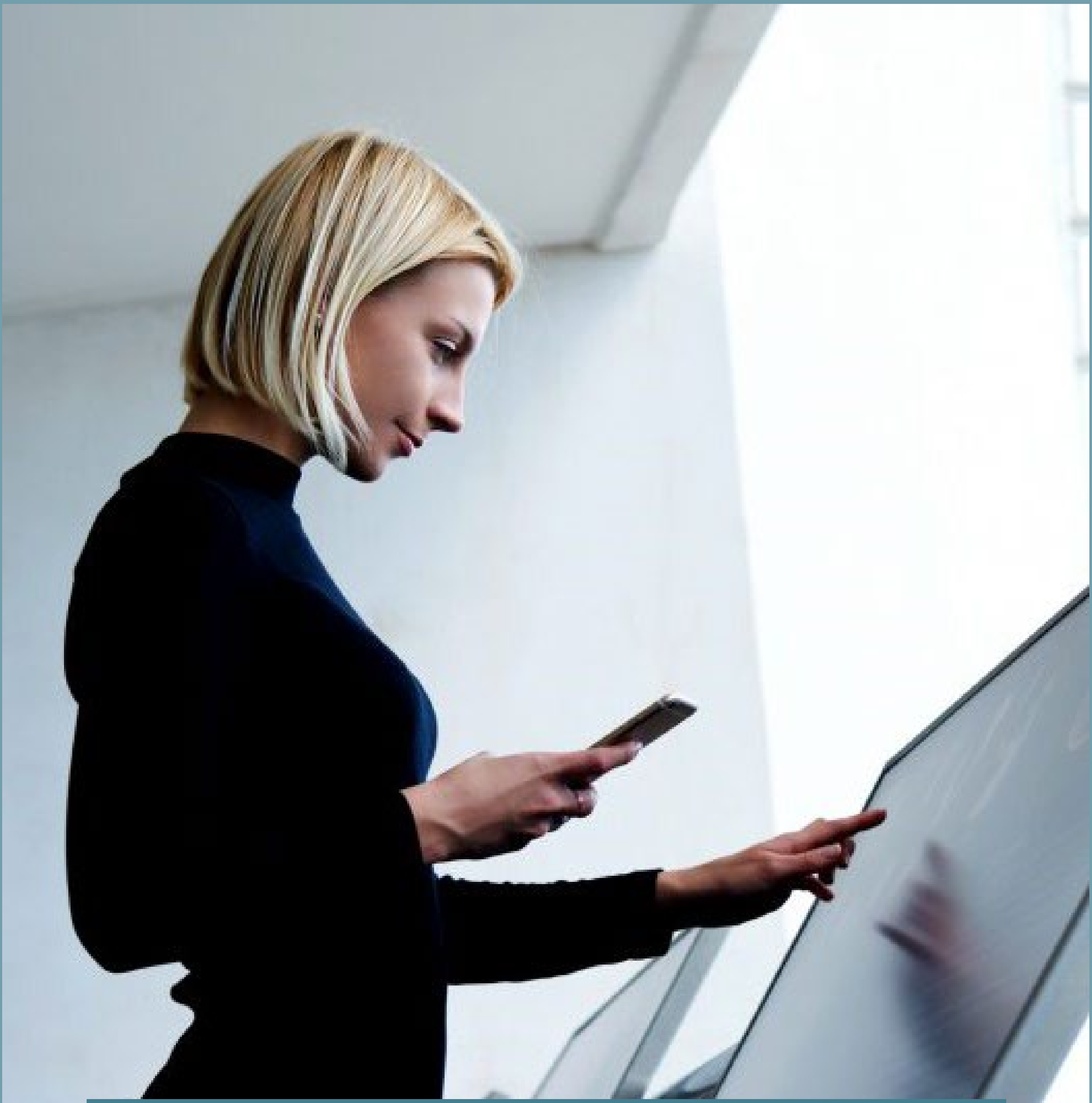

CEE Tax & Payroll Newsletter

October 2022

mazars

Get a better overview of the most important changes in tax, labour, and payroll legislation in the CEE region.

The CEE Tax & Payroll Newsletter aims to share Mazars' latest news on tax, labour, and payroll legislation in the Central and Eastern Europe region, with the scope of helping you to prepare for the changes that could lie ahead in the following countries: Austria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, and Ukraine.

CEE Tax & Payroll Newsletter

Insights to guide you through today's evolving regional tax, labour, and payroll landscape.

Mazars is one of the longest-running players in the Central and Eastern European audit, tax, and advisory market. We have developed regional competence centres while working collaboratively on a single integrated platform. Our approach offers you the competitive advantage of accessing both a multinational footprint of exceptional professionals and insights into the tax and payroll marketplace.

Austria Croatia Czech Republic Hungary

Poland Romania Slovakia Slovenia Ukraine

Tax

Companies that operate across borders or have a presence in multiple jurisdictions know that complying with local tax laws, and meeting reporting requirements is a resource-intensive task. It demands local market expertise from trained professionals.

Our regional network is ideally suited to serve large multinationals and international-minded mid-sized companies that need on the ground expertise in multiple jurisdictions. We also have substantial expertise helping fast growing companies that need a tax efficient structure for their first international expansion.

HR & payroll

A complete set of skills, one point of contact within the CEE region. With a solid team of experienced HR and payroll specialists, we are able to successfully support clients throughout Central & Eastern Europe.

We are continuously developing our HR and payroll offering by investing in labour legislation trainings and further growing our people. This means our services are always consistent, provided by a highly trained and motivated team.

Payroll taxation in Central and Eastern European countries

by Ana Luburić, Tax Manager, Global Mobility Services, Mazars, Croatia and

Marko Ferić, Tax Supervisor, Global Mobility Services,

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Payroll taxation in Central and Eastern European countries

Payroll taxation can be a decisive factor for investment decisions and the question of comparing the tax burden between countries in the same region often arises. When it comes to payroll in the CEE region (Central and Eastern Europe), comparing payroll taxes and employment contribution between countries can be very difficult because of the differences between each tax and social security system. For example, some countries have progressive payroll tax rates (e.g., Greece, Slovenia, or the Czech Republic) while others have flat payroll tax rates (e.g., Bulgaria, Bosnia and Herzegovina, or Serbia).

Simple comparison between a country that has a flat payroll tax and a country that has progressive tax rates cannot provide us with enough information to make a relevant conclusion which of those two countries has the higher tax burden. The same goes for comparison of cost for social security as it is differently divided between the employer and employee in different countries. For example, recent analysis of CEE region shows that the costs from social security contributions burdening employers is, on average 15%, of the gross salaries but there are significant differences between the lowest employer burdens (e.g. Lithuania, North-Macedonia, Kosovo, and Romania: less than 5%) and the highest employer contributions (e.g. the Czech Republic, Poland and Slovakia: more than 30%). For this reason, it can be concluded that a more suitable comparison would be the ratio between the total amount of tax and social securities and the total cost to the employer. For CEE region this ratio varies between 15% and 51% in 2022. In addition to the comparison of wage liabilities and the total cost to the employer it should be noted that various other factors must be taken into consideration to be able to conclude which country actually has the higher tax burden.

One of the key factors that is often overseen when doing comparison is the available tax relief (e.g., personal allowance or non-taxable payments). Namely, in some CEE countries (e.g., Croatia) having children or other dependent family members can significantly reduce the tax basis, because the personal allowance can be increased for each child and each dependent family member. This ultimately leads to lower taxes and higher net salary for the employee.

For example, for a person with an

average Croatian salary of 1.322 EUR (gross amount) with one child, the effective employment tax rate would be 6,5% (which is quite different from the standard i.e. the nominal tax rates which are progressive at 20% and 30%).

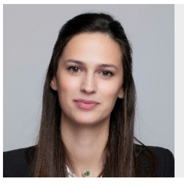
Also, there are some tax and social security incentives or exemptions available that should be taken into account. In this respect, Croatia encourages the employment of young people by reducing employers' contribution to 0% for a five-year period (standard employer's contributions rate is 16,5% health insurance) when the employment contract is concluded for an indefinite period with a person younger than 30 years. Also, employees aged 20-25 receive full refund (100%) of employment tax, and those aged 25-30 receive a 50% refund of employment tax paid.

Furthermore, there are different non-taxable benefits that can be provided to employees. In Croatia, the list of non-taxable benefits has been increasing in the last couple of years as a result of a tax reform with the aim of lowering the tax burden on employment.

This trend is shown this year as well, and as of October 2022 the amounts of some non-taxable befits are increased (non-taxable bonus, Christmas allowances, meal allowances, etc.)

With respect to the above mentioned, although at first glance some countries may not seem as cost advantageous due to high payroll tax rates and/or employment contributions, such countries may offer some other benefits that can reduce the actual tax burden and the total cost for the employer.

To conclude, although the comparison between the CEE countries is not always easy, one fact is clear – a strong initiative in the CEE region is noticeable in the past few years regarding the reduction of the payroll tax and employment contribution burden. In this regard, the CEE region has become an attractive place for foreign companies to establish a legal entity and carry out their business.



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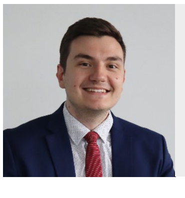

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Inflation relief package impacting payroll in Austria & Romania

by Monika Raidl, Partner, Head of HR & Payroll,

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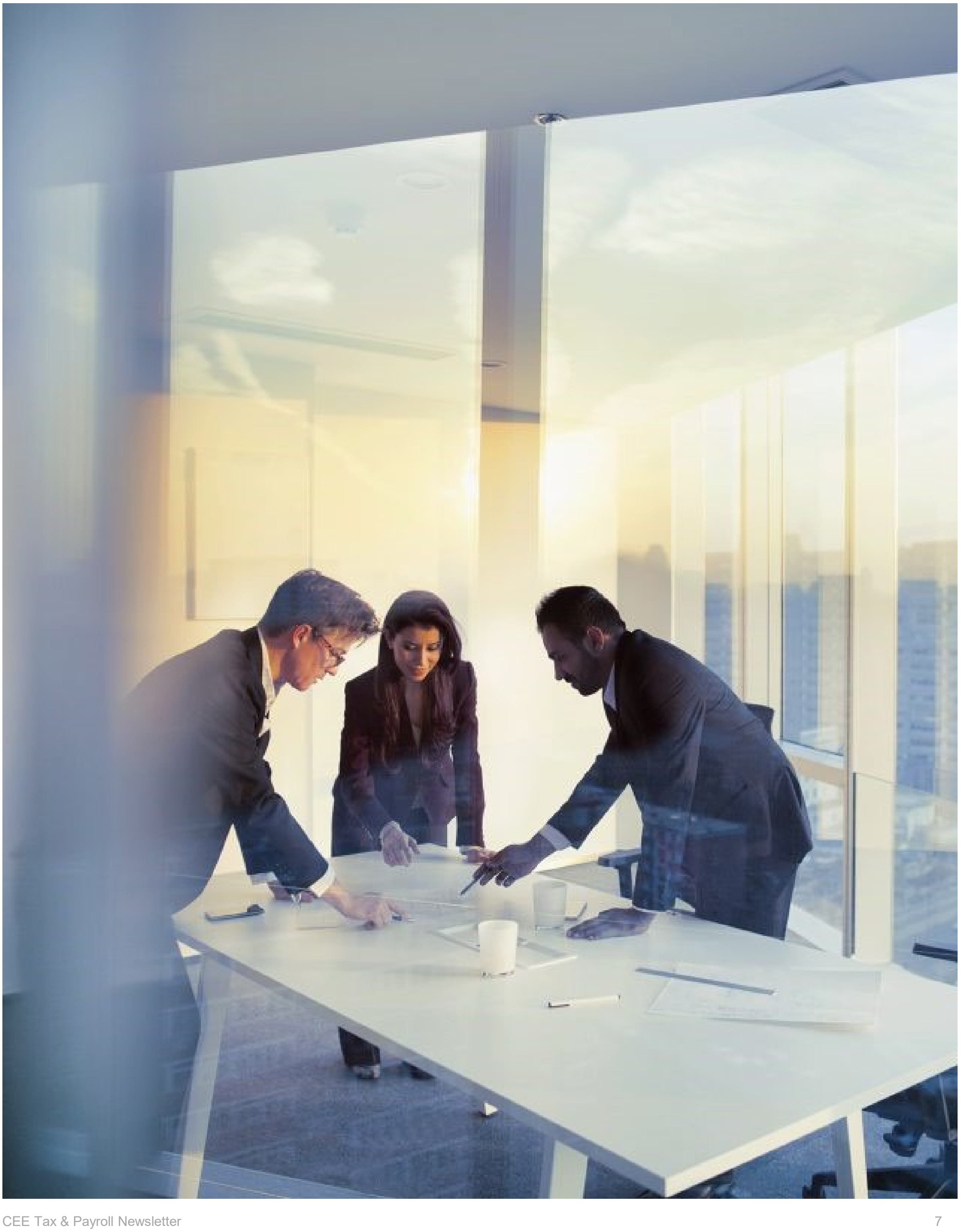

Inflation relief package impacting payroll Austria & Romania

Negative political factors and the ongoing effects of the pandemic are taking a toll on the global economy, weighing down all social and financial aspects. Central and Eastern Europe is also affected by inflation, while governments are trying to find dampening solutions.

The Austrian governance has announced relief packages to mitigate the impacts on the population due to the huge wave of inflation. The following items are of interest from a payroll perspective.

Tax-exempt inflation bonus in 2022 and 2023 in Austria

Tax-exempt allowances and bonus payments additionally granted by the employer in the calendar years 2022 and 2023 due to cost-of-living increases are tax-free up to EUR 3,000 per year per employee (wage tax, social security, non-wage labor costs).

The tax exemption generally applies only up to EUR 2,000 per year. The remaining tax-free amount (EUR 1,000) can only be used if the payment in question is made under one of the forms of wage regulation set out in Section 68 para 5 numbers 1 to 7 Austrian Income Tax Act (EStG). These include in particular collective bargaining agreements, work agreements made on the basis of collective bargaining agreements, as well as payments made to all employees or specific groups of employees).

Inflation relief package impacting payroll in Austria & Romania

Family Bonus Plus in Austria

The Family Bonus Plus is a tax deduction that directly reduces the tax burden.

It is available if you are subject to unlimited tax liability in Austria and receive family allowance for a child.

The Family Bonus Plus was increased retroactively from EUR 1,500 per year to EUR 2,000 per year as of January 1, 2022. The employer is obligated to roll up the higher Family Bonus Plus in payroll accounting by September 30, 2022 at the latest.

Kurzarbeit Program in Romania

The Romanian Government has in place relief package to mitigate the impact on both, employers and other economic entities that are faced with reduced production as a result of the economic crisis at the international level, generated by the increase in inflation and the decrease in purchasing power.

The prolonged measure approved through an emergency ordinance (GEO 73/2022) is about financial support until December 31, 2022, for reducing working time (Kurzarbeit Program), intended for employers and other economic entities.

The emergency ordinance already in place provides for the continued granting of the allowance of 75% of the monthly gross base salary related to the reduced working hours, to the employees which are affected by the decision to reduce the working time with no more than 80% of the daily, weekly, or monthly duration provided for in the individual employment contract.

The compensation is paid by the employer on the date of payment of the respective month's salary and is reimbursed from the unemployment insurance budget.

This measure was adopted to further secure the maintenance of jobs and to prevent the increase in unemployment.

However, to be qualified for asking this support, the Employers need to cumulatively meet the following conditions:

- the measure affects at least 10% of the number of employees of the unit;
- the reduction of the activity is justified by a decrease in the turnover from the month before the application of the measure or, at most, from the month before the month before it, by at least 10%

compared to the similar month or compared to the monthly average of the turnover from the previous year the declaration of the state of emergency/alert, respectively 2019;

In case a 10% decrease in turnover is not recorded, the decrease in production achieved in the month for which the application of the measure is requested or, at most, from the month before the previous month, by at least 10% compared to a similar month or against the average of the monthly production of the year before the declaration of the state of emergency/alert.

At the same time, the normative act also provides for the extension of the period of granting the allowance of 41.5% of the expected gross average salary earnings by the Law on the social security budget for professionals provided for by the Civil Code, for natural persons who obtain income from copyright and related rights, according to Law no. 8/1996, and for persons with individual employment conventions based on Law no. 1/2005, given the international economic context generated by the increase in inflation to record levels, including as a result of the price increases recorded on the electricity and natural gas markets, which causes increases in production costs, simultaneously with the reduction in the sale of products and services, considering the risk of social exclusion of those who are economically active, but are also in the situation of ceasing their activity.


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News from the CEE countries

Austria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, Ukraine

News from the CEE countries

1500+ professionals

49 partners

23 offices

20+ countries

The overview of the most important tax and payroll insights from Central and Eastern Europe will help you navigate more efficiently through the changes that occur in the following countries: Austria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, and Ukraine.

Learn about all the updates below.

Austria

- Inflation relief package with numerous measures to cushion inflation. Read more.
- Adjustment of family benefits to foreign price level contrary to EU law, affecting the family allowance, child deduction, family bonus plus, the single parent deduction, and the maintenance deduction. Read more.
- Financial incentives for the electricity purchased from the renewable energy community. Read more.

News from the CEE countries

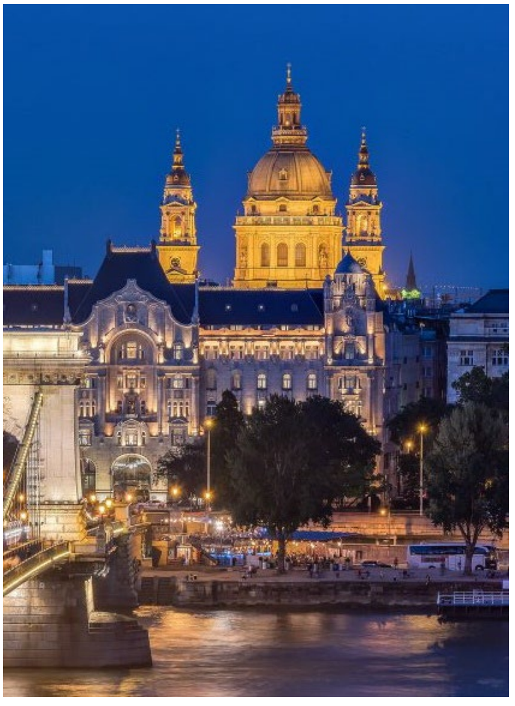
Croatia

- Tax reform in Croatia, a new package of measures to fight against price increases.
- Croatian Tax Authority issued guidance on new Tour operator margin scheme rules applicable in Croatia. Read more.

Czech Republic

- DAC6 – practical examples for reporting cross-border arrangements. Read more.
- The amendment to the Income Tax Act and what it will bring. Read more.
- Financial lease back from the VAT perspective in the light of case law. Read more.
- Taxation of low-emission vehicles provided to employees. Read more.
- Changes in excise duties from February 2023. Read more.

News from the CEE countries



Hungary

- Introduction of the global minimum tax scheme remains unclear. Read more.
- The bill for the new KATA (itemised tax of small businesses) Act passed into law. Read more.
- Energy efficiency is important for households, but also for companies. Read more.
- The eVAT is again on the agenda with a renewed concept. Read more.
- Companies can opt to enter into corporate income tax groups by 20 November. Read more.

Poland

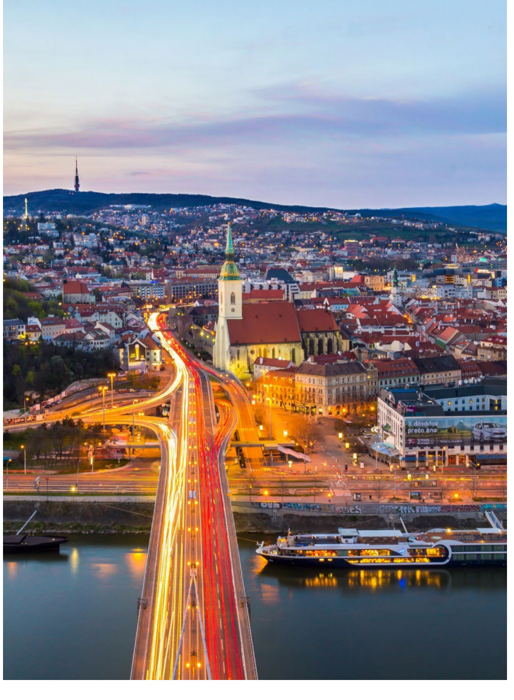
- Poland received the approval of the EU Council for implementing the mandatory e-Invoicing. Read more.
- The most important HR and payroll legislative updates, such as: changes to business trips, notification to an employer of a discontinuation of payments, and outstanding annual leave. Read more.

News from the CEE countries

Romania

- RO e-Transport System, application of fuel price discounts, and value of nursery vouchers. Read more.
- Recycled plastic, Environmental Fund, Circular Economy, and Sanitation Law updates. Read more.
- New amendments to the Tax Procedure Code & Reduction of excise duty on diesel used in agriculture. Read more.
- Major Fiscal Code changes.

  Read more.



Slovakia

- New obligations for taxpayers through a draft of the Amendment to the VAT Act. Read more.
- Notifications about the Tax Reliability Index to the taxpayers. Read more.
- Draft amendment to the Slovak Income Tax Act and the Tax Administration Act. Read more.
- Changes in the amount of meal allowance. Read more.
- Payroll news from 1 January 2023. Read more.

News from the CEE countries

Slovenia

- Higher tax-free amount for commuting and business travel.
- The limit for tax-free meal allowance increased.
- Law in the field of value-added tax to mitigate the increase in energy prices.
- Employers can receive a monthly subsidy for employing unemployed people in green jobs.

Read more about all the updates.

Ukraine

- Operation of the business during martial law. Read more.
- Legal updates:
  - Changes in the state registration process.
  - A new official exchange rate of the hryvnia to the US dollar.
  - A new wording of the Law of Ukraine "On joint-stock companies".
  - Updated list of critical import services. Read more.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 44,000 professionals – 28,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws

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