Hello and welcome to this eLearning session.
After completing this lesson, you will be able to:

- Understand the implementation highlights of SAP Country Version Czech Republic
- Explain key country-specific localization topics for Czech Republic
First we will introduce country-specific implementation for the Czech Republic, and then proceed to look into the various topics specific to financials and human capital management. We will take you through taxes, accounts receivable and payable, and financial accounting.

Then we will talk about key issues in payroll and human capital management.
The Czech Republic, as a member of the European Union, has a law base similar to other European countries and is ranked as a medium-complexity country in the areas of finance and accounting. The payroll area is slightly more complex. The main sources of complexity are listed here.

- Czech Republic uses local currency called the Czech crown.
- Legal changes are quite frequent and follow the changes of European Union regulations.
- This country version in the areas of finance, logistics, and human capital management has been available for a long time, starting with SAP R/3 3.11. It has been proven by many implementations.
FI and Operations Highlights

Let's start with a detailed tour of the finance and operations functional areas.
In financials and operations, the focused areas of localization are financial accounting and value-added tax regulations.

In the Czech Republic, the current accounting rules are subject to the accounting law and regulations that correspond to business type (entrepreneurs, banks, insurance companies, public sector). Accounting law and regulations define the basic accounting principles for chart of accounts setup, posting logic, and closing reports structure. Companies quoted on the stock exchange in EU countries also have to provide yearly results, prepared according to IFRS rules.

The area of data exchange with the bank (payment orders and statements) is quite complex, as there is diversity in formats used by different banks.

The value-added tax law is independent of accounting law and sometimes requires different timing and exchange rates than those used for accounting purposes. The value-added tax declaration can be prepared on the basis of data provided by system, EC sales list is available as XML data file.

Asset Accounting depreciation according to income tax law has complex rules, depending how many types of assets you are using.
Accounting Principles and Regulations

- Local currency: CZK
- Fiscal year: Calendar year or fiscal year
- Legal reports:
  - Balance sheet
  - Income statement (profit and loss)
  - Cash flow statement
- Country chart of accounts: Recommended two-digit legal prefix and hierarchical structure

- The local currency in the Czech Republic is the Czech crown (CZK).
- The fiscal year is the same as calendar year, but a shifted fiscal year is also allowed in accounting.
- The mandatory legal reports for accounting are balance sheet and income statement. Certain companies also use a cash flow report. All the templates delivered with the country template for the Czech Republic, and also the chart of accounts template, are available for the entrepreneur business type.
- The chart of account regulated by law determines only the top level of accounts hierarchy. Companies, when defining own chart of accounts, have to follow this structure to be in compliance with accounting principles. The actual chart of accounts template contains accounts based on best practices for entrepreneurs and should be replaced by your chart of accounts during system implementation.
For exchanging data with banks, there is available add-on for Czech banking interfaces based on Data Medium Exchange Engine (DMEE) tool. This add-on contains interfaces for the most frequently used formats. If your bank has a specific format, you may implement it using the same DMEE tool. Before you start implementation, please check supported formats on the SAP Service Marketplace.

During accounting book closing, open items in receivables and payables that are in foreign currency should be revaluated, item by item, with the current exchange rate. Foreign currency valuation is available in the system to support this revaluation.

For doubtful receivables, you may create correction postings, but the rules for write-offs (applicable for tax or accounting only) are complex, and automatic processing is not possible in all cases.

There are no country-specific reports required or delivered in the accounts payable and receivable areas, except a VAT document for down payments. For sales documents, use a generic template and adapt it to your requirements during implementation.
The main tax area is value-added tax. Generally, Czech law is based on EU regulations, but in some cases, when it is allowed, extend the EU law to local law. Currently there are two different VAT rates used. For some non-taxable transactions, like export, and additional (third) zero rate is used.

In most cases you will use standard percentage rate calculation from net price. There is specific calculation rule for the VAT amount if the base amount is not known and only a gross amount is available. In this case, instead of a percentage rate, you should use a multiplying coefficient.

The Czech VAT law is independent of accounting law. This means, for example, that there are cases when the exchange rate for VAT calculation differs from the exchange rate for accounting because different dates were used. Many companies use timing based on posting date or document date for tax purposes. If the posting and document dates are not enough for your processes, there is an additional reporting date that may be used purely for value-added tax purposes.

There are several VAT reports required by the Czech tax administration office. A report that collects data for preparation of a VAT statement is frequently used. For EC sales list, which must be supplied as a data file, there is country-specific variant of the EC sales list report.
Acquisition tax accrual is a specific process used when you do not receive an invoice from a vendor in certain period of time after you receive the goods. You should then report VAT only on the goods received, and than later reverse it when the invoice arrives.

The Intrastat report is related to trading transactions between EU countries. For the Czech Republic, the system supports creation of an XML file. This file contains Intrastat data required by customs office administration.
Fixed assets are depreciated according to accounting standards and also according to income tax law, so you need to use at least two valuation areas. Also, you may need additional valuation according to international standards (US GAAP or IFRS).

For tax depreciation, you can use a specific declining-method calculation based on the asset's useful life. The other frequently used tax depreciation is the linear (percentage) method. Both methods calculate tax depreciation on a yearly basis. For both methods, functionality supports modernization according to tax law. After modernization, which is an acquisition that changes depreciation parameters in the acquisition year and the following year, the planned depreciation is adjusted.

Intangible assets according to income tax law are now depreciated on a monthly basis, and depreciation time has to be prolonged in case of modernization. As the base for depreciation calculation is month, you will need the new depreciation engine to tackle depreciation parameter changes during the year.

Retirement posting has specific rules. For example, different expense accounts should be used for different retirement reasons; this is supported by asset management posting.
HCM and Payroll Highlights
The Czech Republic is a member of the European Union; this has impact on many legal and other standards that are common in the EU, for example, basic labor-related standards or data protection standards.

Each person has unique birth certificate number. This is a basic personal identification code, so it belongs in confidential personnel data.

Payroll is run on a monthly basis with posting to accounting and basic reporting (for example, reports for social and health insurance companies). However, there are also some mandatory quarterly and yearly reports. Yearly tax settlement on a personal and organization basis is a must, and is one of most important duties.

From a legislative point of view, the Czech Republic belongs to a continental system, which is typically more employee-focused than employer-focused in terms of labor laws.

The legislative environment in the Czech Republic is unstable and constantly changing. There are typically many minor changes over the year, and some major changes valid from the beginning of the calendar year. It would not be unusual, for example, for the whole concept of employee income taxation to change.
Legally, employees receive four weeks of vacation. If an employee chooses to leave, they must give two month’s notice. If the employee is dismissed for redundancy, they receive two months’ notice and three monthly salaries.

Czech legislation allows employers to offer various benefits such as lunch vouchers, entertainment vouchers, life and/or pension insurance contribution, company car, sick days, or additional vacation.
Czech HCM localization in SAP ERP system

- Payroll localization for Czech Republic is available as an add-on installation since SAP R/3 3.1I.
- Travel management localization for Czech Republic is available as a standard solution since SAP ERP 6.0 EHP 5.0.

Periodic updates
- SAP issues HR Support Packages on a monthly basis.

Czech HCM localization in SAP ERP is available as an add-on installation as of SAP R/3 3.1I. The localization covers the necessary changes in the Personnel Administration and Payroll applications to meet legal payroll requirements. As of SAP ERP 6.0 EHP 5.0, the Travel Management localization for the Czech Republic is available as a standard solution. This means that local payroll-related requirements are now covered by SAP software.

The localization is based on special Czech infotypes and modified standard infotypes in Personnel Administration, local payroll driver, and schema. The schema includes local functions, rules and operations, local programs for transfer to banking, local legal reports in Payroll and Travel Management, and other structures and functionalities supporting local requirements. Other HCM modules are unaffected by the localization (except for two Czech infotypes in Personnel Development).

Taking into account the unstable legislation, SAP issues monthly HR Support Packages. HR Support Packages are available in enough time before the prospective legal change comes into force.
The “old payroll calculation concept” was valid until December 31, 2007. It was, more or less, a similar concept to what is used by other countries.

**Gross wage** (basic wage, bonuses, benefits [company car and petrol, mobile phone], premiums [overtime], compensations [vacation])

* Progressive tax rate (three percentage rates based on the gross wage amount)

= Tax advance

**Gross wage**

- Tax advance
  - Tax credits (personal, children, student, invalid)
- Health insurance paid by employee (4.5% from gross wage)
- Social insurance paid by employee (8% from gross wage)

= Net wage

**Additionally, employer had also to contribute to:**

Health insurance (9% from gross wage)
Social insurance (26% from gross wage)

- The “old payroll calculation concept” was valid until December 31, 2007. It was, more or less, a similar concept to what is used by other countries. The gross wage (or salary) for the given month was determined as the sum of the basic monthly wage, any bonuses that were assigned during the given month, premiums (for example, for overtime, dangerous working environment, or night shifts), benefits (such as a company car or company mobile phone), and compensation (for vacation or other paid leave).

- The tax rate was progressive with three percentage rates based on the gross wage amount. The tax advance was calculated as a multiplication of tax rate and gross wage.

- Each employee was entitled to a personal tax discount (valid only for one employment contract). Additional tax credits or discounts were based on number of children, invalidity status of the employee, if the employee was a student at the time of employment, and so on.

- The net wage was calculated as gross wage, minus tax advance, plus tax credits, minus health and social insurance.

- Of course, the employer also had to contribute to health and social insurance payments.
The “new payroll calculation concept” introduced the flat income tax and the super-gross wage.

- Gross wage is calculated basically same way as in the old concept, but the tax advance is determined from the super-gross wage. Super-gross wage includes gross wage and health and social insurance paid by the employer (not the employee). This makes the concept of super-gross wage a bit tricky – you basically pay taxes from your employer’s insurance payments. The social insurance paid by employer is one percentage point lower than before. A 15% flat tax rate is then used on this super-gross wage. In fact the real income tax rate is higher than 15% because the tax rate is applied on higher basis than in the previous concept (on super-gross wage). This makes the real tax rate (if it was calculated from gross wage as before) a little higher than 20%.

- The income tax rate is flat if we don’t take tax credits and discounts into account. Taking them into account, we can see the tax rate is still slightly progressive, unlike the health and social insurance. If you have a smaller tax basis because your salary is lower, then the tax discount (which is same for everybody) means a higher percentage for you than for someone with a higher salary. This mechanism makes the tax rate progressive in fact. Insurance rates are independent of the gross wage amount, except for very low or very high gross wage amounts, where minimum and maximum limits can apply.
After calculating the tax advance and applying the tax credits and discounts, we can subtract taxes from the gross wage. To get the net wage, we also have to subtract the health and social insurance paid by employee.

We described the old concept because changes to the current concept are being discussed, and it is likely that the current concept will be changed again. The changes will probably move the process closer to the old concept, although the flat tax will be probably preserved and the super-gross wage concept will be removed.
Next, let’s explore the Czech HCM add-on changes to the SAP ERP HCM standard. Personnel Administration serves as employee-related master data storage for all other HCM modules. For the Czech Republic, it had to be enhanced to meet local requirements.

There were five main localization efforts in Personnel Administration:

1. Standard infotypes with Czech dynpro
2. Local Czech infotypes
3. Some local specialties in other standard infotypes
4. Local code tables
5. Local customization tables
Standard infotypes with local Czech dynpro were used if the main functionality of the infotype was same but it was necessary to add some fields or change the logic to support local needs. This was the case, for example, for the Personal Data infotype and Addresses infotype.

In some cases, however, it was necessary to create a completely new infotype to cover a special legal requirement, such as tax and insurance issues or yearly income tax clearance.

Other local specifics were ensured using standard infotypes, but with local subtypes or different usage of certain fields.

Several local code tables were created to maintain locally specific data, both for Personnel Administration and for Payroll.

The SAP Implementation Guide was enhanced where necessary. It contains new customization related to local Czech infotypes, and also customization in some other areas, for example, to meet local reporting requirements.
The overall payroll calculation concept is basically the same as in the standard solution.

However, to meet local requirements, it was necessary to create a special Czech payroll driver that is configurable by Czech payroll schema CZ00 and supported by a set of local functions, personnel calculation rules, and operations. In the local payroll, CZ00 is usually copied into the customer schema, where the customer’s requirements can be implemented without harming the original Czech payroll schema. This delivered standard schema is a template for customer schemas; almost 100% of customers change the standard.

Some local Czech functions include functions P0152 and P0153, and other functions for reading Czech infotypes; CZIMP for transfer of data between internal tables; CZDNP for preparation of illness compensation calculation; and CZZPS for calculation of social and health insurance.

There are plenty of local personnel calculation rules that fulfill specific Czech calculations.

In some cases, it was also necessary to create local Czech operations.
In the reporting area, the localization had to respond to many local legal reporting requirements, such as regular reports for health and social insurance companies, mandatory statistical reports for Czech statistical office and public offices, yearly income tax clearing functionality and reporting, and so on.

Also it was necessary to create many internal reports for payroll clerks to check master data, calculated payroll results, and posting into accounting, and to produce internal reports for other purposes.
Localization of SAP Travel Management was finally included in the standard solution as of SAP ERP 6.0 EHP 5, issued in 2011.

In addition to all standard features and functionalities of Travel Management, locally specific Czech requirements were incorporated.

Reimbursement for use of private cars: The system calculates the reimbursement as the sum of mileage reimbursement based on the flat rate and fuel reimbursement calculated by multiplying the average fuel consumption by the fuel price.

Reimbursement for pocket money: The per diem for pocket money can not be more than a certain percentage of the corresponding meal per diem.

Reimbursement for meals per diem:

- For a domestic trip lasting two days, the system uses the higher amount calculated by two different methods: (1) The sum of per diems for two individual trip days, or (2) per diem for the entire trip duration (hours).
- For international trips, the logic is more complicated and it fully meets legal requirements.
- Meal per diem deductions: If an employee receives free meals during business trip, the system deducts the corresponding amount from the granted per diem.

- Inclusive and exclusive intervals: When you define the per diem for meals in Customizing, you can specify the applicable trip duration, precise to the minute. The same can be applied for reimbursement for pocket money.

- Starting and ending point of a trip: The user can specify where a trip starts and where it ends on the Comments tab page.

- Currency-specific rounding rules: You can apply the currency-specific rounding rules to get the final reimbursement amount.

- Reference date for currency exchange: During posting to financial accounting, the system uses the currency exchange rates as of the reference date to complete currency conversion. If the employee received an advance payment, the reference date is the first advance payment date. If the employee did not receive any advance payment, the system uses the date from which the international trip starts.
Other SAP ERP HCM Applications

- Two local Czech infotypes in PD module (1670, 1671)
- Other modules are not affected by Czech localization.
- Use of SAP ERP HCM modules in Czech companies varies:
  - Core applications
    - Personnel Administration (PA)
    - Payroll (PY)
    - Time Management (TM)
    - Organization Management (OM)
  - Additional often-used applications
    - Personnel Development (PD)
    - Travel Management (TV)
    - Employee and Manager Self-Services (ESS, MSS)
  - Less frequently used applications:
    - Training and Event Management
    - Learning Solution / Enterprise Learning (LSO)
    - Personnel Recruitment / E-Recruiting
  - Rarely used applications: Benefits Administration, Personnel Cost Planning and Simulation, Enterprise Compensation Management

The impact of Czech localization on other SAP ERP HCM applications is basically limited to only two local Czech infotypes in Personnel Development that serve to maintain local attributes related to organization and tariff structure. Other applications were not affected by Czech localization.

Czech companies that use SAP ERP HCM mostly utilize Personnel Administration, Payroll, Time Management, and Organization Management as a core operations. In Time Management, time evaluation is usually switched off, but of course there are companies that use time evaluation without clock times. The time evaluation with clock times option is very rare.

Other commonly used applications are Personnel Development, Travel Management, and both Employee and Manager Self-Services. ESS and MSS, especially, are on the rise because the popularity and demand for portal applications in general has significantly increased in recent years.
Less frequently used applications include Training and Event Management, Learning Solution (or its new version, Enterprise Learning), and Personnel Recruitment/E-Recruiting. We can expect increasing popularity and demand in these areas because companies already have the core modules implemented, and are looking ahead to improve their Talent Management capabilities.

The least used applications are Benefits Administration, Personnel Cost Planning and Simulation, and Enterprise Compensation. Out of the box, these applications do not suit local Czech conditions very well and would need significant implementation and development effort during the project.
When it comes to implementation of a Czech SAP ERP HCM solution, it is wise to consider the following points in addition to the usual questions:

1. The go-live date: For many reasons, the best go-live date is the beginning of the year. If the customer or project requires a different date, you must analyze the situation and all possible consequences and try to reassess this decision. If the customer still insists on a different date, all aspects of the mid-year go live must be documented and properly planned.

2. The payroll historical records: The best option is not to migrate any historical payroll records. Unlike the migration of employee master data, such migration would be far more complex and will likely cause problems.

3. The yearly income tax clearing: If the go live will be in the beginning of the year, the yearly tax clearing should be performed from legacy system, because it contains all necessary data. If the go live will be in the middle of the year, it would be wise to combine the data from both systems and perform the clearing manually in SAP. If, however, the historical data will be fully migrated from the legacy system, at least for the first part of the year before go live, it would be possible to perform automatic yearly tax clearing from SAP.
4. Typically, the customer will not be satisfied with a “plain,” standard solution. Even after initial analysis and blueprint acceptance, the customer will have additional functional requirements (for additional reports, common functionalities that are missing in SAP, and so on). Then the question is whether to handle these as change requests. The answer is definitely in the favor of the customer because although SAP ERP HCM can fulfill all legal requirements, there are many more implicitly expected functionalities that are unfortunately not covered. And, of course, in the project analysis and blueprint phase, the project team should work hard to uncover as many “hidden” requirements as possible.

The last consideration is closely related to the previous one. Because the local systems support customers not only in legal requirements but also in special requirements that vary from customer to customer, it is hard to satisfy users with SAP ERP HCM. This fact has to be taken into account during the project planning and preparation phase.
Relevant Czech Legislation

- 262/2006 Sb., zákoník práce ve znění pozdějších předpisů (labor code, as amended)
- 435/2004 Sb., o zaměstnanosti ve znění pozdějších předpisů (employment law, as amended)
- 567/2006 Sb., o minimální mzdě ve znění pozdějších předpisů (about minimum wage, as amended)
- 40/1964 Sb., občanský zákoník ve znění pozdějších předpisů (civil code, as amended)
- 2/1991 Sb., o kolektivním vyjednávání (About collective agreements, as amended)
- 586/1992 Sb., o daních z příjmů ve znění pozdějších předpisů (about income tax, as amended)
- 187/2006 Sb., o nemocenském pojištění ve znění pozdějších předpisů (about health insurance, as amended)
- 101/2000 Sb., o ochraně osobních údajů ve znění pozdějších předpisů (about personal data protection, as amended)

- This slide summarizes most important laws and government regulations relevant to SAP ERP HCM. Of course, there are also many others that touch on human resources issues.

- The new Civil Code has been recently approved by the lower house of Czech parliament. If it successfully passes the other approval stages, the current Civil Code, which has been valid (although updated) since 1964, will be replaced in 2014.
You should now be able to:

- Understand general information about SAP country version Czech Republic
- Explain key Czech localization topics for SAP ERP
Related Information

For more information on topics discussed in this lesson, see the following references:

Important SAP Notes for Czech Republic:
- 957032 Bank interface with DMEE for SAP ECC 6 (for previous releases select from notes 833888, 599812, 436363)
- 572252 Overview note HR-CEE Add-on
- 524073 Release strategy for an add-on HR-CEE

Country page:
- http://service.sap.com/globalization
  → You are here → country information → Czech Republic
  → You are here → country information → Globalization knowledge base

Local consulting:
- Please send e-mail to consulting_cz@sap.com

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For more information on topics discussed in this lesson, see the references listed here.
Thank You!

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