply to short-term work and certain categories of workers).

Employment contracts

Czech law requires all employment relationships to be entered into and governed by means of a *written employment contract*. However, failure to do so does not render a verbal contract invalid.

The following employment terms must always be agreed in the employment contract:

- ▲ type of work
- ▲ place of work
- ▲ date of commencement of work.

The Labour Code also requires employers to inform employees of certain information in writing, either in the employment contract itself or within 1 month of starting work. Furthermore, the Labour Code implies many rights and responsibilities in an employment contract.

Collective agreements

Collective agreements are common in the public service sector and in the industrial sector. In addition, higher-level collective agreements may be concluded between a group of employers and the major trade unions.

Czech Employment Law in Numbers I.

- weekly – 40 hours working time + 8 hours overtime
- 4 weeks basic holiday
- 28 weeks maternity leave / 3 years parental leave
- CZK 8,000 (EUR 308) minimum monthly wage

EMPLOYEE ENTITLEMENTS

Working hours/overtime

A working week consists of a maximum of *40 working hours* with certain exceptions.

The employer can demand on average a maximum of *8 hours of overtime* work per week, but no more than 150 hours per year. Any additional overtime work requires the employee's approval. Total overtime work may not exceed an average of 8 hours per week, which means approximately 416 hours per year.

Holiday

Each employee is entitled to a minimum of *4 weeks* of holiday per calendar year. Holiday time may be increased by additional days, provided that the rules on equal treatment are respected.

In addition the Czech Republic currently has 12 statutory public holidays.

Sickness

A special regulation stipulates that any employee officially declared sick (i.e. incapable of work), is entitled to sickness benefits. During the first *14 calendar days* of illness, wage compensation is paid by employers (starting from the *4th working day* of illness).

Starting on the *15th* calendar day of illness, the Social Security Administration begins paying sickness compensation.

Maternity/parental rights

Female employees are entitled to 28 weeks of *maternity leave* (37 weeks for multiple births). Leave can begin as early as the eighth week before the expected due date. During maternity leave the Social Security Administration pays the employee's maternity benefits.

Parental leave must be granted to any parent employee who requests it at any time from the end of maternity leave (for mothers) or the date of birth (for fathers) until the child turns 3. During parental leave the employee is entitled to parental benefits paid by the state.

Employees who are parents or caregivers also have other *special rights*. They are protected from termination of employment. Under some conditions female employees caring for a child under 15 are also entitled to shortened working hours.

Minimum wage

The lowest minimum monthly wage is set at *CZK 8,000* (about EUR 308) and the lowest minimum hourly wage is set at *CZK 48.10* (about EUR 1.8). In addition to the lowest minimum wage, there are 8 categories of higher statutory minimum wages, according to the particular type of work.

TERMINATION OF EMPLOYMENT

Possibilities of employment termination

An employment contract can be terminated by a written *agreement* on termination, which is the preferred way. Other possibilities are *expiration* of the period for which employment was concluded, expiration of work/residence permit of a foreign employee or *cancellation* of employment during the probationary period.

Only employees may unilaterally terminate employment without a reason. This is done by *notice*. Employers may only terminate employment by notice for reasons explicitly stated in the Labour Code – organizational grounds, health grounds, poor performance or breach of obligation. *Immediate termination* is possible, for both the employer and employee, but only in extraordinary cases specified by the Labour Code (e.g. an especially serious breach of obligations, nonpayment of salary). Notice of immediate termination must be given in writing

Czech Employment Law in Numbers II.

- 2-month notice period
- 3 months severance pay – organisational changes
- 15% income tax on employee income
- 11% employee / 34% employer health and social security contributions

and delivered to the employee/employer.

Notice periods

The statutory notice period is *2 months* at minimum, regardless of the length of employment. It can be extended by mutual agreement but the notice period must be the same for both parties.

The notice period commences on the first day of the calendar month following the month the notice was delivered and ends on the last day of the last month.

Severance payments

For dismissals for organisational grounds the employee is entitled to a mandatory severance payment of at least *3 times* his/her average monthly earnings.

If the termination is for health grounds resulting from an occupational disease or work injury, the employee is entitled to a mandatory severance payment of at least *12 times* his/her average monthly earnings.

Protected employees

An employer may not dismiss certain members (or even former members) of a *trade union* without the union's consent. During a *protective period* (e.g. pregnancy, illness) employees may only be dismissed if the business (or its part) is being shut down or relocated, or if there are grounds for immediate termination.

Business reorganisations and redundancies

Conditions for termination because of a re-organisation:

- ▲ The employer must decide on the relevant organisational changes before serving notices.
- ▲ Employee representatives must usually be consulted before the notices are served.
- ▲ A notice of termination must be delivered to each employee clearly stating the reasons for termination as organisational grounds.
- ▲ Dismissed employees are entitled to 2 months notice period + 3 months severance pay.

TAXATION OF EMPLOYMENT

Scope of income taxation

The scope of taxation of an individual working in the Czech Republic depends on his/her tax residency status. An individual who resides in the Czech Republic for more than 183 days in a calendar year, either continually or in several periods, or who is domiciled in the Czech Republic (i.e. has a permanent residence in where he/she intends to stay permanently), is considered a Czech tax resident, and all his income is subject to taxation in the Czech Republic.

Individuals who are not considered to be Czech tax residents are subject to Czech personal income tax only with respect to their income from Czech sources.

Basis and rates of income taxes

Taxation on employment income is derived from the gross employment income increased by the mandatory social security and health insurance contributions paid by the employer (the "supergross wage").

Generally, Czech employers withhold employees' income tax, which is currently 15% of the monthly tax base. Tax is calculated on the supergross wage. The effective income tax rate amounts to 20.1% in respect of employment income up to the maximum assessment base for social security and health insurance contributions (CZK 1,707,048 for 2010, EUR 65,935). Any employment income over this limit is taxed at 15%.

Social security and health insurance contributions

Under Czech law, social security contributions consist of sickness insurance contributions (financial security for employees in case of sickness, injury, pregnancy or maternity), pension contributions and contributions to unemployment insurance. Employees contribute 6.5% of their gross taxable income to social security schemes. Employers contribute the equivalent of 25% of the gross taxable income of all its employees.

Health insurance contributions amount to 13.5% of an employee's gross taxable salary, one-third of which (4.5%) is paid by the employee and the remaining two-thirds (9%) by the employer.

The maximum assessment base for social security and health insurance contributions for 1 employee amounts to 72 times the average wage, i.e. CZK 1,707,048 (EUR 65,935) for 2010.

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