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EMPLOYEE BENEFITS IN THE CZECH REPUBLIC AND THE RESORT OF MINISTRY OF DEFENSE OF THE CZECH REPUBLIC

In this article the author deals with issues of applying employee benefits in the public sector, in state-owned and private companies and, separately, in the resort of the Ministry of Defense of the Czech Republic (CZECH REPUBLIC hereinafter referred to as CR) to point out what employee benefit is, what is its importance, benefits classification and basic perspectives on its importance.

INTRODUCTION

Money may no longer be the only way to motivate staff. Employers must come with new innovations to keep their workers and motivate them as to increase the labour efficiency. Employee benefits, however, can be an important competitive factor in the acquisition of new labour. Nowadays, having a mobile phone with a graduated account scale or a car used for personal purposes is not as important as, for instance, it was 5 or 10 years ago. A vacation which lasts a week longer is almost a standard. Most used benefit, however, remain the meal vouchers, as well as complimentary refreshments in the workplace or contributions to eating in a different form than the meal vouchers. The above benefits are among the most famous. An employee employed in any large company, can have big expectations from his or her employer, or to wait to be given nothing. The employer is who fully decides about benefits and the range of rewards which to be offered to their employees. Companies that choose grant their employees a noncash admission provided as benefits are limited only by whether this benefit includes adsorbing taxation or not. From the beginning of this year, 2010, the new Code on the income tax Act No 586/1992 Coll. as amended, has extended the options. There will be more costs under taxation. But there was an even petty change in form of combining limits for life insurance and pension insurance at 24,000 CK (that is 2,000 CK a month). The whole change comes from workshops of the present government which has involved this measure into its public finance reforms.

1. EMPLOYEE BENEFITS AND THE PUBLIC SECTOR

Before dealing with the problems of employee benefits, it is important to define what actually an employee benefit is. Generally, we can say that the employee benefit is a benefit outside the regular wage, which, in many cases, is given a relief in the field of taxes and payment regimens. It ensues from the employment relationship to their employer and serves primarily to reinforce a positive relation to the company, to stabilize and for satisfaction of employees and their relaxation.

1.1 THE IMPORTANCE OF BENEFITS

According to the importance of each benefit, the benefits can be divided into four basic spheres:

- the sphere of economics – a possibility of savings in labour costs-option (tax optimization),
- the personal sphere - attracting and retaining good employees and thus decreasing the fluctuation,

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H A D T U D O M Á N Y I S Z E M L E

Budapest, 2011.
4. évfolyam 2. szám

- the sphere of motivation - increasing motivation for working outputs and the so-called loyalty to the employer,
- the sphere of competition - diversifying, gaining a competitive advantage, strengthening the company culture, regulating, increasing the image and attractiveness of the employer.

The employee benefits can be divided from several perspectives, as well, where the decision-making is, as follows:

- the aspect of the taxes and tax payment,
- the pragmatic aspect,
- the aspect formed by the sort of expenses,
- the aspect formed by the type of employee incomes.

I would like to explain briefly the individual aspects of these benefits and, where appropriate, its advantages for employees or employers.

The Aspects of Taxes and Tax Payment:

Extremely advantageous benefits – there are tax expenses on the employer's side; the employees are, where appropriate, to a certain limit free of paying income taxes and the premiums on health and social insurance are not applied to the benefits. In this group we can classify:

- benefits to the superannuation scheme and the private life insurance,
- benefits and surcharges on eating and beverages,
- providing with working clothes,
- professional development of the staff,
- selling a corporate flat to staff for a beneficiary of the apartment price.

Partially advantageous benefits– they are on the employer's side; on the employee side they are incomes from dependent activities without paying premiums, or on the side of the employer there are not tax expenses and the employees are exempt from income taxes and paying premiums for health and social insurance. Specifically, there are benefits, as follows,

- committing by corporate bus or reimbursement of travel expenses,
- temporary accommodation for staff on firm's costs,
- the company extends the vacation, or sick-leave days off,
- loyalty and stability performance fees,
- collection of goods and services for employers at lower prices,
- using of the employer's assets for employee's private purposes.

Benefits without tax advantages: both on the side of the employer and the employee.

- recreation,
- health institutions,
- culture and sports,
- gifts to the employees,
- loans and social assistance to the employees,
- social assistance for the closest surviving,
- loans to employees.

The Pragmatic Aspect

- immediate support of the employment relationship associated with the employee rating (e.g. benefits of transport to work and back, accommodation),
- personal skill growth and training of staff (language and other educational courses),

H A D T U D O M Á N Y I S Z E M L E

Budapest, 2011.
4. évfolyam 2. szám

- c) medical aspects of employees' life (another week of vacation, paying the first three days of illness, providing indispositional days off 4 days in a year),
- d) social aspects of employees' life (loans, social assistance, free pre-school education for children of employees, children's camps),
- e) benefits for leisure time (tickets for cultural and sporting events).

The aspect according to the type of expences – on the employer's side, benefits can be provided in a financial or non-financial form.

The aspect according to the income forms - on the employee's side the benefits can be divided into cash and non-cash.

The main forms of financial cash benefits include a paid extended vacation, 1-2 weeks, paid sick days from the first to the third day of incapacity and paid breaks.

Among the main forms of financial non-cash benefits there are the superannuation insurance, life insurance, and capital building savings, soft or interest-free loans to employees and subsidized or free eating, elevated food when working within the margin laid down by law.²

1.2 THE MOST OBVIOUS BENEFITS IN THE CZECH REPUBLIC³

The brief definition of benefit is that it is cash or non-monetary providing granted to employees, either from the Fund for cultural and social needs (FKSP), from the Social Fund or from the profits after its taxation. The company can also use so-called taxation-free expences, from which it is possible not to levy social and health insurance and income taxes.

In the Czech Republic, the most used benefits include:

- a contribution to the boarding (vouchers at 25, 30, 40, 50 CK or more, where the employee will cover 50% of the price of meal vouchers, food at work); work above 3 hours entitles to one meal, if an employee works more than 11 hours in total. Claim on 2 meals at 24-hour shifts. All this information has to be within the internal directive,
- a lasting vacation (1-2 weeks according to the job intense beyond the pretention vacation).
- health holidays, so-called indisponsitive leave of 4 days in a year, this is a paid-time off,
- benefits in areas of sport, culture and recreation (tickets for sport events, theatre, cinema, swimming, sauna, squash, and children's camps or pastime)
- soft loans (interest-free loans),
- granted a staff-vehicle for private purposes,
- superannuation schemes,
- capital life insurance,
- training and courses (languages, further professional growth).

Among the trends which can now be traced from the provided benefits predominate those directed on consumption and delights, than on creating working conditions above standard. According to the survey made by the company Fitcentrum, the financial benefits contribution clearly leads. The superannuation scheme and life insurance under taxes for the employer are eligible for tax purposes acceptable in any amount.

The main benefits of employee benefits include tax benefits, stabilization and motivation of employees. We cannot miss out either the creating of good relations between the employer and the employees. It is possible to say that the benefits improve the image of the company and become part of our corporate culture.

² Law No 119/1992 Coll. on travel reimbursements and amended

³ Decree of the Ministry of Finance 114/2002 Coll. on Fund of Cultural and Social needs

H A D T U D O M Á N Y I S Z E M L E

Budapest, 2011.
4. évfolyam 2. szám

Benefit and its usage by employees of selected firms in CR	Year 2008 in %	Year 2009 in %	Difference in %
A possibility of purchasing securities of the company	14	29	+15
Management incentive programs	33	51	+ 18
Days-off	47	54	+ 7
Life insurance	42	39	• 3
Motor vehicles used for private purposes	75	71	• 4
Purchase of the company products at a discount	33	27	• 6
Free tickets and contributions to transport	19	12	• 7
Superannuation scheme	86	78	• 8
Soft loans	50	41	• 9
Sport, culture, recreation, leisure time	78	66	• 12
Meal vouchers	97	83	• 14
Non-cash gifts	36	15	• 21

Table 1.: Drawing each species of benefits in selected companies in THE CZECH REPUBLIC in 2008-2009 according to ING Employee Benefits survey, Resource: ING Employee Benefits⁴

The enclosed table shows that the meal vouchers are evergreen. They have had the primacy although have decreased as compared to 2009. Decrease is also concerned with the employer contributions to the superannuation scheme or life insurance. Various managerial motivation programmes are on increase, but a normal employee could barely exploit them. At the same time, purchase of company's securities is a domain of the better paid employees. Now a discount when purchasing car, office techniques or mobile phones is more accessible. Everyone, regardless of functional or grading, may benefit from a temporary accommodation or time off. Currently various periods of leave beyond the law is a real employee's trot.

Different bills for health care and beauty (so-called wellness) have become trendy. Companies offer their employees going on trips, for instance a stay in the mountains including paid accommodation and meals. The vouchers may be affiliated with the percentage value of the contract especially for traders. For example, a dealer who buys goods or materials for 50,000 CK, will gain a voucher of 1% from the order. Both the supplier who rewards collectors that procure for it and the employer that he sold can be donors.

The survey on employee benefits in THE CZECH REPUBLIC, which ING has made among companies located in the Czech Top 100 rankings shows that 49% of the contacted companies contributes to its staff on pension insurance. One tenth of respondents, by contrast, stated that give benefits to the life insurance. Combination of the above products is

⁴ Financial Group ING started on the Czech market in 1991. Since the beginning of its activity among leaders in all areas in the Czech Republic it specifically operates in insurance, banking, asset management, mutual funds and pension schemes. ING provides superior service for both individual and corporate clients. To its private clients ING offers a wide range of products from life insurance, pension insurance, trusts, mortgage or savings account ING Konto which achieves exceptional appreciation on the Czech market. To legal persons the service offers a comprehensive commercial and investment banking, and employee benefits, the programme Employee Benefits; its clients include major international and Czech companies.

used by less than a third of the companies contacted. This is a really good sign for the entire society. It seems that we have finally stopped counting each crown and started thinking for the future, which shows the maturity of the societal responsibility for financial security, as John Šibal, Director of ING Employee Benefits has observed.

2. THE BENEFITS IN THE MINISTRY OF THE DEFENSE OF THE CZECH REPUBLIC

As in the public sector, the benefits are determined by specific benefit standards and decrees, as well as in the Ministry of defense of the Czech Republic these issues are solved by a specific internal standard, the so-called Decree of the Minister of Defense of the Czech Republic.⁵ For implementation of Decree No. 114/2002 Coll. on Fund of cultural and social needs, as amended by Decree No 510/2002 Coll.⁶ and after agreement with the Trade Union bodies Miroslav Kostelka, at that time Minister of defense of the Czech Republic, established its warrant No 39/2002 guidelines for creating and drawing the Fund Cultural and Social Needs (hereinafter FKSP), which in the Ministry of defense represents the employee benefits for the professional soldiers, the Civil Defense Department employees, students at military schools and the military pensioners. Of course, the issue of the warrant was necessary to respond to additional laws and standards in force at the time, as for example, Act No. 117/1995 Coll. on State Social Assistance, as amended, law No 218/2000 Coll. on Budgetary Rules, Act No. 563/1991 Coll. on Accounts or Act No. 143/1992 Coll. on Salary and Remuneration for organizations in budgetary and certain other organizations and institutions, as amended.

This internal standard specifies exactly what FKSP is constituted by, how to create a budget and how this Fund is divided in the Defense Department. Specifically, it provides that the donations may not exceed 15% of the basic FKSP allocation presumed for the given calendar year. It specifically identifies terms for individual advance allocations for individual organizational FKSP folder within the Defense Department during the calendar year. For better orientation of readers, I'll address issues only at the stage of formation, FKSP as a basic organizational level in the structure of the army.

At such a basic stage as it is a Department (battalion, foundation, school) resources are intended primarily for those FKSP activities:

- contributions to canteen boarding,
- contributions for the purchase of equipment which serves to cultural and social development,
- contributions to culture, physical training and sport,
- benefits to recreation,
- expenditures on single-use social assistance, loans,
- expenditures on donations for an extraordinary activity in favour of the Ministry of Defense,
- expenditures on exchange actions,
- contributions to the Trade Unions.

Each department within the scheduling of FKSP means specifies in detail and lays down the rules for the utilization of funds, where points out also the maximum contributions to recreation per employee, the children's recreation of a child, tickets for cultural, physical training and sporting events including transport per employee and the snacks in cultural, physical training and sports events per employee.

2.1 LOANS

⁵ The Decree of the Minister of Defense of the Czech Republic No. 39 dated 23 October 2003 Guidelines for creating and drawing the Fund for Cultural and Social Needs, Journal MO year 2003

⁶ Decree of the Ministry of Finance of the Czech Republic No 510/2002 Coll. amending the Decree of Ministry of Finance of the Czech Republic No-114/2002 Sb.

HADTUDOMÁNYI SZEMLE

Budapest, 2011.
4. évfolyam 2. szám

Loans are some of the most commonly used benefits both for the professional soldiers and for the civil servants of the Ministry. They have been providing for housing purposes, or to overcome the difficult financial situation of the employee. For acquisition of a house or a flat, or payment of a membership of a cooperative flat there may be granted a loan of up to 100,000 CK, with a maturity of ten years from the conclusion of the loan agreement.

A loan to transformation of a house or flat construction is granted to an amount of 75,000 CK, and this loan is a subject to the building permit and the Building Office announcements. A loan for purchase of household equipment is granted for up to 50,000 CK and provides in the way of paying invoices. It is not possible to buy from this loan such things as computers, the internet, or the establishment of the telephone station and so on. There will never be in cash.

A loan to an unpaid balance of fund loans for residential purposes which is provided to employees by the previous employer, except the Ministry of Defense, may be granted up to 5,000 CK in less than one year after the conclusion of the contract.

Staff can be provided by more loans, but they cannot exceed the sum of 100,000 CK and loans for furniture of 50,000 CK. The loan maturity shall not be exceeded.

A loan to bridge the difficult financial situation of the employee. This loan eligible employees up to 20,000 CK, is due within two years from the conclusion of the contract. The situation is considered to be oppressive when an employee not on his own fault moves into difficult situations such as disaster damage, an accident or an accidental situation in the family.

Specifically, these loans in the Defense Department are provided, on the request of soldiers or civil servants and master body recommendations or Regional financial departments for which the department or establishment are of a financial security. In the above order of the Minister of Defense is clearly explained what registration, documentation is needed, how to manage with those funds on loans, what to do when an employee leaves from the Defense Department and does not refund the loan and, of course, the issues of a loan remission of outstanding debt, if the situation requires it.

2.2 DONATIONS

When an employee has living and working anniversaries or goes to retire or takes an invalidity pension, from the FKSP means there are given financial or pragmatic donations. Furthermore, it is possible employees to be granted pragmatic or financial gifts for extraordinary activities for the benefit of the Defense Ministry.

Gifts for a work anniversary are provided by the length of the staff or the employment relationship with the Ministry of Defense.

- After 20-year- employment relationship or recruitment: 3,000 CZK,
- For 25-year- employment relationship or recruitment: 4,000 CZK,
- For 30-year-employment relationship or recruitment: 5,000 CZK,
- and every other 5 years /35, 40, 45/: 5,000 CZK.

Gifts at life anniversaries: 50 years and every other 5 years: 5,000 CZK if a business or work completed at least 20 years.

When the staff or the employment relationship at the completion of the anniversary lasts less than 20 years, for each year it counts 250 CZK.

A material gift: within an anniversary of 60 years of age and for any further period of 5 years of age, seniors provides a gift of 400 CZK in value.

A gift on first retirement or on invalidity pension: the same conditions as in life anniversaries of 50 years of age.

H A D T U D O M Á N Y I S Z E M L E

Budapest, 2011.
4. évfolyam 2. szám

Gifts for exceptional activities: both employees of the Ministry and other persons shall be provided in case of emergency activities, such as fire, humanitarian and social assistance, voluntary work, and so on, shall be granted this gift:

- employees of the resort to an amount of 1,500 CZK per year,
- up to 1,000 CZK to pensioners annually,
- to the other individuals up to 1,500 per year and from the KWW⁷ fund 6 also 1,000 CZK per annum.

2.3 CULTURE, PHYSICAL TRAINING AND SPORT

FKSP can be used for equipment for employee's sports and hobbies, particularly to cover the cost of purchasing dresses, balls, tents, and similarly, equipment for skiing and tennis or football, gym, gym facilities, fitness equipment, leisure clubs of the Department or, at last but not the least, books, magazines and other periodicals for library service. It is also possible to give benefits for hire of sports facilities, swimming pools, and tennis halls and so on, as rent a Hall for cultural festivals of the employees, pensioners and families. There can also be contributed money for snacks in sports competitions for the employees, pensioners or members of the family and it depends on the length of the action:

- one-hour duration of action of 20 CZK per person
- to 5-hour action - 50 CZK per person
- more than 5 hours - 70 CZK per person.

From a sub fund may also be granted tickets to cultural and sporting events for employees, pensioners and their families, and then to provide the employees at a reduced price.

2.4 RECREATION AND CHILDREN'S RECREATION

A benefit to a recreation or a children's recreation is also very popular among the benefits in the Defense Department and is annually used by hundreds of soldiers and civil servants in the summer period weeks to recover through foreign recreation, or even domestic recreational stays. Of course, this post is also dependent on the amount of partial allocation for that Department, but the general principle is that a professional soldier or a civil servant may get funding up to 7,500 CZK once in every two years, and even 15,000 CZK if these means have not be granted for three consecutive years, or every fourth year.

Children's recreation is also popular among parents of children who have children in elementary schools. Here you can provide every year a contribution of 3,000 CZK for each child. However, there are some limitations such as:

- it cannot be recreation in training facilities of the army of the Czech Republic,
- there are no benefits to recreations provided by health insurance offices,
- recreations which are organized by sports recreation clubs, hockey, tennis, or others, or which are held for the purpose of education as language courses and schools.

2.5 ONE-TIME SOCIAL ASSISTANCE

Rarely the employees of the Ministry of Defense ask for one-time social assistance. Even with this option calculates the internal standard in the Ministry of Defense and argues that from a pool of FKSP it is possible to grant the employee or the earliest surviving family member one-time social assistance of 15,000 CZK, 000 as exceptions, exceptional examples of up to 30,000 CZK. It is an exceptional situation as binding:

- a serious injury to an employee with a subsequent long-term treatments,
- the death of a family member or employee who contributed financially to household,
- serious illness of a family member, which requires high financial costs,

⁷ KWW is the regional military headquarters in the Czech Republic according to current districts there are 10

HADTUDOMÁNYI SZEMLE

Budapest, 2011.
4. évfolyam 2. szám

- unexpected loss in the family assets caused by floods, fire or accident in the apartment or house,
- unexpected expenses for the socially-handicapped workers,
- disability of employee caused by disasters, eco or industrial accident in territories on which it was declared a State of emergency.

One-time social assistance is granted to a single payment in cash to the applicant.

2.6 BENEFITS TO FOOD

Benefits to food are among the most useful contributions from FKSP, because most employees, when they do not have meal vouchers, use the possibility of lunch in workplace cafeterias/canteens. This benefit does not affect the other benefits from FKSP and therefore is used wherever possible. Specifically, in the present price lunches at the Ministry of Defense are at average 55 to 70 CZK; employees and the employer pays approximately 50% of the price of lunch, obscure 27 – 37 CZK. This allowance shall be entitled by pensioners, as well, who also use this option, especially in cities where military units and equipment are dislocated.

CONCLUSION

According to the company LMS⁸, which operates the 7 working portals called www.jobs.cz or www.work.cz, are among the benefits of the future, in particular those that will match employee working and private life. This is mainly about working from home, part-time work through firm kindergartens up to similar services. Ageing of population will increasingly have the employees solved the problem how well their old parents or other relatives do, while not neglecting their work. Directly a breakthrough benefit would have been the firm nurseries. Just being a company kindergarten at the pitfalls encountered by Czech laws and too inflexible sanitary regulations.

Reserves are already possible in less prominent, but well-considered benefits, which would not be the imaginary sticking-plaster for the stress, but they will help prevent stress.

Keywords: employee benefits, Czech Republic, Ministry of Defense

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⁸ LMC s.r.o. is the most important Czech electronic operator on labour market and one of the leading European company recruitment companies.