



CLIENT INFORMATION

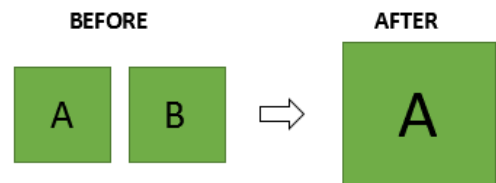
Czech Republic
19 August 2024

Mergers and split-off of companies

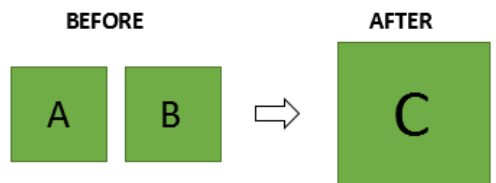
In July 2024, the Transformation Act was amended to introduce a new form of transformation - a demerger by spin-off. A merger or demerger often serves as preparation for the subsequent sale of a company or is carried out following the acquisition of a company (e.g. separation the real estate from operating business). Below you will find an overview of the basic types of mergers and demergers.

Merger

In the case of a **merger by absorption**, the successor company takes over the assets of the other company or companies that are dissolved as a result of the merger.

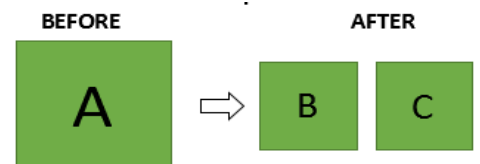


In the case of a **merger by formation of a new company**, all companies are dissolved and their assets are transferred to the newly formed successor company.

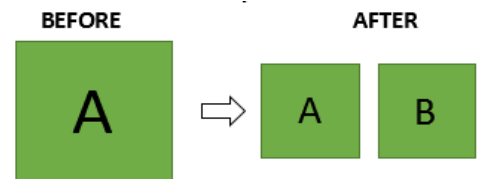


Split-off

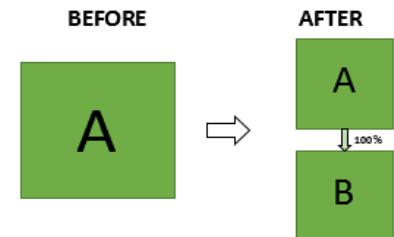
In a **dispersion** the company is dissolved and its assets are transferred to the newly formed successor companies (dispersion with formation of new companies) or to existing companies (dispersion by merger).



In a **division**, only part of the assets of the company being spun off are transferred to the successor company or companies.



The amendment enables the **demerger as a new form**, in which part of the assets of the company to be demerged are transferred to a newly founded subsidiary or existing subsidiary (or subsidiaries). In contrast to a division, the shares in the successor company are held by the demerged company and not by the shareholders of the demerged company.



Income tax

As transformations are considered tax-neutral under the Czech Income Tax Act, transfers of assets, liabilities, know-how and employees in the context of conversions should be carried out without negative tax consequences for the companies involved and their shareholders. On the other hand, the tax authority may examine whether the main reason for the transformation is to obtain a tax advantage, e.g. the absorption of a tax loss by another company or the payment of profit shares without taxation. The Supreme Administrative Court has already ruled on several cases of conversions in this area.

The transformation is an organisationally demanding process in which opening balance sheets must be prepared, the project must be prepared and approved and the conversion must be entered in the commercial register. We recommend planning and implementing everything together with your legal advisor and your tax advisor.

If you require further information, we will be happy to discuss this with you.

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