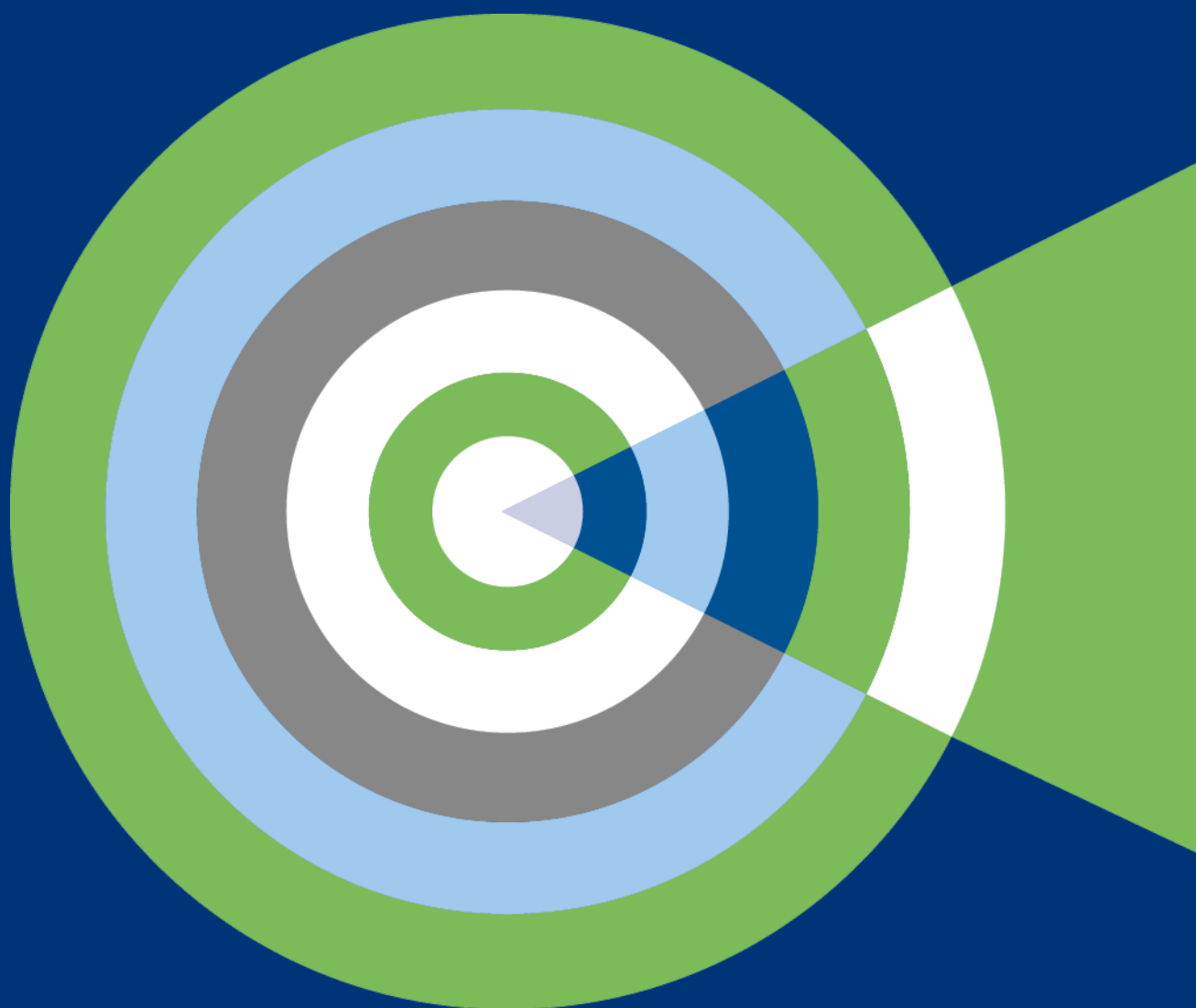


DOING BUSINESS

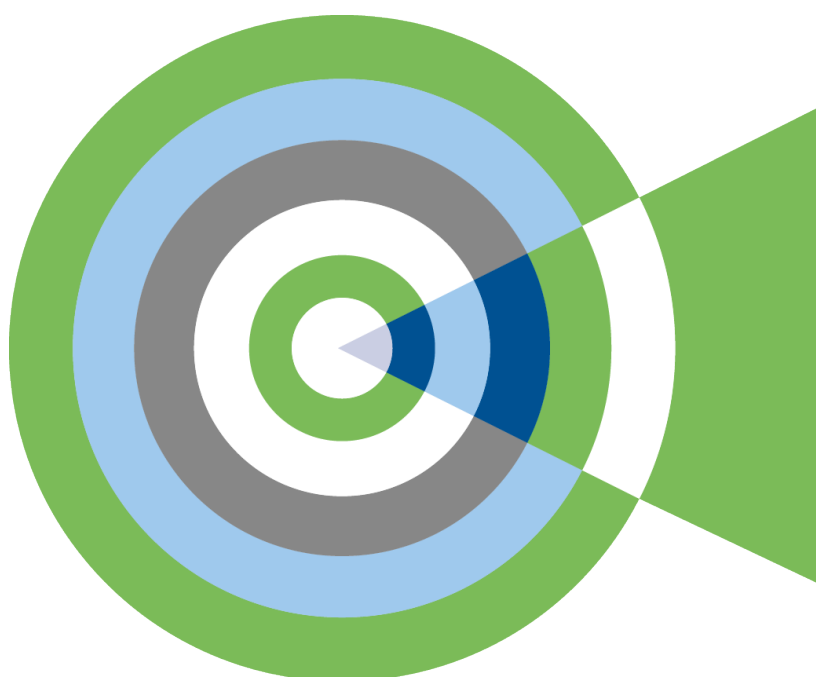
IN CZECH REPUBLIC



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organization providing accountancy, business management and consultancy services through more than 340 major business centres across 100 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in the Czech Republic has been provided by the office of UHY representatives:

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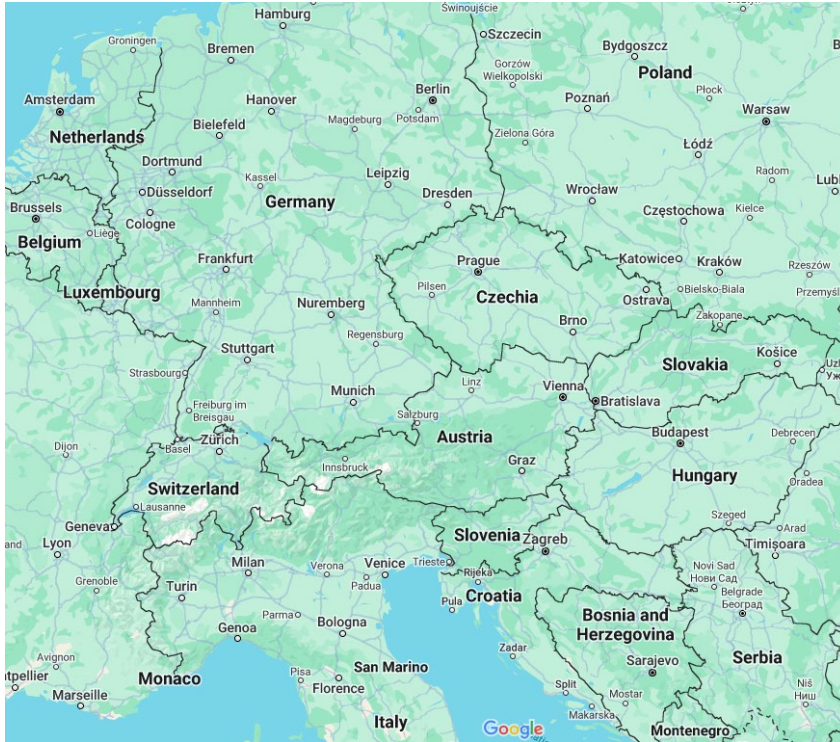
Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions.

This publication is current in **March 2024**. For converting CZK to EUR, FX rate of 24.725 valid as of 31 December 2023 was used.

We look forward to helping you do business in the Czech Republic.

2 – BUSINESS ENVIRONMENT

GEOGRAPHY



Source: Google Maps, 2024

Location:	Central Europe
Total area:	78,871 square kilometres
Population:	10.52 million (2021 census)
Population density:	133 inhabitants/square kilometre
Ethnic groups:	Czechs (89%), Moravians (3.3%) Slovak (0.9%), Ukrainian (0.7%), Polish (0.3%), Vietnamese (0.3%), German (0.1%), Russian (0.2%), others (1.5%) (2021 census)
Religions:	Christianity (11.7%), other religions (1.2%), atheists and citizens without religious affiliation (56.9%), non-declared (30.1%)
Urbanisation:	More than 75% of the population lives in urban areas
Capital city:	Prague (population: 1.357 million) (per 1 January 2023)
Official language:	Czech
Currency:	Czech crown (CZK), CZK 1 = 100 halers

LEGAL AND POLITICAL SYSTEM

According to common juridical literature, the Czech Republic's legal system is a 'continental' one and belongs to the 'Germanic' legal culture. It is based on a written law.

The Czech Republic is a pluralist multi-party parliamentary representative democracy, where the prime minister is the head of government.

The central state is divided into the standard three powers, namely:

- Legislature – Parliament of the Czech Republic
- The executive – President and Government
- The judiciary – courts of general jurisdiction (civil and criminal), administrative courts and the Constitutional Court.

There are other central bodies which enjoy a high degree of independence from the central government and therefore cannot be associated with any of the three standard powers – the Czech National Bank, the Supreme Auditing Office, and the Ombudsman.

MEMBERSHIP OF INTERNATIONAL ORGANISATIONS

The Czech Republic has been a member of the European Union since 1 May 2004. On 21 December 2007, the Czech Republic entered the Schengen Zone.

The Czech Republic also has memberships in other international organisations, such as the UN, NATO, WTO, Council of Europe, OECD, UNESCO, UNICEF and WHO.

MACROECONOMIC INDICATORS

GROSS DOMESTIC PRODUCT AND ECONOMIC GROWTH

The Czech Republic's economy belongs to the group of developed, high-income countries.

Gross domestic product (GDP) decreased in 2023 by 0.4% and amounted to USD 335 billion (USD 30,474 per capita).

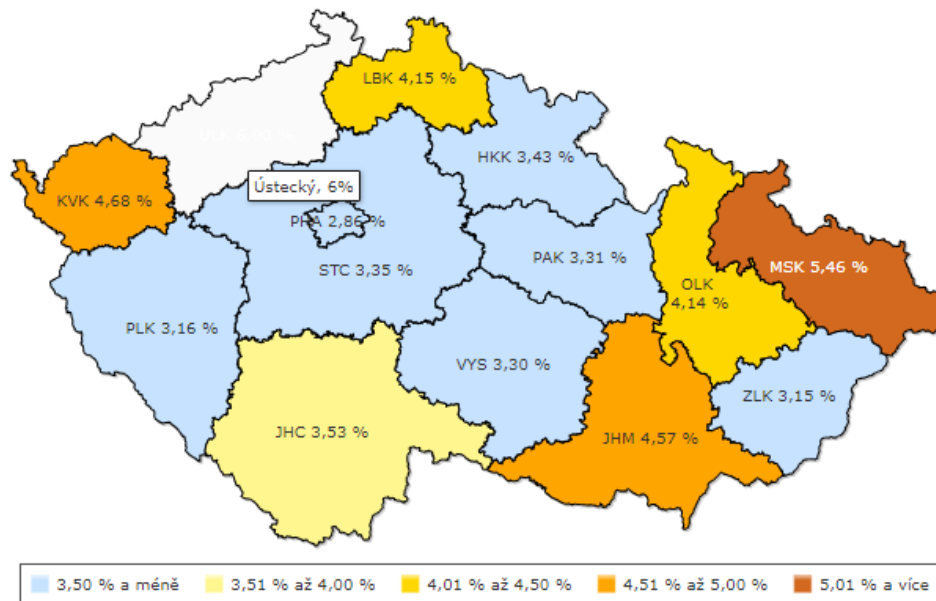
UNEMPLOYMENT

The unemployment rate in December 2023 was 2.7% (increase by 0.5% compared to December 2022).

There are significant differences between individual regions. The lowest rate of unemployment was in Prague, the capital of the Czech Republic. The highest rate of unemployment is in former centres of heavy industry, running up to 6% (North Moravia and North-western Bohemia).

TABLE 1

Unemployment by region, Source Czech Labour Office compiled as of 31 January 2024



AVERAGE WAGES

The average nominal monthly salary in 2023 amounted to CZK 40,324 (approx. EUR 1,631). This represents a growth of 4% compared to the previous period of 2022.

INFLATION RATE

The average inflation rate in 2023 was 10.7%, which represents a decrease of 4.4% compared to 2022. Inflation rate in 2024 estimated by Czech National Bank in February 2024 is 2.6%.

PUBLIC FINANCES

In 2023 the general government budget deficit reached to CZK 288.5 billion (EUR 11.67 billion).

CURRENCY

The Czech crown (CZK or Kč) is fully convertible.

The Czech Republic has not entered the Exchange Rate Mechanism (ERM) II.

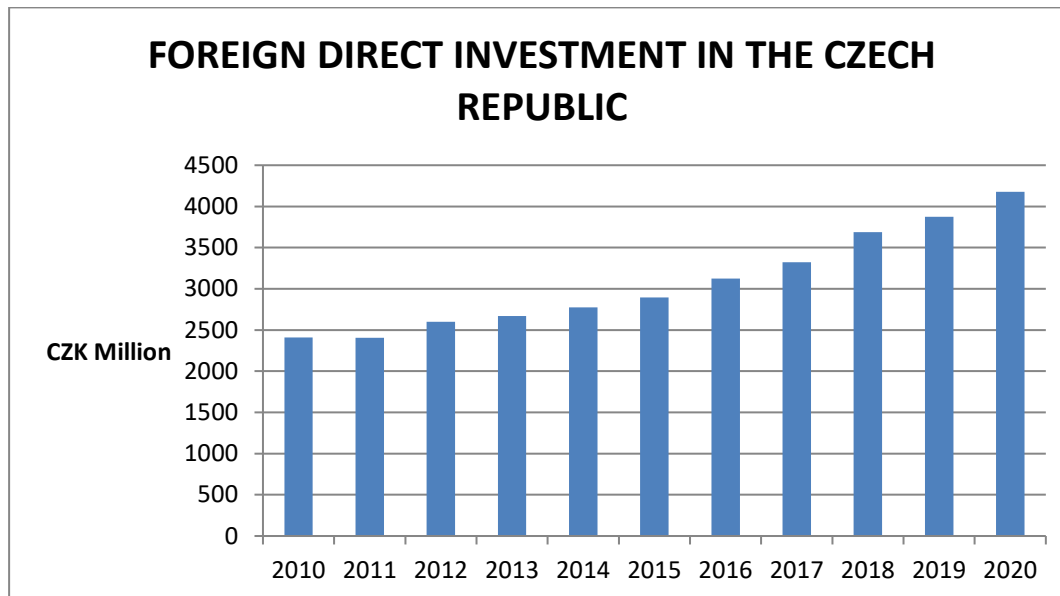
The US dollar and EURO exchange rates (the average of 2023 as published by Czech National Bank on www.cnb.cz) are 22.21 CZK/USD and 24.007 CZK/EUR.

3 – FOREIGN INVESTMENT

The Czech Republic is one of the most successful transition economies in terms of attracting foreign direct investment (FDI).

TABLE 2

Foreign direct investment, Source: Czech National Bank



At the end of 2021 the stock of FDI in the Czech Republic totalled CZK 4,400.5 billion.

As regards the individual FDI components, a change compared to the end of 2020 was recorded mainly for Equity capital (up by CZK 131.7 billion year on year). The volume of dividends paid out to parent enterprises abroad reached CZK 238.7 billion in 2021.

The largest share of foreign capital within the total volume of direct investment in the Czech Republic went into financial and insurance activities (27.1 %), followed by manufacturing (26.1 %) and real estate activities (14.9 %).

From the geographical perspective, the greatest share of capital invested in the Czech Republic comes from the Netherlands (17.5%), Luxembourg (15.4%) and Germany (14.5%). The share of investors from EU countries decreased to 86.1%, and almost 94.2% of foreign investment in the Czech Republic is from Europe generally. Only 5.8% of the foreign capital comes from countries outside Europe, with the Republic of Korea, the Japan and the USA being the most significant investors.

The latest publication on FDI (2021) published in March 2023 can be found here:

https://www.cnb.cz/export/sites/cnb/en/statistics/bop_stat/bop_publications/pzi_books/PZI_2021_EN.pdf

INVESTMENT INCENTIVES

Investment incentives are available only to Czech entities (including Czech subsidiaries of foreign companies). Incentives include mainly a corporate income tax relief, cash support for the creation of new jobs, cash support for training or retraining of employees, cash grant on capital expenditures, and a transfer of land at a specially reduced price. Investment incentives are available in the manufacturing industry and for support of technology centres, strategic services, data centres, and customer support centres. The maximum amount of the support within the investment incentives is 20% to 50% from the eligible costs.

TAX HOLIDAYS

Tax holidays for companies provide full (for new companies) or partial (for existing companies) relief from corporate income tax up to ten years. Tax relief is terminated when the company has reached the maximum permissible state aid allocation.

GRANT FOR CAPITAL INVESTMENT

A cash grant for capital investment is available to strategic investment projects, production of products with strategic importance for the protection of citizens' life and health, investment with high technological demands (NACE code Sections 21 and 26 and group 30.3) and strategic investment focused on performance chips, e-mobility, and energy savings. For capital investments in projects in this category, the level of financial support may be up to 20% of eligible investment costs.

GRANTS FOR NEW JOBS AND TRAINING

Financial support in the case of technology centres up to CZK 200 ths (approx. EUR 8,000) per new job and 50% of eligible training costs. Investment in production can receive a cash grant for new jobs and training only in regions with min. 7.5% unemployment rate.

AID IN THE FORM OF PROVISION OF PREPARED LAND AT A DISCOUNT

The transfer of land or land with infrastructure owned by the state or its organisational bodies or municipalities at discounted price is possible.

REAL ESTATE TAX EXEMPTION

Exemption can be granted up to 10 years with approval of the municipality.

More detailed information about incentives may be obtained in English at Czech Invest – <https://www.czechinvest.org/en/About-CzechInvest/Download/General-materials>

EU FUNDS

Applicants can draw the subsidies from European structural and investments funds.

Basic information about funds may be obtained at

<https://www.dotaceeu.cz/en/home-en>

<https://www.mpo.cz/en/>

4 – SETTING UP A BUSINESS

A foreign person may opt for various types of business in the territory of the Czech Republic. Investors are obliged to follow Czech legal regulations during the execution of their business activities.

ENTREPRENEUR – NATURAL PERSON

The Act to Regulate Trades allows a foreign natural person to undertake business in the territory of the Czech Republic under the same conditions as those that must be met by a resident of the Czech Republic. Trade can be carried out by an entrepreneur – a natural person or via an authorized representative.

A foreign natural person, who is a citizen of a European Union (EU) country, the European Economic Area (EEA) or Switzerland, is not required to submit a residence permit valid for the territory of the Czech Republic.

A residence permit (visa for business purposes) for the territory of the Czech Republic is required with other natural persons.

A foreign natural person must make an entry in the Commercial register the day they are authorised to carry out business in the territory of the Czech Republic. This does not apply to foreign persons from the EU or EEA.

OVERSEAS BRANCH ('ORGANIZACNI SLOZKA')

A foreign person may establish a branch of their organisation in the territory of the Czech Republic. A foreign legal entity is authorised to carry out business in the territory of the Czech Republic upon entry of its organisation's branch in the Commercial register.

The organisation's branch is not an independent legal entity.

The foreign legal entity must appoint an authorised representative who meets conditions for carrying out trade.

The foreign legal entity is represented by the manager of its branch (in matters regarding this organisation's branch) in contact with the third parties.

Only profits made in the territory of the Czech Republic are subject to income tax in cases where a permanent establishment has been created.

BUSINESS CORPORATIONS

The Act on Business Corporations differentiates between several types of business corporations:

- Unlimited liability company (in Czech 'v.o.s.')
- Limited partnership company (in Czech 'k.s.')
- Limited liability company (in Czech 's.r.o.')
- Joint-stock company (in Czech 'a.s.')
- Co-operative association (in Czech 'družstvo')

- A Capital interest – silent partnership
- A European company, European cooperative company

The most frequent types of business corporations are limited liability companies and joint-stock companies.

A foreign person may be a member of a Czech company with a registered seat in the Czech Republic.

The company is a legal entity established on the day it is entered into the Commercial register. In contact with the third parties, it is represented by a statutory body. The legal entity carries out trade through an authorised representative.

LIMITED LIABILITY COMPANY ('S.R.O.')

A limited liability company is a company whose registered capital is created by members' contributions. The minimum registered capital is CZK 1.

The limited liability company can also be established by a sole person. A limited liability company can have a sole member as the only founder, or the sole member of another company.

The company guarantees the company's obligations with all its assets.

The members take a share in the profits according to the ratio of their contributions to the registered capital, unless specified otherwise by the Memorandum of Association / Deed of Foundation.

Company is represented by one or more executives.

The company's profit is subject to corporate income tax.

JOINT-STOCK COMPANY ('A.S.')

A joint-stock company can be established by one person (legal entity or individual). The registered capital must be at least CZK 2 million (or EUR 80,000 if the company keeps its accounts in EUR). The company's registered capital is divided into a certain number of shares.

The company guarantees its obligations with all its assets. A shareholder is not held liable for the company's obligations.

A shareholder is entitled to a share in the company's profit (dividend) approved by a general meeting.

Shareholders form a general meeting which is the supreme body of the company. The general meeting takes place at least once a year, no later than within six months of the last day of the financial period.

The joint-stock company can have either monistic or dualistic structure of management. Monistic structure means, that company's body includes besides general meeting, a statutory director, and a board of trustees. In dualistic structure in addition to the general meeting, the company's body includes a board of directors and a supervisory board.

The company's profit is subject to corporate income tax.

UNLIMITED LIABILITY COMPANY ('V.O.S.')

An unlimited liability company is a company in which at least two people carry on the business under the same corporate name. Both a legal entity and a natural person can be its members. Members guarantee the company's obligations jointly with their assets. The law does not prescribe an obligation to create a registered capital.

Profit or loss is divided among members according to the Memorandum of Association.

The members are a statutory body.

The unlimited liability company is tax transparent, i.e., itself is not subject to income tax as a legal entity. The profit of the unlimited liability company is subject to income tax on the individual members under the scope of their tax returns.

LIMITED PARTNERSHIP COMPANY ('K.S.')

A limited partnership company is a mixed type of limited liability company and unlimited liability company, combining features of both. At least one limited partner and one general partner must fund the limited partnership company. The minimum contribution for a limited partner is to be set in the Memorandum of Association.

Profit is divided among partners according to the Memorandum of Association.

Only general partner is a statutory body.

Unless the Memorandum of Association provides otherwise, the profit and loss is split in half between the limited partnership company and general partners. General partners further divide the profit equally, while each partner is entitled to profit amounting 25% of fulfilled deposit obligation. Part of the profit assigned to limited partnership company is after taxation divided between the limited partners according to their shares. Limited partners do not bear the risk of loss.

The limited partnership company is tax transparent regarding the general partner according to Czech tax rules, i.e., general partners' profit is subject to income tax as part of their tax returns. Limited partners' profits are taxed as the company's income in the form of corporate income tax, and the limited partners may be subsequently paid shares in profit.

DATABOX

Databox ("datová schránka") is established ex officio to each legal entity registered in the Czech Commercial register and to individuals performing certain profession (e.g. tax advisors, advocates, insolvency administrators).

All taxpayers that have a databox ex officio or have an obligation to have books audited by a statutory auditor must communicate with the tax authorities electronically – either via their databox, or with an electronic guaranteed signature or via a representative, e.g. tax advisor, who will arrange for electronic submissions.

BENEFICIAL OWNER REGISTER

All legal entities and trusts established in the Czech Republic are obliged to enter data into the Register of beneficial owners that is an information system that is maintained by the registration courts.

Beneficial owner means any natural person who owns or controls a legal entity and is often the recipient of economic benefits from its activities. Details regarding the beneficial owners must be complete and accurate and continuously updated to ensure that it is true and corresponds to the actual situation.

In the event of a breach of the registration obligation, the risks are not only for the legal entity itself (the registering entity), but also for its owners or members of the statutory body.

5 – LABOUR

EMPLOYMENT LAW

Employment relations are regulated by Labour Code – law No. 262/2006 Coll.

Employment arises:

- 1) from an employment contract
- 2) by appointment (exceptionally).

Specified employment contract requirements are the:

- Agreed type of work for which the employee is taken on
- Place or places of conducting the work
- First day of employment.

Employment may end when there is:

- Agreement – closed in writing
- Notice – this must be given in writing and delivered to the other party; employment ends upon conclusion of the notice period, which must be the same for both parties, amounting to at least two months and running from the first day of the month following the delivery of the notice to the other party.
 - Labour Code sets further conditions for notice given by an employer:
 - The employer can only give the employee notice for reasons named in Labour Code: so-called organisational changes (dissolution or relocation of the employer, redundancy of the employee providing a claim for a redundancy payment of at least 1–3 times the average monthly salary, where the amount of redundancy payment is dependent on the length of the employment – up to one year = one average monthly salary, up to two years = two times the average monthly salary, two years and more = 3 times the average monthly salary), an employee's incapacity due to health, an employee not fulfilling the expectations or requirements for the performance of work, unsatisfactory work results and breaching work behaviour, breach of the medical regime.
 - The reason for the notice must be factually determined
 - The employer cannot give the employee notice when the employee is in the protected period. The protected period is when the employee is: pregnant or on maternity/parental leave, unable to work (apart from breach of medical regime), released to perform a public duty
- Immediate discontinuation – where the employer does not adhere to the principle of employment due to a significant breach in work behaviour or for the employee, when the employer does not pay a salary within 15 days after it is due (in this case the employee has the right to receive a severance pay).
- Cancellation in the trial period – this must be delivered in writing within the trial period. It is not possible to give notice to employee during first 14 days of incapacity for work.
- Upon completion of the agreed period – where employment for a fixed period end. It continues if the employee, with the knowledge of the employer, continues with the work and hereby it was agreed to change employment to a non-fixed period
- Upon the decision to cancel a foreigner's residence permit or the ending of the period for which the work permit was issued, or deportation.
- Death of the employee.

Agreements for work undertaken outside of employment (which must be finalised in writing):

- **Agreement for conducting work** – the extent of the work does not exceed 300 hours in the calendar year
 - Up to the amount of CZK 10,000 (approx. EUR 405) per month, this is not liable for social security and health insurance. New rules are expected to be introduced in respect of these agreements starting 1 January 2025.
 - Notice period is 15 days.
- **Agreement for working activities** – the extent of the working period may not exceed on average half the established weekly working hours
 - Up to the amount of CZK 4,000 (approx. EUR 162) per month, this is not subject to social security and health insurance.
 - Notice period is 15 days.
- Since 1.1.2024, if the legal conditions are met, the entitlement for vacation arises.

VACATION

The time for annual leave is at least four weeks. However, it is now converted to hours. In the so-called business sector, it is possible to extend an employee's claim to leave by days and weeks.

REMUNERATION

The minimum salary is set by the government and since 1.1.2024 amounts to CZK 18,900 (approx. EUR 765) monthly or CZK 112.50/hour.

For overtime work, the extra payment should be at least 25% of the average salary, unless the employer allows the employees to use the overtime for extra vacation. The employee is entitled to an extra payment of 10% of the average salary for work on weekends.

Within the work contract it is possible to negotiate wages which already take overtime work into account. For employees, it may be agreed to include a maximum of 150 overtime hours per calendar year in their wages; for managers, it is 416 overtime hours per calendar year.

EMPLOYING PEOPLE WITH DISABILITIES

Every employer who employs more than 25 people have an obligation to employ people with disabilities. The mandatory proportion is 4%. The employer may meet this obligation by:

- Employment under an employment contract
- Purchasing products or services from employers who have more than 50% of employees with a disability
- A levy to the state budget.

EMPLOYEES FROM ABROAD (FOREIGNERS) AND THE EUROPEAN UNION (EU)

Employees from the EU, EEA, and Switzerland (also their family members) do not need work permits.

Employees from all other countries must obtain a work permit and residence visa for employment purposes before commencing work.

Foreigners can work in the Czech Republic:

- Based on the work permit
 - The request for a work permit - the employer must discuss with the relevant branch of the Employment Office the intention to employ foreigners, including the number of foreigners, type of work and the period of performance of this work.
 - A foreigner must apply for a work permit in written form usually before the arrival to the Czech Republic.
 - A work permit may be issued by a branch of the Employment Office for the work position, which was reported as available and cannot be filled due to the required qualification or lack of available labour force.
- Based on the employment or blue cards issued by the Ministry of the Interior.

PAYROLL REGISTRATION

Every employer hiring at least one employee needs to register for:

- Payroll tax
- Social security
- Health insurance
- Mandatory risk insurance

Registrations are to be done within eight days from the start of employment.

SOCIAL SECURITY AND HEALTH INSURANCE

An employee pays a contribution for social security and health insurance of 11.6% of the gross salary (including non-monetary benefits). Employers participate in contributions with an additional 33.8% of the gross salary.

A foreign employee working in the Czech Republic for a Czech company or for a registered office of a foreign employer is obliged to participate in the social security and health insurance in the Czech Republic unless otherwise exempt according to EU regulations or bilateral social security treaties.

Owners, managing directors of a limited liability company, limited partners of a limited partnership company and members of the bodies of legal entities working for a Czech company, must also participate in social security and health insurance.

In the calendar year 2024, the maximum base amount for social security is set at CZK 2,110,416 (approx. EUR 85,356). Maximum base amount for health insurance is not set; the health insurance contribution is assessed from the whole amount of the gross salary.

TABLE 3

Rates of statutory insurance

TYPE OF INSURANCE	CONTRIBUTION – EMPLOYER	CONTRIBUTION – EMPLOYEE
Health care insurance	9.0%	4.5%
Pensions	21.5%	6.5%
Unemployment	1.2%	0.0%
Sickness	2.1%	0.6%
Total	33.8%	11.6%

PAYROLL TAX

Tax paid of wages is the most important part of personal income tax.

There are two personal income tax rates 15% and 23%.

The higher rate applies on incomes over a threshold given as 36-times average monthly wage. For 2024 it is CZK 1,582,812 (EUR 64,017).

More details about personal income tax you can find in Chapter 6.

BENEFITS OF SICKNESS INSURANCE

For the first 14 calendar days of sickness, an employee receives a refund of wages from the employer. The refund is provided just for the working days, starting from the first working day of the sickness. The refund of wages is limited in the same way as benefits from sickness insurance.

An employee is entitled to benefits from sickness insurance starting from the 15th calendar day of the sickness, counted in calendar days. Sickness insurance is handled by the social security system.

STATUTORY INSURANCE RESPONSIBILITIES OF THE EMPLOYER FOR INJURY FROM WORK ACCIDENTS OR ILLNESS CAUSED BY WORK

The principle of statutory insurance is the right arising from law for insurance from the employer so that the relevant insurer will recompense an employee disabled by a work injury or an illness from work and damages to the extent of the employer's responsibility as stated by the Labour Code.

6 – TAXATION

The Czech tax system, newly created in 1993 and valid since then, includes direct taxes (income, property), indirect taxes (consumption) and other obligatory payments (health insurance and social security contributions).

Applicable Taxes:

- Income Tax – corporate income tax, personal income tax
- Value Added Tax
- Excise Duties (on fuels, spirit, tobacco, beer, and wine)
- Road Tax
- Environmental Taxes (on electricity, natural gas, and coal)
- Real Estate Tax

TAX ADMINISTRATION

Tax administration and collection is performed by 14 Tax Offices, according to the seat of a company or residential address of an individual subject to tax, and by Specialized Tax Office competent for selected entities. Appellate Financial Directorate acts as a single first-level appellate body for the whole territory of the Czech Republic. Supreme tax authority, the General Financial Directorate, is subordinate to the Ministry of Finance.

A decision of the Appellate Financial Directorate may be reviewed by the administrative courts. A decision of the regional administrative court could be reviewed by the Supreme administrative court. However, the court decision is binding only with regards to each case and does not create a precedent. The appeal or litigation has no deferred effect, which can cause problems as the court procedure may take several years.

STATUTE OF LIMITATION

The tax authorities can assess the tax in the period of three years from the deadline for filing the respective tax return. Certain actions (e.g. tax inspection, filing of supplementary tax return by the taxpayer) might prolong this period. With respect to income tax, the assessment period of the tax year in which a tax loss incurred ends with the assessment period of the last tax year to which the respective tax loss may be carried forward. The maximum assessment period may however never exceed 10 years.

TAX SANCTIONS

Czech tax regulation differentiates three sanctions in the event of non-compliance:

- fine – if the taxpayer files the tax return with a delay of more than 5 working days - 0.05% of the tax liability or 0.01% of the tax loss per each day of delay, up to the maximum of 5% of tax liability/tax loss
- penalty – due if an additional tax liability is assessed by the tax authority. It amounts to 20% of the increased tax amount or 1% in the case of a reduction of tax loss.
- late payment interest – if the taxpayer pays tax liability with a delay of more than 3 calendar days - amounts to repo rate set by the Czech National Bank on the first day of the relevant calendar half year increased by 8% (currently rate of 6.75% + 8% = 14.75% p.a. applies).

Further, the tax authorities can assess a procedural fine in some cases up to CZK 500,000 (approx. EUR 20,223), e.g. while failure to comply with the registration or reporting obligation. Fines for late filing or failure to file of VAT control statement can be imposed in the range from CZK 1,000 to CZK 50,000 (approx. EUR 2,022).

In certain cases, it is possible to ask for a waiver of assessed sanctions for non-compliance.

Generally, the burden of proof shall be borne by the taxpayer, i.e. he is obliged to prove the information stated in his tax return. If he fails to do so, Tax Office may adjust the tax base and assess sanctions.

Criminal proceedings against the taxpayer may be initiated in the case of intentional tax evasion amounting to at least CZK 100,000 (approx. EUR 4,044).

REGISTRATION OF SALES (EET)

Obligatory electronic registration of cash-paid sales was abolished in the Czech Republic.

AVOIDANCE OF DOUBLE TAXATION

One of the tax system principles is the superiority of international treaties over national law. The Czech Republic has ratified over 90 treaties for avoidance of double taxation. A summary of selected treaties and taxation of dividends, interest and license duties generated from sources in the Czech Republic, is set out in the table below.

TABLE 4

Treaties – Taxation of dividends, interest, and licence fees - maximum tax rate in the source country (selected countries)

STATE	DIVIDENDS	INTEREST	LICENCE FEE
Australia	5% for share of min. 20%, otherwise 15%	10%	10%
Austria*	0% for share of min. 10%, otherwise 10%	0%	5%/0%
Canada	5% for share of min. 10%, otherwise 15%	10%	10%
Cyprus*	0% for share of min. 10%, otherwise 5%	0%	10%/0%
France*	0% for share of min. 25%, otherwise 10%	0%	10%/ 5%/ 0%
Germany*	5% for share of min. 25%, otherwise 15%	0%	5%
Hungary*	5% for share of min. 25%, otherwise 15 %	0%	10%
Ireland*	5% for share of min. 25%, otherwise 15%	0%	10%
Italy*	15%	0%	5%/0%
Japan	10% for share of min. 25%, otherwise 15%	10%	10%/0%
Luxembourg*	0% for share of min. 10%, otherwise 10%	0%	10%/0%
Poland*	5%	5%/0%	10%
Russia	10%	0%	10%
Slovak Republic*	5% for share of min. 10%, otherwise 15%	0%	10% /0%
Switzerland*	05% for share of min. 25%, otherwise 15%	0%	10%
The Netherlands*	0% for share of min. 25%, otherwise 10%	0%	5%
United States	5% for share of min. 10%, otherwise 15%	0%	10%/0%

** If certain conditions are met, the Council Directive on the common system of taxation in the case of parent companies and subsidiaries can be used (see below)*

The treaties ratified in the last two decades avoid the double taxation mainly by means of foreign tax credit. The older treaties used to exempt the foreign income from taxation in the Czech Republic.

DIRECT TAXES

PERSONAL INCOME TAX

This tax applies to all income generated by natural persons (individuals).

Natural persons with permanent home in the Czech Republic, or those staying in the country for more than 183 days in the calendar year, are subject to tax in the Czech Republic. Such individuals are tax residents in the Czech Republic and are subject to taxation on their worldwide income.

Natural persons who do not fulfil the above-mentioned conditions or are tax residents of another country according to the double taxation treaty signed by the Czech Republic, are only taxed on the income generated from sources in the Czech Republic (limited tax liability).

Following types of income are subject to personal income tax:

- Income from employment
- Income from self-employment activities
- Income from capital assets
- Rental income
- Other income

Capital gains from sale of certain assets held for non-business purposes are exempt from tax, e.g.:

- Income from the sale of shareholding in limited liability company or cooperative if owned longer than five years
- Income from the sale of securities if income below CZK 100 ths (EUR 4,045) or if owned longer than 3 years
- Income from the sale of a family house or apartment, if the taxpayer has been living there for two years prior to the sale
- Other real estate, if possessed by the taxpayer for longer than 10 years (or 5 years for real estate acquired prior 2021)

Employment income of non-residents performing activities in the Czech Republic for and under instruction of a foreign employer not having a permanent establishment in the Czech Republic for less than 183 days during any 12-month period is exempt from tax.

Generally, the tax base of employment income is the gross salary. Income tax is withheld from the employment income by the employer who further pays it to Tax Office.

To determining the tax base of business or rental income, it is possible to deduct either the real amount of expenses or a lump sum amount, calculated as a percentage (30– 80%) of the taxable income, based on the type of business activity. There is limitation of the lump sum expenses as defined in the table below.

TABLE 5

Lump sum expenses

BUSINESS ACTIVITY	LUMP-SUM RATE	MAXIMUM AMOUNT OF EXPENSES
Agriculture, craft trade	80%	CZK 1,600,000 (approx. EUR 64,700)
Non-craft trade	60%	CZK 1,200,000 (approx. EUR 48,500)
Rental income	30%	CZK 600,000 (approx. EUR 24,300)
Independent personal service	40%	CZK 800,000 (approx. EUR 32,400)

Generally, the tax loss arising from business and other self-employment activities, or the renting and leasing of property may be carried forward for the following five years or to the preceding 2 years. An off set of the tax loss with income from employment is not permissible.

The inheritance and gift tax are integrated into Income Tax Act. Income from inheritance is tax exempt from income tax for individuals. The acceptance of a gift is subject to income tax, unless tax exemption applies (e.g. gifts among related persons in the direct or collateral line (parents, children, siblings, uncles etc.), gifts up to CZK 15 ths per one gift from one donor).

If certain conditions are met, the tax base of individuals can be decreased by special tax deductions. The most usual tax deductions are interests on mortgages or loans from building societies, paid private pension or life insurance contributions, gifts and donations etc. Furthermore, it is possible to reduce the final tax liability by tax allowances. For instance, there are allowances for taxpayers with children, for taxpayers paying kindergarten or those sharing household with a spouse without income, receiving disability support pension or being seriously disabled. Moreover, there is a basic tax allowance for all taxpayers amounting to CZK 30,840 (EUR 1,247) per year.

There are two personal income tax rates 15% and 23%.

The higher tax rate applies on total tax base over a threshold given as 36-times average monthly wage. For 2024 it is CZK 1,582,812 (EUR 64,017).

The personal income tax return must be submitted following the end of the calendar year within:

- three months,
- four months if filed electronically (via special electronic form),
- six months if represented by a tax advisor.

Further prolongation of the deadline may be granted at the discretion of the tax authority.

The tax is due on the last day of the deadline for filing the tax return. The tax is usually prepaid by means of advance payments.

Apart from personal income tax, individual persons must also pay social security contributions and health insurance premiums. Social security contributions and health insurance premiums are to be paid from the employment income (see above, chapter 5 - Labour) and from the self-employment activities (see below, table 6).

An individual must report to the tax administrator tax-exempt income above CZK 5,000,000 (approx. EUR 202,225) e.g., exempted income on the sale of share, real estate, etc. Sanctions for failure of this reporting obligation can reach up to 15% of the unreported income.

HEALTH INSURANCE AND SOCIAL SECURITY OF SELF-EMPLOYED PERSON

A self-employed person is obliged to pay general health insurance contributions and social security contributions.

The annual assessment base for general health insurance contributions is 50% of profit, for social security contributions it is 55% of the profit (the difference between income and expenses of the entrepreneurial activity).

There is a maximum annual assessment base of CZK 2,110,416 (EUR 85,356) for the calculation of social security contributions. Maximum assessment base for general health insurance contributions is not set. There is also a minimum annual assessment base which is different for general health insurance contributions amounting CZK 263,802 (approx. EUR 10,670) and social security contributions CZK 158,292 (approx. EUR 6,402) for main activity or CZK 58,044 (approx. EUR 2,348) for secondary activity.

CONTRIBUTION RATES

The contribution rates for self-employed persons are set out in the following table.

TABLE 6

Self-employed person contribution rates

GENERAL HEALTH INSURANCE	SOCIAL SECURITY *	SICK-LEAVE INSURANCE – VOLUNTARY
13.5 %	29.2 %	2.1 %

* Includes old-age pension insurance contributions and unemployment benefit contributions.

A self-employed person is not obliged but may opt to pay contributions for sick-leave insurance.

For self-employed person with presence in more EU countries are applicable European social security coordination rules.

CORPORATE INCOME TAX

This tax applies to all income generated by legal entities.

Legal entities with seat or place of effective management in the Czech Republic are considered tax residents and are subject to corporate taxation on their worldwide income. Unlimited liability company (v.o.s.) and partly Limited partnership company (k.s.) are tax transparent. The profit of v.o.s. is being taxed within the tax returns of individual members. The same rule applies in case of the profit of general partners of k.s.

A limited tax liability applies to non-resident legal entities – only income generated from sources in the Czech Republic is subject to the corporate income tax. This mainly applies to permanent establishments of foreign persons in the Czech Republic.

TAX RATE

The tax rate is 21% (for tax periods started in 2023, 19% tax rate applies).

The tax rate for basic investment fund is 5% and for pension funds 0%

The tax rate of 15 % applies for income taxed in separate tax rate (e.g., income from dividends from abroad that is not tax exempt).

TAX YEAR

The taxable period is the calendar or financial year lasting 12 months (always starting on the first day of a month).

TAX RETURN

The corporate income tax return must be submitted following the year-end within:

- three months,
- four months if filed electronically (via special electronically form),
- six months when represented by a tax advisor or company's books are subject to the statutory audit.

Further prolongation of the deadline may be granted at the discretion of the tax authority.

The tax is due on the last day of the deadline for filing the tax return. If there is an overpayment, it is refunded within 30 days of applying for refund (separate request being part of the tax return form). Advance payments for income tax on a quarter or half-year basis must be paid by those taxpayers whose tax liability for the preceding tax period exceeded CZK 30,000 (approximately EUR 1,213).

IMPLEMENTATION OF EU DIRECTIVES

With respect to corporate taxation, the Czech Republic has implemented the following EU directives:

- Directive on the common system of taxation applicable to mergers, divisions, partial divisions, transfers of assets and exchanges of shares concerning companies of different Member States and to the transfer of the registered office of an SE (European company) or SCE (European Cooperative society) (2009/133/EC)
- Directive on the common system of taxation applicable in the case of parent companies and subsidiaries (2011/96/EC)
- Directive on a common system of taxation applicable to interest and royalty payments (2003/49/EC)
- Directive laying down rules against tax avoidance practices that directly affect the functioning of the internal market (2016/1164/EU) (ATAD).
- Directive (EU) 2020/876 amending Directive 2011/16/EU to address the urgent need to defer certain time limits for the filing and exchange of information in the field of taxation because of the COVID-19 pandemic (DAC 6)

INCOME FROM THE TRANSFER OF SHARES

Generally, capital gains upon the transfer of shares are subject to corporate income tax. The relevant double taxation treaty could determinate that the income is not subject of taxation in the Czech Republic.

In cases where a shareholding company, which is a tax resident in the Czech Republic or in the EU, Switzerland, Norway, Iceland or Liechtenstein, sells shares in a subsidiary with seat in the Czech Republic or in the EU, Switzerland, Norway, Iceland or Liechtenstein, income arising from the transfer is exempt in the Czech Republic from tax upon meeting certain conditions, i.e. qualifying legal form of both companies and minimum shareholding (10%) for a period of 12 months (time test can be also fulfilled prospectively).

Capital gains from transfer of shares in non-EU companies might also be tax exempt if the analogous legal form and holding requirement is fulfilled if there is a double taxation treaty between the Czech Republic and the country of residence of the subsidiary and the subsidiary is subject to corporate income tax at the minimum rate of 12% in its home country.

PAYMENT OF PROFIT TO/FROM ABROAD

Profit distributions and liquidation proceeds are subject to withholding tax of 15%. The rate may be modified by a relevant double taxation treaty. The withholding tax of 35% shall be applied on these payments if the recipient is a tax resident of a non-EU/EEA Member State with which the Czech Republic does not have a valid and effective double taxation treaty or a tax information exchange agreement.

Profit distributions between a shareholding company and its subsidiary with seat in the Czech Republic, the EU, Switzerland, Norway, or Iceland are exempt from taxation. Conditions for the tax exemption are qualifying legal form of both companies and uninterrupted holding of a minimum of 10% for a period of 12 months (time test can be also fulfilled prospectively).

Profit distributions received from subsidiaries from other countries might be tax exempt upon similar conditions if there is a double taxation treaty with the respective state and the subsidiary is subject to corporate income tax at the minimum rate of 12% in its home country.

The exemption may not be exercised if the subsidiary or parent company is exempt from corporate income tax or a similar tax; or may choose exemption or similar relief from corporate income tax or a similar tax or is subject to corporate income tax or a similar tax at a rate amounting to 0%.

The transfer of a profit held by a domestic branch to its foreign headquarters is not subject to any withholding tax, nor any other restriction (e.g. branch tax).

ATAD IMPLEMENTATION FROM 2020

The following rules of Anti-Tax Avoidance Directive have been incorporated in the Czech law with effect from 2020:

- taxation of the asset transferred without the change of ownership from the Czech Republic to foreign countries (exit tax),
- taxation of income of controlled foreign companies controlled by Czech controlling company where the foreign company does not carry out any substantial economic activity and its foreign tax is less than half the tax that would have to be paid under the Czech rules (CFC rules),

- rules against hybrid mismatch arrangements between related person, such as, when the same expense reduces the tax base in more jurisdictions or when the expense will be tax deductible in one state without being taxable income in another state (hybrid mismatches), and
- restricted deductibility of borrowing costs (interest limitation rules).

The tax deductibility limit for borrowing costs has been set at the higher of CZK 80 million or 30% of EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) in the taxable period (limitation of the tax deductibility of excessive borrowing costs).

TAX LOSSES

Tax losses may be carried forward to the subsequent five taxable periods. A tax loss cannot be offset against future profits if there has been a significant change both in the structure of the shareholders with direct participation in the capital or control (a change of more than 25% of the equity or voting rights or when a shareholder gains decisive control) and in the subject of business (less than 80% of earnings comes from the same activities as in the year when tax loss arose).

If a taxpayer ceases to exist due to a business restructuring and the tax loss is taken over by its successor, such tax loss may be offset only against future profits of the successor attributable to the income from the same activities as performed by the ceased company. Should there be any doubts in determination of such profits, it is possible to apply for an advance ruling subject to an administrative fee of CZK 10,000 (approx. EUR 404).

Since 2020 tax losses may be also carried backwards to the previous two taxable periods – but only up to a total amount not exceeding CZK 30 mil.).

A taxpayer may waive the right to claim a tax loss in the taxable periods following the period in which the tax loss arose by notifying the tax administrator within the term for filing the tax return for the period in which the tax loss arose (effecting time limit for tax assessment).

GROUP TAXATION

The group taxation is not permitted in the Czech Republic.

WINDFALL TAX

Windfall tax is a subcategory of corporate income tax introduced in the Czech Republic from 2023 for banks and companies in the energy and fossil fuel sectors that generate unexpected profits because of energy prices and interest rates increase. Windfall tax applies from 2023 to 2025.

The windfall tax is calculated at the tax rate of 60% from the windfall tax base, which is the amount by which the tax base for the given taxable period exceeds the comparative tax base plus 20% of its value. The comparative tax base is the arithmetic average of the tax bases for the years 2018 to 2021.

MERGER/DEMERGER

Income Tax Act implemented the EU Merger Directive legislation. This implemented provision applies to Czech companies and to companies from other EU member states. In general, a merger/demerger is tax neutral. The depreciation is calculated continuously at the tax residual value, goodwill arising cannot be depreciated for tax purposes, tax losses, reserves and provision are transferred to successor.

There is no real estate acquisition tax nor VAT paid on a merger/demerger.

INVESTMENT INCENTIVES

Companies that have received a Decision to Grant Investment Incentives can claim tax relief as a support of investments in the expansion of existing activities. The tax relief can be full (for greenfield projects) or partial (for brownfield projects) for up to ten years.

The recipient of the investment incentive must comply with the tax base minimisation requirement.

TRANSFER PRICING

'Related parties' are companies (or individuals) connected by direct or indirect participation on the capital or voting rights of at least 25% or subject to common management or control. Related parties are deemed to be also parties where a person participates in the management or control of another person, or two persons are subject to management or control by a common person, or parties who entered legal relationship primarily for the purpose of tax base reduction or increase of tax losses.

The prices between related parties must be agreed on arms-length principle. The OECD's Transfer Pricing Guidelines are not binding in the Czech Republic but should be followed. The transfer pricing documentation is not required by law but is recommended to keep it. The tax authorities often focus on transactions between related parties during tax inspections. If prices between related persons differ from the common market price, the Tax office may adjust the tax base. Such tax base adjustment is treated as a deemed profit distribution if the counterparty is a taxpayer other than resident of another EU/EEA Member State or Switzerland.

The taxpayer may request the tax administrator to issue a binding opinion on a price arranged between related parties. Such advance pricing agreement ("APA") is subject to an administrative fee of CZK 10,000 (approx. EUR 404).

The taxpayers realizing transactions with a foreign entity or taxpayers realizing tax loss in the respective taxable period or taxpayers who are recipients of investment incentives and are at the same time exceeding at least one of the following criteria - assets CZK 40,000,000 (approx. EUR 1,617,796), turnover CZK 80,000,000 (approx. EUR 3,235,592) or 50 employees - has to complete the special annex to the corporate income tax return which specifies the details of transactions to each related party.

COUNTRY BY COUNTRY REPORT

Czech entities that are part of a multinational group with consolidated revenues over EUR 750 mil. are obliged to submit notification about reporting company. The reporting company is obliged to submit a report which includes basic economic information of multinational group, e.g., income, earnings, taxes paid.

THIN CAPITALISATION RULES

Interest on loans and credits as well as related costs (fees, costs for securing the loan etc.) from related parties are tax non-deductible if the total of loans from related parties is more than four times (six times for banks and insurance companies) the amount of the equity. The same applies to financial costs the amount or maturity of which is dependent upon the profit of the debtor. Such non-deductible interest is treated as a deemed profit distribution if paid to a taxpayer other than resident of another EU/EEA Member State or Switzerland.

DEPRECIATION ACCORDING TO TAX LAW

Depreciation periods for fixed tangible assets are set out by Income Tax Act as shown in the table below.

TABLE 7

Depreciation for fixed tangible assets

DEPRECIATED GROUP	DEPRECIATION PERIOD (Y)	TYPE OF FIXED TANGIBLE ASSETS
1	3	PC and other office technology, some agricultural machinery
2	5	Furniture, motor vehicles, machinery, and equipment
3	10	Special technical equipment
4	20	Utilities equipment (water and gas pipes etc.)
5	30	Buildings, constructions, flats, water works
6	50	Hotels, administrative buildings, supermarkets, historical or cultural heritage sites

In the first year of depreciation, the taxpayers may choose one of the following depreciation methods – either the straight-line method or accelerated method. Depreciation of certain assets might be increased by up to 20% in the first year.

The law sets time-scheduled depreciation for some items, e.g. 240 months for machinery part of photovoltaic power stations. For certain assets in the 1st or 2nd depreciation group it is possible to use extraordinary depreciation enabling to depreciate assets over 12 or 24 months.

Low-value tangible fixed assets with an acquisition value below CZK 80,000 (approx. EUR 3,236) are depreciated in accordance with the accounting law.

Fixed intangible assets are always depreciated for tax purposes in accordance with the accounting law exceeding the value set individually by the taxpayer. It is usually over the period in which the right for use exists or contracted period or over the period of expected use. So, in fact, tax and accounting depreciation is equal.

Land and works of art are not depreciated.

LEASING

The Act on Income Tax recognizes two types of leasing – financial and operational leasing. In the case of financial leasing, ownership of a leased item is expected to be

transferred to the lessee after termination of the lease contract for a consideration or for free.

Operational leasing is the rental of an asset where, after the end of the lease, the asset is returned to the lessor. The cost of leasing is tax deductible expense upon the meeting of conditions set by Income Tax Act.

Leasing of assets located in the Czech Republic provided by the lessor who is Czech tax non-resident is subject to a withholding tax of 5% (applied on the financial leasing payment) or 15% (applied on the operational leasing payment). Both rates may be modified in accordance with an applicable double taxation treaty. Withholding tax of 35% shall be applied on income from operational leasing paid to the tax resident of a non-EU/EEA Member State with which the Czech Republic does not have a valid and effective double taxation treaty or tax information exchange agreement.

WITHHOLDING TAX

Certain types of income are taxed by means of a withholding tax. Withholding tax is withheld from gross income not considering any related costs.

Regardless of whether the income is paid to a resident or a non-resident taxpayer, the withholding tax must be paid at the time when the payment is made. With respect to certain types of income, tax must be withheld when the payable against the recipient of the income is accounted for.

TABLE 8

Withholding tax rates

	WITHHOLDING TAX*
Dividends, settlement shares, liquidation proceeds	15%
Interest on term deposits of natural persons	15%
Rent from a financial lease paid to non-residents	5%

**The rate is modified in accordance with any double taxation treaty which may exist.*

The withholding tax rate of 35% is applied on certain types of income if paid out to the tax resident of a non-EU/EEA Member State with which the Czech Republic does not have a valid and effective double taxation treaty or tax information exchange agreement.

EU or EEA tax residents with specific types of income, from which tax was withheld, are allowed to submit an income tax return, and claim expenses corresponding to the respective income. In such case, withholding tax is credited as an advance payment and the tax overpayment is refunded.

INCOME OF NON-RESIDENT TAXPAYERS FROM SOURCES WITHIN THE CZECH REPUBLIC

With respect to non-resident taxpayers, only the income from sources within the Czech Republic is subject to taxation.

Source income includes income from:

- Activities of a permanent establishment (a permanent establishment of a non-resident may exist if there is a fixed place of business in the Czech Republic, or if there is a construction site or services rendered in the Czech Republic for a period of more than 6 months in any 12-month period. The same applies if there is a dependent agent of a non-resident acting on behalf of him in the Czech Republic)
- Employment performed in the territory of the Czech Republic
- Technical, business, or other consulting, managerial or agency activities in the Czech Republic
- The use or transfer of real estate in the Czech Republic
- An independent activity carried out in the Czech Republic
- The activities of artists and athletes carried out in the Czech Republic
- A sale of shares in companies having seat in the Czech Republic
- Income from the sale of a business establishment located in the territory of the Czech Republic.

When income is received from Czech tax residents or Czech permanent establishments of tax non-residents, source income also includes:

- Fees for the use of industrial property rights, software, know-how
- Fees for the use of copyrights
- Profit distributions, settlement shares, liquidation proceeds
- Interest on credits and loans
- Income from the use of tangible assets in the Czech Republic
- Directors' fees
- Income from lotteries, competitions, and sport events
- Alimony payments and pensions
- Income derived by a shareholder/member of a company in connection with a reduction of registered capital
- Income from settlement of a receivable acquired by assignment
- Sanctions from contractual and non-contractual obligations
- Income from a trust fund
- Gratuitous income.

The tax on this income is collected either via a withholding tax or via a tax return.

For certain types of income, taxpayers from the EU and EEA can opt for filing a tax return and credit the withholding tax as an advance payment.

Relevant double taxation treaties can modify the taxation in the Czech Republic.

REPORTING OF EXEMPT INCOME

Taxpayers are obliged to report payments abroad that are subject to withholding tax even if exempt from the withholding tax or not liable to tax based on the relevant double tax treaties, e.g. payment of dividends, payment of royalties, and payment of interest over CZK 300,000 (approx. EUR 12,134) for a particular recipient in a month. The report must be filed annually until the end of January of the following year.

OTHER DIRECT TAXES

ROAD TAX

This tax applies to motor vehicles registered and operated in the Czech Republic for profit-making activities.

From 2022 subject to the road tax are only lorries with a maximum permissible weight of more than 3.5t and trailers or trailers with a maximum permissible weight of more than 3.5t. Passenger cars or buses are no longer the subject to the road tax.

REAL ESTATE TAX

Real estate (i.e. land and buildings) is subject to real estate tax. The basis for taxation for land is the surface area of the land in square meters. In the case of the tax on buildings, the basis for taxation is the actual built-up construction area in square meters. There are various tax rates for open areas, agricultural land, and buildings. The municipality may influence the amount and exemption of tax depending on valid by-laws.

Paid real estate tax is considered as a tax expense for the calculation of income tax.

INHERITANCE TAX, GIFT TAX

The inheritance tax and gift tax are abolished and is integrated into the Income Tax Act.

Income from inheritance is tax exempt from income tax for both individuals and legal entities.

For individuals, the acceptance of a gift is subject to income tax unless a tax exemption applies (e.g. gifts among related persons in the direct or collateral line (parents, children, siblings, uncles etc.), gifts up to CZK 15 ths. per one gift from one donor).

Gifts among legal entities are subject to corporate income tax at 21% at the beneficiary. Tax exemption applies e.g. to gifts received by public-benefit entities used for public benefit.

REAL ESTATE ACQUISITION TAX

Real estate acquisition tax was abolished in 2020.

INDIRECT TAXES

VALUE ADDED TAX (VAT)

The local VAT law system is governed by the Council Directive 2006/112/EC.

TAX RATE

There are two VAT rates in the Czech Republic – a standard rate of 21% for most goods and services and a reduced rate of 12% for e.g. food products (except beverages), medical equipment, pharmaceuticals, accommodation, restaurant services, public transportation, culture, sport, etc.

VOLUNTARY REGISTRATION FOR VAT

Persons seated in the Czech Republic as well as foreign persons planning to perform taxable transactions with a right for input VAT deduction in the Czech Republic may apply for registration for VAT voluntarily.

MANDATORY REGISTRATION – REGISTRATION OF DOMESTIC ENTITIES

An entrepreneurial entity or entrepreneur with their registered office or place of business in the Czech Republic becomes mandatorily a VAT payer, if e.g. a turnover of CZK 2,000,000 (approx. EUR 80,890) during a period of no more than 12 previous consecutive months is achieved.

REGISTRATION OF FOREIGN ENTITIES (COUNTRIES WITHIN THE EU AND OUTSIDE)

Foreign entities are obliged to register in the Czech Republic, for example:

- upon their first supply of goods or services taxable in the Czech Republic unless the recipient of the supply is liable for tax
- upon their first tax-exempt delivery of goods from the Czech Republic to another EU Member State.

SPECIAL VAT REGISTRATION - PERSON IDENTIFIED TO VAT

Domestic or foreign person not registered for VAT purposes in Czech Republic as a VAT payer might become liable to pay VAT on intra-Community acquisition of goods from another EU Member State or on services received from a person seated outside the Czech Republic. Such person is obliged to file an application for a special VAT registration as a person identified to VAT and to file a tax return only for those tax periods in which VAT liability arises. Person identified to VAT is not obliged to charge VAT on local supplies, but is not allowed to claim input VAT.

VAT COMPLIANCE OBLIGATIONS

A registered person is obliged to file a tax return and to pay the due tax within 25 days after the last day of the taxable period. The standard taxable period is the calendar month. As of the third year after VAT registration the taxable period may be changed to a calendar quarter when certain conditions are met, e.g. turnover does not exceed CZK 10,000,000 (approx. EUR 404,450).

Generally, the EC sales list on intra-Community supplies of goods and services must be filed within 25 days after the end of the calendar month.

The VAT Control Statement which is a list of all received and provided supplies over CZK 10,000 (approx. EUR 405) must be filed within 25 days after the end of the calendar month.

SUBJECT OF VAT

The following transactions are subject to VAT in the Czech Republic:

- The supply of goods and services within the Czech Republic
- The supply of goods and services outside the Czech Republic
- The acquisition of goods and services within the EU
- The import of goods to the Czech Republic from outside the EU
- The export of goods from the Czech Republic outside the EU

EXEMPT SUPPLIES

Transactions which are exempt from VAT are either with or without right to claim input VAT.

The transactions without right to claim input VAT include e.g. transfer and rent of real estate, financial services, insurance, postal services, public radio, and television broadcasting.

Certain tax-exempt real estate transactions may be optionally charged with VAT resulting in deduction of input VAT, e.g., rental of non-residential premises to a VAT payer for performing his economic activities.

Export of goods outside EU is VAT exempt with the right to claim input VAT. Supply of goods to another EU Member State is VAT exempt with the right to claim input VAT if such goods are dispatched or transported from the Czech Republic, the buyer is registered to VAT in another EU Member State and the transaction is declared in EC sales list accordingly.

CLAIM OF VAT ON PURCHASES

VAT can be claimed from purchases and advance payments if the purchased goods and services are used for carrying out economic activities and relevant invoice is available.

VAT cannot be claimed from expenses for representation or if the supply is not used for economic purposes (e.g. private usage of a car by an employee). Further, no input VAT may be claimed from the purchases used for supplies exempt from VAT without the right to claim input VAT.

ADVANCE PAYMENTS

Advance payments are subject to VAT in the period in which they are received. Supplier is obliged to issue a tax document confirming the receipt of payment. The payer of the advance payment is entitled to claim input VAT based on the tax document.

REAL ESTATE AND VAT

The transfer of land without any structure (e.g. building, utility networks) and any option for a building permit is exempt from VAT. The transfer of a building plot of land is subject to VAT standard rate of 21%.

The transfer of buildings, apartments and non-residential premises might be exempt from VAT if five years have passed from the date of issue of the first occupancy permit approval or occupancy permit approval after the significant change or the date of their first usage. The transfer of land related to the building is subject to the same VAT treatment.

Within this five years period is the transfer of buildings, apartments, and non-residential premises inclusive related lands generally subject to a standard rate of 21%, though the transfer of apartments under 120 square meters and family houses under 350 square meters is subject to a reduced rate of 12%.

Even if the transfer is VAT exempt, the seller may decide to charge VAT on the transfer of the building or land to another VAT payer (such transaction is subject to local reverse charge).

GROUP REGISTRATION

A group for VAT purposes consists of persons related either by capital (40% shareholding) or control (common management). One representative member is responsible for meeting all VAT compliance obligations for the entire group.

Intra-group transactions are not subject to VAT. Consequently, group registration might result in cash flow advantages and in some cases even savings on VAT liability.

VAT REFUNDS

Foreign businesses not registered for VAT purposes in the Czech Republic can receive refunds of Czech input VAT. The rules for the refund of VAT are set out in the provisions of the Council Directive 2008/9/EC and Thirteenth Council Directive 86/560/EEC.

VAT is refunded upon an electronic application filed by the foreign person from the EU with its home-state tax authority. The application must be filed by 30 September of the following year. The request must include the electronic copy of original invoices, or the original documents issued for an import, if the tax base on such documents is higher than 250 EUR for hydrocarbon oils and 1,000 EUR for other kinds of purchased supplies.

A taxable person from a non-EU Member State must file an application in the Czech language and send it to the Tax Office Prague 1 by 30 June of the following year. The application must include the original invoices, original documents issued for an import, as well as a list of the relevant invoices, including a certificate of VAT or similar tax registration of the person from its home-country.

The Tax office has the right to reject a request for a VAT refund if the non-EU Member State in which the foreign person is registered does not refund the foreign VAT to Czech taxable persons in a reciprocal manner.

INTRASTAT

Persons registered to VAT who engage in intra-Community transactions (dispatch/arrival of goods to/from other EU Member States) are obliged to report these transactions to the Customs office monthly if the threshold of CZK 15 million (approx. EUR 606,673) for dispatch or arrival is exceeded in one calendar year.

EXCISE TAX

This tax applies to the consumption of five specified groups of goods – hydrocarbon fuels (petroleum oils), alcohol and alcoholic beverages, wine, beer, cigarettes, and tobacco products. The tax is paid by the manufacturer or importer of these goods. They may be sold under a suspension arrangement. Then, tax liability is paid as soon as the goods are released for a free circulation.

Excise tax is set as a fixed amount per unit of goods. It is administrated by Customs office.

ENERGY TAX

The Czech Republic introduced tax on the supply of electricity, gas, and solid coal based on the relevant EU law. Taxpayers are the suppliers of the energy products in the Czech Republic to the end consumer or to operators of distribution or transmission grids. Taxpayers are also persons who used non-taxed energy products in a different manner than for tax-exempt purposes.

The tax period is the calendar month, and a tax return must be submitted by the 25th day of the following month. The tax is payable within the same period. Customs office administers energy tax.

Exemption from energy tax is possible dependent upon the purposes of energy product use (ecologically efficient energy, combined production of electricity and heat, public transport etc.).

7 – ACCOUNTING & REPORTING

Accounting is governed by Accounting Act and related regulations (decrees on accounting and Czech accounting standards).

ACCOUNTS

All legal entities registered in the commercial register (e.g. local corporations and branches of foreign entities), as well as entrepreneurs with a turnover of more than CZK 25,000,000 (approx. EUR 1,011,122) and must keep accounts.

The accounting period can be the calendar year or a financial year which differs from the calendar year lasting 12 consecutive months. Accounts must be kept in the Czech currency and in the Czech language. In addition, receivables, liabilities, shares, securities, and cash or accounts in foreign currencies must simultaneously be stated also in original currency.

Starting 1 January 2024, there is a possibility of keeping accounting records in a currency other than the Czech currency, namely in Euro, US Dollar, or British Pound, if it is the so-called functional currency, i.e. the currency of the primary economic environment in which the company operates.

Each accounting unit must prepare a mandatory chart of accounts i.e. an overview of the accounts which it uses. The mandatory basic structure of a chart of accounts is set out in decrees on accounting for the various types of accounting units (entrepreneurs, non-entrepreneurial entities, banks, insurance companies, government organisations).

CLOSING OF BOOKS

As of the balance sheet date, accounting units submit financial statements (a balance sheet, a profit and loss report) and Notes to financial statements. Notes contain supplementary information on the balance sheet and profit and loss report and details on the accounting methods used, as well as gives a specification of the content of the entries in the balance sheet and profit and loss report, and liabilities to the government. Accounting units exceeding at least two of the following criteria - assets CZK 100,000,000 (approx. EUR 4,044,490) or turnover CZK 200,000,000 (approx. EUR 8,088,979) or 50 employees must also submit a cash flow statement and statement of changes in equity.

The financial statements and Notes are a mandatory appendix of an income tax return.

Business corporations are obliged to publish their annual reports, financial statements, and audits of financial statements by including them in the collection of documents with the registration court within the deadlines set by law (no later than the end of the following accounting period).

AUDITS

Criteria for a statutory audit of accounts are:

- Assets of more than CZK 40,000,000 (approx. EUR 1,617,796)
- Turnover of more than CZK 80,000,000 (approx. EUR 3,235,592)
- An average number of employees greater than 50.

Joint-stock companies are subject to a statutory audit if at least one of these criteria is fulfilled in the year for which the closing of books is being prepared, and in the preceding year. For other types of business corporations, co-operatives, branches of foreign entities and entrepreneurs keeping double-entry accounting, a statutory audit is mandatory if at least two of the three criteria are fulfilled for two consecutive accounting periods.

Audited business corporations must prepare an annual report.

INTERNATIONAL ACCOUNTING STANDARDS

Consolidating accounting units which issue securities registered on a regulated market in EU Member States are obliged to use International Accounting Standards for financial statements. Other consolidating units have the choice of applying International Accounting Standards for their financial statements.

However, the application of International Accounting Standards does not affect the assessment of taxes because income tax must be calculated in accordance tax rules but based on net income determined from accounting according to the Czech accounting.

CAPITALISATION OF INTEREST

Interest on loans for acquisition of fixed assets may be capitalized.

LEASING

According to Czech accounting rules are the lease payments classified as the lease operating expenses. Accounting model given by IFRS 16 is not adopted.

EXCHANGE DIFFERENCES

Realized and unrealized foreign exchange gains and losses are accounted in profit and loss accounts and are part of tax base.

Starting 1 January 2024, it is possible to exclude unrealized exchange gains and losses based on the notification to the respective tax authority within 3 months from the beginning of the relevant taxable period.

INVENTORY

Inventory is valued at acquisition cost. For determining the value of usage, the Czech Accounting rules allow the arithmetical average cost or FIFO methods.

8 – UHY REPRESENTATION IN CZECH REPUBLIC

CONTACT DETAILS

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Fax: +420 222 326 634
www.auditor.eu

CONTACTS

Liaison contact: Georg Stöger
Position: Managing Partner
Email: georg.stoeger@auditor.eu

SOCIAL MEDIA CONNECTIONS

- LinkedIn: http://www.linkedin.com/company/auditor?trk=hb_tab_compy_id_2727517

Year established: 1991
Number of partners: 5
Total staff: 96

ABOUT US

AUDITOR is a consulting company with an international focus that has provided its complex services for more than 25 years with offices throughout the Czech Republic.

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BRIEF DESCRIPTION OF FIRM

AUDITOR spol. s r.o. is focused on foreign companies doing business in the Czech Republic. Currently we have clients from 25 different countries. Almost all our staff is bilingual in Czech and German, and some are bilingual in Czech and English. Operating from three locations, we are among the 15 largest auditing and tax advising companies in the country.

SERVICE AREAS

Audit, accountancy, bookkeeping and outsourcing services
Company secretarial services
Corporate and personal tax
General business advice and strategic planning
VAT consultancy
Merges & acquisitions consultancy
International Tax structures
Due diligence
Transfer Pricing



The network
for doing
business

PRINCIPAL OPERATING SECTORS

Real estate
Hotels and restaurants
Forwarding companies
Financial Services
Business Services
Industry
Chemistry
Transport
Agriculture

LANGUAGES

Czech, German, English, Slovak, Italian

CURRENT PRINCIPAL CLIENTS

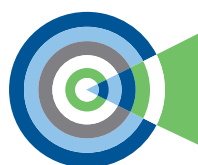
Confidentiality precludes disclosure in this document.

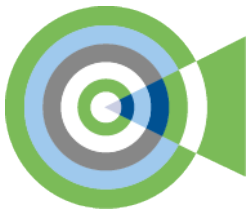
OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Slovakia, Austria, France, Germany, Israel, UK, US, Hungary, Poland, Denmark, Netherlands, Sweden, Switzerland, Slovenia, Shanghai

BRIEF HISTORY OF FIRM

The company was founded immediately after the Velvet Revolution in 1991 by the Austrian firm Stöger & Zallmann GmbH. A subsidiary was established in Bratislava, Slovakia, in 1998 and since then we have focused on the Prague–Bratislava–Vienna triangle. The firm joined UHY in 1999.





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