

An aerial photograph of a city, likely Prague, showing a dense cluster of buildings with red-tiled roofs. In the background, a large, ornate church with a prominent green dome and two tall spires stands out against a clear blue sky. The foreground shows the intricate patterns of the rooftops, including a solar panel array on one of the roofs.

Doing business in the Czech Republic 2018

Introduction

The Moore Stephens *Europe Doing Business In* series of guides have been prepared by or on behalf of Moore Stephens member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

Doing Business in the Czech Republic 2018 has been written for Moore Stephens Europe Ltd by Moore Stephens s.r.o. and Dvořák, Hager & Partners. In addition to background facts about the Czech Republic, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in the Czech Republic either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to go to the Czech Republic to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 1 May 2018. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

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1. The Czech Republic at a glance

Geographical location and population

With an area of 78 864 km², the Czech Republic is located in the geographical heart of Europe, bordered by Poland to the north, Slovakia to the east, Austria to the south and Germany to the west.

The population of the Czech Republic is 10.6 million (as of 31 December 2017). Prague, the capital and largest city, has 1.29 million inhabitants. Other major urban centres are Brno, Ostrava, Plzeň, Liberec and Olomouc.

Language, climate

The official language of the Czech Republic is Czech, which is a member of the western Slavic group of languages.

The climate is continental, with mild, sometimes hot summers and frequently cold winters. Rainfall is generally moderate.

History, politics & government

The modern Czech Republic (*Česká republika*) consists of the historical territories of Bohemia and Moravia, plus a small part of Silesia. Originally a small duchy around Prague, under the Přemyslid dynasty and their successors, Bohemia became a powerful state and was elevated to a kingdom in 1212. Although formally a part of the Holy Roman Empire from 1002, it was only after the Battle of Mohács in 1526 that Bohemia was integrated into the Habsburg monarchy. It was the Bohemian revolt, which commenced with the famous Defenestration of Prague in 1618, that sparked the Thirty Years' War. During the 19th century, Bohemia, now part of the Austro-Hungarian Empire, became the most industrially advanced region in the Empire. Increasing nationalist sentiment culminated in the establishment of the Czechoslovak Republic (consisting of the Czech lands and Slovakia) in 1918, following the collapse of the Empire after its defeat in World War I. After 1934, Czechoslovakia remained the only full democracy in Central and Eastern Europe, but after the Munich Agreement of 1938, was progressively occupied and annexed by Nazi Germany (although a puppet state was established in Slovakia). After the end of World War II, the Communist party seized power in a coup d'état in 1948 and imposed Soviet-style Communism on the country. The Prague Spring in 1968, in which a partial liberalisation of the Communist regime began, led to an invasion by Warsaw Pact forces in August 1968. In the Velvet Revolution of 1989, the Communist regime collapsed and democratic rule was restored. On 1 January 1993, Czechoslovakia was peacefully divided into two constituent states – the Czech Republic and Slovakia. The Czech Republic became a member of NATO in 1999 and of the European Union in 2004.

The Czech Republic is a parliamentary republic, in which the President as head of state has certain reserved powers. The President may serve no more than two consecutive terms. Until 2013, the President was elected by a joint session of the two houses of parliament, but in 2013 the first direct elections were held, in which Miloš Zeman of the centre-left Party of Civic Rights (SPOZ) was the winner. He was re-elected for a second five-year term in 2018. The head of government is the prime minister, a post currently held by Andrej Babiš, the leader of the ANO Party. The next general election is scheduled for autumn 2021.

The Czech Parliament is bicameral. The lower house, the Chamber of Deputies, consists of 200 members elected every four years from 14 constituencies under the party-list system of proportional representation. The upper house, the Senate, is also directly elected and comprises 81 members, elected for six-year terms, in thirds every two years, in single-member constituencies in a two-round majority system.

Currency, time zone, weights & measures

The currency of the Czech Republic is the Czech crown, the *koruna*, ISO symbol CZK. At the time of going to press (late August 2018), the koruna was quoted at EUR 1 = CZK 25.7579 and at USD 1 = CZK 22.2625. At the beginning of April 2017, the Czech National Bank decided to discontinue the use of the exchange rate as an additional monetary policy instrument and the koruna exchange rate now moves according to supply and demand on the foreign exchange market. Experts do not expect larger exchange rate fluctuations next year. Under its accession agreement with the European Union, the Czech Republic is committed to replacing the koruna by the euro, but this is still expected to be at an indefinite time in the future.

2. Doing business

Establishing a business presence

Foreign investors wishing to establish a business presence in the Czech Republic have a variety of options. The main corporate legal framework is provided by the Civil Code and the Business Corporations Act, and the primary legal forms through which business may be conducted in the Czech Republic are:

- Limited-liability company
- Joint-stock company
- Limited partnership
- General partnership
- Branch
- Cooperative and
- Sole proprietorship

All of the above legal entities as well as branches and foreign non-EU or non-EEA sole proprietors are required to register in the Czech Commercial Register prior to commencing their business activity.

Establishing a company in the Czech Republic is neither financially demanding nor time-consuming. For example, a limited-liability company whose business is not subject to specific regulatory requirements can be established and can start operating within one month. In the case of a sole shareholder, the minimum mandatory registered capital is no more than CZK 1.

The most frequent types of business are limited-liability companies and joint-stock companies, which are briefly introduced below.

Limited-liability company (s.r.o.)

A limited-liability company (*společnost s ručením omezeným*), abbreviated to s.r.o.) is one whose registered capital is created by shareholders' contributions. The shareholders are liable for the company's obligations only up to the amount of their unpaid contributions as registered in the Commercial Register. Articles of association are the main corporate document.

- **Registered capital:** Registered capital must be at least CZK 1, and the minimum contribution of any one member is also CZK 1. Contributions in kind (non-monetary) are possible. The law also allows the creation of different kinds of shares (with specific rights).
- **Transfer of shares:** Shares in a limited-liability company are transferable based on a share-transfer agreement (transfer is effective as of the date set in the agreement). Specific limitations for transfers of shares may be set in the company's articles of association.
- **Shareholders:** A limited-liability company may be established by a sole founder and there is no limit to the number of shareholders. Shareholders are registered in the Commercial Register.
- **Company organs:** Shareholders form a general meeting, which is the supreme organ of the company and is held at least once a year, no later than within six months of the end of the financial year. The company is managed by one or more executives (directors), appointed by the members to the company's executive board. Establishment of a supervisory board is optional. Executives or other members of the company's organs must be registered in the Commercial Register.

Joint-stock company (a.s.)

A joint-stock company (*akciová společnost*) is a company whose registered capital is created by contributions from shareholders, who are generally not held liable for the company's obligations. The registered capital is divided into a certain number of shares. Articles of association are the main corporate document.

- **Shareholders:** A joint-stock company can also be established by a sole founder and there is no limit on the number of shareholders. Save for the case of a sole shareholder, shareholders are not registered in the Commercial Register.
- **Registered capital:** The registered capital of a joint-stock company must be at least CZK 2 million (approximately EUR 78 800). Contributions in kind (non-monetary) are possible.
- **Shares:** A joint-stock company can issue either registered shares or bearer shares. The shares may be issued either in (i) certificated (paper) form or (ii) book-entry (paperless) form. The law allows different kinds of shares (with specific rights) to be created.

- **Transfer of shares:** Paper-form shares are transferable upon endorsement and delivery. For the transfer of book-entry shares, registration in the Central Securities Depository is required. Specific limitations for transfer of shares could be set in the company's articles of association.
- **Company bodies:** Shareholders form a general meeting, which is the supreme body of the company and takes place at least once a year, no later than within six months of the end of the financial year. A joint-stock company can have a monistic or dualistic structure as regards executive and supervisory bodies. Under the monistic structure, the company constitutes a managing board and a managing director, who together constitute the executive organ. Under the more common dualistic structure, the board of directors is an executive organ of the company. The control role belongs to the supervisory board. Unless stipulated otherwise in the articles of association, each board has three members who are either Czech nationals or foreign individuals. Members of the company's statutory or supervisory bodies are registered in the Commercial Register.

Unlimited partnership

An unlimited partnership is an entity in which at least two individuals or legal entities carry on business under the same firm name. Partners guarantee the partnership's obligations jointly with all their assets. The partnership does not have to create registered capital.

Limited partnership (k.s.)

A limited partnership is formed by two or more natural or legal persons. At least one of the partners must be a limited partner, liable for the partnership's liabilities up to the amount of its unpaid contribution as registered in the Commercial Register. At least one partner must be a general partner, with unlimited liability for the partnership's debts.

Branch

A foreign company may also establish a branch in the Czech Republic. A branch is not an independent legal entity. Any actions by the branch are seen as actions by the entity registering the branch, e.g. the foreign company. The head of the branch may be a Czech national or a foreign individual who can act in all matters regarding this branch. The head of the branch is registered in the Commercial Register.

European Company (SE)

A European Company, known formally by its Latin name *Societas Europaea* ("SE") is able to operate on a European-wide basis. An SE may be set up in one of four ways: (i) by the merger of two or more existing joint-stock companies from at least two different EU Member States; (ii) by the formation of a holding company by companies fulfilling specific conditions; (iii) by the formation of a subsidiary of companies fulfilling specific conditions; or (iv) by the transformation of a joint-stock company which has had a subsidiary in another Member State for at least two years. An SE is a legal entity and its subscribed capital may not be less than EUR 120 000.

Sole proprietorship

Individuals, including foreigners, can carry out business activities in the Czech Republic in their own name based on a valid trade licence or other relevant business permit.

Business permits

Every business entity may operate its business activity based on a relevant permit or authorisation, unless the respective activity does not require a permit (e.g. lease of real estate). Generally, prior to its registration in the Czech Commercial Register or prior to carrying out the relevant business activity, a company must obtain a trade licence as specified in the Trade Licensing Act, authorising it to carry out the respective business activity. The Trade Licensing Act stipulates several types of trades. Most are so-called free trades where no professional competence or other specific prerequisites are required.

For specific business activities not covered by the Trade Licensing Act, a special authorisation or permit may be required (e.g. certain financial services, telecommunications, healthcare, energy etc.).

Labour relations & working conditions

Employment relations are governed by Act No. 262/2006 Coll., Labour Code, as amended. Employment arises most frequently based on an employment contract.

The employment contract must include:

- Type of work
- Place or places of work
- Start date of employment

All employees employed under an employment contract must undergo an initial medical examination before the commencement of employment.

A trial period may be agreed for a maximum of three months (six months for management positions) starting at the commencement of the employment relationship.

Fixed-term employment is possible for a maximum period of 36 months and may be repeated only twice (i.e. the fixed-term employment cannot last more than nine years). Exceptions are possible in case of serious operational reasons.

Less formal employment alternatives include agreements on work performance and agreements on working activities. These can be concluded for seasonal or part-time work.

Employment can be terminated as follows:

- Termination agreement, which must be in written form.
- Notice of termination, which must be given in writing and delivered to the other party. The minimum notice period is two months and commences on the first day of the month following the delivery of notice to the other party. Employers may serve notice of termination only for reasons set by the Labour Code (e.g. organisational reasons, performance reasons, breaches of obligations). Employees may serve notice of termination without stating a reason. The notice period may be prolonged only by an individual written agreement between the employer and the employee.
- Immediate cancellation where both the employer and the employee may immediately cancel the employment for stipulated reasons.
- Cancellation in the trial period, during which both the employer and the employee may terminate the employment immediately without stating a reason.
- Upon expiry of the agreed period, if the employment was agreed for a definite period. The employment is changed to employment for an indefinite period if the employee, with the employer's knowledge, continues to work after the expiry of the agreed period.
- Upon the cancellation of a foreigner's residence permit or the expiry of his/her work permit, Employee Card or Blue Card, or his/her deportation.
- Death of the employee.

Statutory minimum severance pay in case of termination by the employer for organisational reasons is from one to three times the employee's average monthly earnings, depending on the length of employment. In the case of an accident, occupational disease or threat of occupational disease, the statutory minimum severance pay amounts to 12 times the employee's average monthly earnings.

Vacation

The minimum vacation entitlement is four weeks.

Remuneration

The minimum wage is set by the government. As of 1 January 2018, the minimum wage is CZK 12 200 (approximately EUR 480) per month or CZK 73.20 per hour.

For overtime work, the extra payment is at least 25% of average earnings, unless the employer agrees with the employee on compensatory leave. It is possible to agree that the salary will include remuneration for overtime work. For ordinary employees, a maximum of 150 overtime hours per calendar year may be included; for managers, it is 416 overtime hours per calendar year.

Statutory working hours are 40 hours per week. This may be less under specific circumstances (e.g. two- or three-shift operation). Maximum regular overtime hours per calendar year are 150, but may be extended with the employee's consent up to a total of 416 overtime hours in a year.

Trade unions

The formation of trade unions is regulated by law. A collective bargaining agreement may only be entered into with a trade union organisation, either for a fixed term or for an indefinite period, in which case it can be terminated with six months' notice.

Strikes are allowed primarily, but not exclusively, in support of the negotiation of collective bargaining agreements.

Employees and employers make social security contributions (see Chapter 9).

Work permits, residence permits, visas etc

As a member of the EU since 1 May 2004, the Czech Republic is part of the Schengen Area (since 21 December 2007). This means that customs checks of goods/persons have been moved across international borders. As the Czech Republic has no external EU border, all checks are conducted at international airports only.

Employees from the EU, EEA and Switzerland (as well as their family members) do not need work permits. Employees from all other countries must obtain a work permit and residence permit for employment purposes before commencing work.

The law regulating long-term residence of foreign nationals seeking work in the Czech Republic has been simplified in line with EU law. The Green Card has been replaced by the Employee Card, which is issued by the Ministry of the Interior in relation to specific working positions as determined by the Ministry. An employee who receives such a card no longer needs to apply individually for a residence permit.

Foreign nationals may also apply for a Blue Card, which is an integrated residence and work permit. The Blue Card is issued to workers with higher vocational or university education who have an employment contract for at least one year, for the statutory weekly working hours, and who have an agreed gross monthly or annual salary amounting to at least 1.5 times the average gross annual salary in the Czech Republic.

Intellectual property

The Czech Republic is a member of the World Intellectual Property Organization (WIPO), European Patent Organisation (EPO) and a contractual party of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

The system of legal protection of intellectual/industrial property in the Czech Republic is consistent with the principles of a market economy and is harmonised with EU law.

3. Finance and investment

Business regulation

Intellectual property, trademarks and copyrights are protected in the Czech Republic under the Copyright Act (*Autorský zákon*).

Banking & finance

The Czech National Bank (*Česká národní banka* – CNB) is the central bank of the Czech Republic. The CNB regulates monetary policy, banking supervision and the financial markets.

Securities are traded on the Prague Stock Exchange (*Burza cenných papírů Praha*), which was founded in 1861 but reopened in its present form in 1993. It operates two markets – SPAD for large and medium investors, and module auctions for smaller investors. The Exchange is owned by CEESEG Aktiengesellschaft – Wiener Börse AG.

Exchange controls

The Czech Republic does not operate exchange control, so funds may flow freely into and out of the country. Certain statistical reporting is, however, necessary.

Incentives to investment

The Czech Republic offers a variety of investment incentives under various conditions, including:

- Income tax relief (see Chapter 6)
- Exemption from property tax (see Chapter 8)
- Employment subsidies for job creation
- Training and retraining of employees
- Financial support for the acquisition of assets

Subsidies from EU Structural Funds may also be available for some projects.

4. The accounting and audit environment

Accounting regulations

Czech accounting legislation is largely harmonised with EU law. Nevertheless, the tax and accounting legislation differ considerably.

The contents of financial statements are prescribed by law and must be drawn up according to Czech generally accepted accounting standards. Czech accounting differs slightly from International Financial Reporting Standards (IFRS). For instance, a leased asset is to be shown in the lessor's balance sheet.

Annual financial statements must consist of a balance sheet, income statement and notes to the financial statements. A statement of cash flows and statement of changes in equity are mandatory for companies that have obligatorily audited financial statements. Annual financial statements are published in the Commercial Register and must be filed together with the company tax return at the relevant local tax office.

Since 1 January 2016, the Accounting Act defines four categories of accounting units (AU):

Table 1

	Micro	Small	Medium-sized	Large
Net assets	≤9000	>9000 ≤ 100 000	>100 000 ≤500 000	>500 000
Annual turnover	≤18 000	>18 000 ≤ 200 000	>200 000 ≤1 000 000	>1 000 000
Average number of employees	≤10	>10 ≤ 50	>50 ≤ 250	>250

Note: Data related to net assets and turnover are in thousands of CZK.

Micro, small, medium-sized and large accounting units are those that meet at least two of the relevant criteria shown in Table 1. A public entity or a selected entity is always considered to be a large entity.

Under the Czech Accounting Directives and the Accounting Act (*Zákon o účetnictví*), the controlling entity is obliged to prepare consolidated financial statements when the group of companies on a consolidated basis exceeds two of the three following criteria: net assets of CZK 100 million, turnover of CZK 200 million, 50 employees

A small group is not obliged to prepare consolidated financial statements (except in the case of public-interest entities).

Companies traded on the stock exchange have to use IFRS, as modified by EU law.

Since 1 January 2016, the Accounting Directives and the Accounting Act newly regulate not only double-entry bookkeeping, but also simple accounting for certain small entities.

Entities are required to keep accounts in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled. Entities are required to keep accounts in Czech crowns.

Audit requirements

In accordance with the Act on Accounting, financial statements, consolidated financial statements and annual reports must be audited by an independent auditor when prepared by:

- Large and medium-sized accounting units
- Small accounting units – joint-stock companies that in the current and previous accounting period meet at least one of the following criteria:
 - total net assets of no more than CZK 40 million
 - net turnover of no more than CZK 80 million per annum
 - average number of no more than 50 employees
- Other small accounting units that in the current and previous accounting period meet two of the above criteria.

Micro accounting units are not obliged to have financial statements audited.

A newly established company may even be audited in respect of its first year if it is likely to become a large or medium-sized company.



Regardless of the above criteria, the obligation of any accounting unit to be audited can issue from another legal regulation (e.g. under the Act on Reorganisations).

Financial statements are audited under International Auditing Standards.

Publication and archiving

Companies must publish annual financial statements in the Collection of Deeds of the Commercial Register. Audited companies publish an annual report containing financial statements, a management report and an auditor's report.

Accounting documents must be archived for a minimum period of five years up to 30 years depending on the type of document. Regardless of the archival period, documents related to taxes must be available for the taxable periods where the statute of limitations has not yet expired.

5. Overview of the tax system

Taxes

The main taxes are:

- Corporate income tax (*daň z příjmů právnických osob*)
- Personal income tax (*daň z příjmů fyzických osob*)
- Value added tax (VAT) (*daň z přidané hodnoty*)
- Customs duties (*clá*)
- Excise duties (*spotřební daně*)
- Immovable property tax (*daň z nemovitých věcí*)
- Real estate acquisition tax (*daň z nabytí nemovitých věcí*)
- Road tax (*silniční daň*)
- Environmental tax (*ekologická daň*)

The Czech Income Tax Act (*Zákon o daních z příjmů*) regulates the taxation of both corporate bodies and individuals.

The locally authorised tax office is determined by the company's headquarters or by the residence of the taxpayer. A specialised Tax Office (STO) has nationwide jurisdiction for large taxpayers making a significant contribution to tax revenue (turnover exceeding CZK 2000 million).

The frequency of tax audits depends on the place of a taxpayer's residence. Tax audits commonly take place more often in smaller towns and municipalities.

Appeals

Taxpayers have the right to appeal against decisions of the tax authorities arising from a tax audit and leading to an increase in their tax liability. Appeals must be made in writing to the authorities within the period relevant to the decision (usually 30 days). Taxpayers who are dissatisfied with the appeal decision may then appeal to the courts.

6. Taxes on business



Corporate income tax

Nature and scope

Corporate bodies are subject to corporate income tax, which is governed by the Income Tax Act (*Zákon o daních z příjmů*) and related legislation.

Resident companies are taxed on their worldwide income and non-resident companies only in respect of their Czech-source income.

Definition of residence

A company is considered resident in the Czech Republic if it has its legal 'seat' (registered office) or its place of effective management there.

Taxable persons

Companies and other corporate bodies (including mutual funds) are subject to corporate income tax. The treatment of partnerships is mixed. In a general partnership, only income subject to a final withholding tax is taxed at the partnership level; other income is taxed in the hands of the individual partners. In a limited partnership, the limited partner's or partners' shares are subject to corporate income tax, whereas the general partners' shares are taxed at the level of those partners.

Taxable period

The taxable period corresponds to the accounting period, which is the calendar year by default. Companies wishing to adopt an accounting period other than the calendar year must first notify the tax authorities and do so at least three months before the intended commencement date of the new period.

Taxable income

The taxable profit is based on the profit before tax as recorded in the income statement and is adjusted for exempt income and non-tax-deductible items.

Exempt income

Exempt income most notably includes certain dividends.

Capital gains

Capital gains are generally taxable as income. However, gains derived from the disposal of shares qualifying for the participation exemption (see under 'Dividends' below) are exempt in turn.

Deductions

All expenditure incurred in generating, securing and maintaining taxable income is normally deductible for tax purposes.

Depreciation

According to Czech GAAP, asset depreciation must correspond to the expected useful life of the asset. Under the Income Tax Act, fixed assets are divided into six depreciation groups, each with its own depreciation period, and tax depreciation is independent of the date of acquisition and of the age of the asset. Companies may also choose not to take depreciation in any accounting period. Tax depreciation can thus considerably diverge from accounting depreciation, especially if accelerated depreciation is available for tax purposes.

Generally, the rate of depreciation does not simply correspond to the inverse of the depreciable period, since the rate applied in the year of acquisition is generally lower and the rate in subsequent years generally higher than the rate that would apply if depreciation were taken uniformly.

Table 2 shows six categories of asset and the corresponding (straight-line) rates of depreciation under the default method.

Table 2

Depreciation category	Description of asset	Depreciation period (years)	First-year rate (%)	Rate in subsequent years (%)
1	IT and office equipment, some horticultural and agricultural machinery	3	20	40
2	Motor vehicles, aircraft, some machinery	5	11	22.25
3	Heavy machinery	10	5.5	10.5
4	Pipelines, power lines, light buildings	20	2.15	5.15
5	Other buildings, bridges	30	1.4	3.4
6	Office buildings, hotels, shopping centres	50	1.02	2.02

Companies that predominantly derive agricultural or silvicultural income and are the first owners of machinery used in those activities may apply a different set of rates for assets in Classes 1 to 3. Similarly, companies that are the first owners of water-purification equipment may apply a different set of rates to assets in those categories. Yet another set of rates (increasing the first-year rate at the expense of subsequent-year rates, but not in the case of motor vehicles) may be adopted for Classes 1 to 3 by companies that are the first owners of those assets.

A special depreciation regime applies to tangible fixed assets used for the production of electricity from solar power.

Finally, companies may opt for accelerated depreciation, calculated according to a formula, the result of which is to produce a modified version of reducing-balance depreciation.

Intangible assets may be amortised at a uniform straight-line rate over their estimated useful life if they cost over CZK 60 000 to acquire. Purchased goodwill (the difference between the purchase price of a going concern and the aggregate book values of its assets) may also be depreciated on a monthly basis (equivalent to 180 months). As of 2018, it is also possible to discontinue depreciation.

Bad and doubtful debts

Provisions against bad and doubtful debts are deductible.

For debts that arose before 1 January 2014, 20% of the debt not exceeding CZK 200 000 may be deducted, provided that it is more than six months overdue. If the debt exceeds CZK 200 000, prescribed steps must have been taken towards recovering the debt. A greater percentage is progressively deductible as the overdue period extends, 100% being the maximum once the debt is three years or more overdue.

For debts that arose in 2014, a provision of 50% of the debt may be created if the debt is more than 18 months overdue; if the debt is more than 36 months overdue, a provision of 100% of the debt may be created.

In the case of debts that have arisen in 2015 and subsequently, a provision of 50% of the debt may be created if the debt is more than 18 months overdue; if the debt is more than 30 months overdue, a provision of 100% of the debt may be created. This rule may also be used retroactively for debts arising in 2014.

Non-deductible expenses

Expenditures not deductible for tax purposes includes, e.g.:

- Expenditures incurred in generating non-taxable income
- Entertainment expenses (including meals with customers)
- Expenditures paid for other taxpayers
- Fines, penalties

Dividends

Dividends received from other resident companies are generally taxable, but subject to a final withholding tax (see under 'Withholding taxes' below) and thus not included in taxable profits.

For substantial corporate shareholdings, however, there is a participation exemption. In the case of dividends from other Czech-resident companies, the exemption applies where:

- The recipient company has held at least 10% of the distributing company's share capital for an uninterrupted period of at least 12 months immediately before the distribution and
- The distributing company is resident in the Czech Republic and subject to Czech corporate income tax

The holding-period requirement may also be satisfied post facto, provided the minimum-holding requirement is satisfied at the date of the distribution.

With regard to foreign dividends, the participation exemption applies where:

- The Czech company has held at least 10% of the distributing company's share capital for an uninterrupted period of at least 12 months immediately before the distribution
- The distributing company is resident in the European Union, takes one of the forms listed in the EU Parent-Subsidiary Directive (2011/96/EU) and is subject to a corporate income tax as listed in the Directive and is unable to opt for exemption from that tax

If the distributing company is resident outside the European Union, the participation exemption applies if:

- The Czech company has held at least 10% of the distributing company's share capital for an uninterrupted period of at least 12 months immediately before the distribution and
- The distributing company must have a legal form comparable to a Czech a.s., s.r.o. or cooperative, is resident in a jurisdiction with which the Czech Republic has concluded a double tax treaty (for which see Appendix 1), and is subject to a corporate income tax at an effective rate of at least 12%

Group taxation

Czech law does not provide for any special regime for groups of companies. There is thus no facility for transferring losses or for consolidated filing.

Losses

Losses may be carried forward for a maximum of five years and may be set off against capital gains as well as ordinary income. There is no carry-back of losses. A change of ownership affecting more than 25% of the registered share capital or voting rights will result in a forfeiture of unrelieved losses unless the company derives at least 80% of its income in the relevant period from activities identical to those performed in the period in which the loss was incurred.

Capital losses, however, are generally not deductible, except for losses arising from the sale of shares not representing a controlling or significant holding.

Thin capitalisation

Interest payable is generally deductible if the rate is no greater than arm's length and is incurred with respect to taxable income. However, financing costs (interest and related expenses) of loans from related parties are not deductible to the extent to which the debt-equity ratio exceeds 4:1 (6:1 in the case of banks and insurance companies). Any excess interest may, subject to a relevant double tax treaty, be recharacterised as a dividend.

With respect to BEPS (the OECD Action against Base Erosion and Profit Shifting), implementation of stricter measures into Czech tax law may be expected in the future. Furthermore, the EU's ATAD (Anti-Tax Avoidance Directive), most of which should come into effect as of 2019, will restrict tax planning as regards the tax deductibility of interest from loans and credits, hybrid structures or other abuses of law. For transfer of tax residence, exit taxation (i.e. taxation of gains in cross-border transactions and by transfer of tax residency) is being considered.

Transfer pricing

Transfer-pricing rules require prices between related parties (wherever the other party is resident) to be at arm's length. Where they are not, and the taxpayer cannot present valid economic reasons, appropriate adjustments will be made.

Where a Czech company pays an above arm's length price to a related party resident outside the European Economic Area, the excess is reclassified as a dividend, subject to the appropriate rate of withholding tax.

Czech law does not prescribe what methods must or may be used to arrive at arm's length prices, but the tax authorities generally follow OECD guidelines.

There are no mandatory requirements for transfer-pricing documentation, but Decree D-334 sets out recommendations, broadly in line with the EU Code of Conduct on Transfer Pricing Documentation.

Taxpayers may apply to the tax authorities for binding rulings on the appropriateness of the methods they use to derive arm's length prices.

An annex to the corporate income tax return has been introduced effective from the 2014 taxable period to cover an overview of transactions with related parties. The annex has to be completed by taxpayers meeting at least one of the following criteria:

- Assets in excess of CZK 40 million or
- Net turnover exceeding CZK 80 million or
- An average number of employees exceeding 50

and assuming that the company:

- Conducted a transaction with a related party located abroad or
- Showed a loss in the tax return and, at the same time, made a transaction with a related party (in the Czech Republic or abroad) or
- Holds the promise of investment incentives in the form of tax relief and, at the same time, made a transaction with a related party.

If the company shows a loss in the tax return or holds the promise of investment incentives, it must complete this annex for all related parties involved in these transactions. In other cases, the company will only state foreign transactions.

Nowadays, Czech tax authorities increasingly focus on prices set by related entities in their business and consider them from the point of view of arm's length principles.

Controlled foreign company (CFC) rules

The Czech Republic has no CFC legislation. Changes in this area can be expected with respect to the implementation of ATAD (Anti-tax Avoidance Directive) into Czech tax law, which should come into effect as of 2019.

Withholding taxes on outbound payments

Dividends

Dividends paid to resident companies and individuals are subject to a final 15% withholding tax.

Dividends paid to non-resident persons are subject to withholding tax of either 15% or 35%. The 35% rate applies where the recipient resides outside the European Economic Area or in a jurisdiction that has neither a double tax treaty nor a bilateral agreement for tax information exchange with the Czech Republic.

For dividend payments to companies within the European Economic Area (including Liechtenstein) and Switzerland, there is no withholding tax where the recipient company has held at least 10% of the share capital of the Czech distributing company for an uninterrupted period of at least 12 months immediately preceding the distribution. The same procedure is applied when profits are distributed from companies from the European Economic Area and Switzerland to a parent company from the Czech Republic. It is possible for the holding-period requirement to be satisfied post facto. Dividend payments in this connection extend to excess interest and transfer prices recharacterised as dividends.

These rates may be reduced under a double tax treaty.

Interest

As with dividends, interest paid to a resident natural person is subject to a final withholding tax of 15%, whereas where paid to a resident legal person, it is free of withholding tax.

Similarly, interest payable to non-resident persons is subject to withholding tax of 15% or 35%. The 35% rate applies where the recipient is resident outside the European Economic Area or in a jurisdiction that has neither a double tax treaty nor a bilateral agreement for tax information exchange with the Czech Republic.

For interest payments to companies resident within the European Economic Area (including Liechtenstein) or in Switzerland, there is no withholding tax where the beneficial owner of the interest is an associated company. A company is associated with the paying company where one of them has had a direct holding of at least 25% in the share capital of the other or a third person has had a direct holding of at least 25% in both for an uninterrupted period of at least two years immediately preceding the payment. It is possible for the holding-period requirement to be satisfied post facto. A decision of the tax administrator certifying the tax exemption is necessary.

Royalties

The same rules apply to royalties as to interest payments.

Interest and royalties received from domestic sources are taxable at the ordinary rate of corporate income tax. If the payer is resident in the Czech Republic, there is no withholding tax. The exemption applies under similar conditions as in the case of dividends; however, the recipient of interest or royalties has to file an application with the tax office in advance.

Other income

Payments for rents payable to foreign persons are subject to withholding tax at either 15% or 35%. The same rules apply in respect of the 35% rate as in respect of dividends, interest and royalties; namely, the 35% rate applies where the recipient is resident outside the European Economic Area or in a jurisdiction that has neither a double tax treaty nor a bilateral agreement for tax information exchange with the Czech Republic. There is no exemption corresponding to the Parent-Subsidiary or Interest and Royalties Directives, but tax treaties may reduce the applicable rate, down to zero in certain cases.

Double taxation relief

Foreign taxes paid abroad may be credited or exempt from the tax liability in the Czech Republic; however, they are generally deductible as expenses in the year following the year in which they were paid, unless a tax treaty provides otherwise or unless the tax relates to income that is exempt from corporate profit tax in the Czech Republic.

Tax incentives

Major investment

A number of tax incentives exist under varying conditions for companies making large-scale investments in the Czech Republic. The criterion for a qualifying investment may be its value in monetary terms or the number of new jobs that it creates. Incentives are available for investment in the manufacturing industry, technological centres or strategic service centres.

Manufacturing industry: Minimum investment in long-term tangible and intangible assets in the amount of CZK 50 million in regions with high unemployment, of which at least CZK 25 million must be invested in new machinery; in "other" regions CZK 100 million, of which at least CZK 50 million must be invested in machinery. At least 20 new jobs created must be preserved when using incentives.

Technological centres: A minimum of CZK 10 million must be invested and at least 20 new jobs created. At least CZK 5 million must be invested in machinery.

Strategic services: The number of new jobs which must be created depends on the type of industry in strategic services. Software development and data centres must create 20 new jobs, shared services centres and repair centres 70 new jobs, and call centres 500 new jobs.

Where these criteria are satisfied, the company receives full relief from any resulting additional liability for corporate income tax, by comparison with the higher liability of the two years preceding the investment. If the investing company is new, it qualifies for a full exemption from corporate income tax for its first 10 years.

The maximum aid amount is 25% of total eligible costs depending on the regional map of the aid intensity.

Investment incentives are not eligible for the territory of the city of Prague.

Effective from 2015, a recipient of investment incentives involved in a corporate reorganisation and not in breach of the requirements of the Act on Investment Incentives will no longer have to return the funds received in the form of tax credit. Moreover, prior to the start of the reorganisation, the company may apply for consent to transfer the relevant rights and duties to the successor company.

Recipients of investment incentives may waive their rights to draw tax credit associated with investment incentives.

Research and development

Expenditure on approved research and development projects qualifies for a 200% deduction of eligible costs (mostly wage costs, social and health insurance costs and asset depreciation). In fact, this means relevant costs can be claimed twice. Another 10% deduction may be made by the amount exceeding expenditure in the previous period.

Vocational training

Deduction of expenses incurred in support of the student: this deduction may be made in multiples of CZK 200 and the number of hours spent in the workplace.

Deduction of the cost of acquiring assets for training: this allows companies to apply an additional deduction of 50 or 110% on the cost of a property (of which the company is the first owner) acquired and at least partially used for training students.

Disability credit

Companies may receive a tax credit of CZK 18 000 or CZK 60 000 for each disabled employee (based on the average headcount), depending on the degree of disability.

Rate of corporate income tax

The rate of corporate income tax in 2018 is 19% (unless a final withholding tax applies).

Returns, assessment and payment

A corporate tax return must normally be filed together with the annual financial statements no later than the first day of the fourth month following the end of the taxable period (hence by 1 April in most cases). If the company concerned is subject to a statutory audit or a tax adviser is involved, the deadline is extended to the first day of the seventh month (hence by 1 July in most cases).

A self-assessment system operates in the Czech Republic.

Payment of tax

Unless their final tax liability in the previous year exceeds CZK 30 000, companies need not make advance payments of their current year's liability in instalments.

Companies whose tax liability in the previous year exceeded CZK 30 000 but did not exceed CZK 150 000 make two advance payments each of 40% of the previous year's liability. These instalments are due by the 15th day of the sixth and twelfth months of the company's accounting period, hence normally by 15 June and 15 December. Companies whose liability exceeded CZK 150 000 must pay four equal instalments each of 25% of the previous year's liability, no later than the 15th day of the third, sixth, ninth and twelfth months of the accounting period, hence normally by 15 March, 15 June, 15 September and 15 December.

Any balance of tax payable must be remitted together with the tax return.

Overpayments of tax will be refunded within 30 days of the taxpayer's application.

Tax returns filed more than five business days late will be subject to a fine of 0.05% of the assessed tax (0.01% of the assessed tax loss) for each day of the delay but are limited to the greater of 5% of the assessed tax (tax loss) or CZK 300 000.

For delayed payment of tax, the Tax Authority prescribes a penalty for each day of the delay, starting with the fifth business day following the tax due date in the amount of the annual repo rate stated by the Czech National Bank valid for the first day of the relevant calendar half-year plus 14% (as at 1 February 2018 the actual rate was 14.5%).

Value added tax

Value Added Tax (VAT) as regulated by the European Union is generally charged on the supply of goods or services where the place of supply is in the Czech Republic, no matter whether the customer is a private person or a business. It is thus a multi-stage tax charged at each stage of the product cycle but is ultimately borne by the end-user (final consumer). It is also levied on imports of goods from outside the European Union. The overall framework of the tax is the competence of the European Union, as legislated in the VAT Directive (2006/112/EC) and associated Directives and Regulations. These give Member States several options when applying the tax, not the least of which is the power to set rates (within certain broad parameters).

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to VAT deduction) or outside the scope. Exempt supplies with the right to deduct are sometimes referred to as 'zero-rated'. Businesses making exclusively taxable or zero-rated supplies generally qualify for full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies without the right to deduct do not qualify for deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

VAT in the Czech Republic is governed by the Value Added Tax Act (*Zákon o dani z přidané hodnoty*), which is in conformity with the EU VAT Directive (2006/112/EC).

On 1 January 2015, an adjustment of the common system in the rules for determining the place of performance of VAT on electronically supplied services, telecommunication services and radio and television broadcasting services provided to non-taxable persons came into effect within the European Union. For this reason, a particular regime called Mini One Stop Shop – MOSS was introduced.

In the Czech Republic, the locally competent tax office for MOSS is situated in Brno.

Taxable entities

Businesses ('taxable persons') charging VAT to their customers are liable to report and pay this VAT to the Czech tax authorities. Any VAT incurred in the course of the taxable person's taxable activity (e.g. charged by the taxable person's suppliers) can in principle be deducted or set off against the VAT due. Only the net amount must be paid to the tax authorities. If there is a balance of deductible VAT, the amount is in principle recoverable from the tax authorities (but see below). Consequently, the real burden of VAT falls on the final consumer, with the intervening business effectively acting as a collecting agent for the tax authorities.

Although most taxable persons are businesses and most businesses are taxable persons, a taxable person is any person independently carrying on an economic activity. The definition of “economic activity” is quite broad, so that on occasion even persons not carrying on a business in the generally understood sense of the word may have to charge and pay over VAT.

In specific cases, a liability to register as an identified person arises to an entity. Such a person is a VAT payer only for intra-community supplies and in the Czech Republic remains a VAT non-payer. This person is not entitled to claim a VAT refund.

VAT rates and exemptions

The standard rate of VAT in the Czech Republic is 21%. There is also a first reduced rate of 15% and a second reduced rate of 10%.

The first reduced rate applies, *inter alia*, to:

- Most foodstuffs
- Certain passenger transport
- Admission to cultural events
- Hotel accommodation
- Catering services
- Medical and dental care (where not exempt)

The second reduced rate applies, *inter alia*, to:

- Initial and continuing baby food
- Selected pharmaceutical products
- Printed books, books for children, sheet-music
- Newspapers and magazines

When the place of supply of goods or services is deemed to be outside the Czech Republic, no Czech VAT should be charged. This is the case for most types of services supplied to foreign businesses and intra-EU supplies as well as for exports of goods from the European Union to third countries.

Although no VAT is charged, a taxable person who is fully established in the Czech Republic may in principle still deduct VAT incurred for the purpose of these activities (‘exemption with the right to deduct’). There are also other exempt transactions, such as supplies of land, insurance, certain legal services as well as postal, financial, educational and health services, which do not carry the right to deduct. In other words, the taxable person making these exempt supplies may not deduct or recover the VAT incurred on purchases and expenses related to this activity (‘exemption without the right to deduct’).

Registration

Anyone who is liable to pay VAT to the Czech tax authorities and any taxable person ‘established’ in the Czech Republic (whether based in the Czech Republic or having a fixed establishment there from which taxable transactions are carried out) must in principle register for VAT purposes and obtain a VAT identification number. The Czech VAT identification number consists of the letters CZ followed by a nine or 12-digit number.

Foreign taxable persons with a fixed establishment for VAT purposes in the Czech Republic must register in the same way as a Czech taxable person.

Foreign taxable persons without a fixed establishment in the Czech Republic from which taxable transactions are carried out should only register for Czech VAT purposes if they carry out taxable activities in the Czech Republic for which they are liable to pay Czech VAT (i.e. where there is no application of the reverse charge, which makes the customer liable for payment of the tax due). This can, for example, be the case where the taxable person:

- Makes intra-EU acquisitions of goods from other Member States
- Makes local supplies of goods or services to non-taxable persons or
- Carries on a property business (selling or letting immovable property) in the Czech Republic

Registration thresholds

The small-business registration threshold in the Czech Republic is CZK 1 million (by reference to the VAT-exclusive turnover in the previous 12 months). This threshold applies only in the case of Czech taxable persons. Taxable persons not established in the Czech Republic who make taxable supplies there must register regardless of the value of their transaction(s).

The distance-selling threshold (for taxable persons selling into the Czech Republic) is CZK 1 140 000 (approx. EUR 42 175). The registration threshold for non-taxable persons making intra-EU acquisitions in the Czech Republic is CZK 326 000 (approx. EUR 12 060).

VAT returns and other statements

The standard return period is one calendar month. Businesses whose turnover in the previous calendar year did not exceed CZK 10 million (or is unlikely to exceed that amount in the current year) may apply for a quarterly return period.

Returns must be filed no later than the 25th day of the month following the end of the return period, which is when payment is also due. VAT returns must be filed electronically.

If there is an excess of input tax over output tax for a period, the excess is normally refunded within 30 days.

If taxable persons supply goods or provide selected services to another EU Member State, they have an obligation to submit an EU sales list with the VAT return. This EU sales list allows individual EU states to check whether the supply made within the European Union was taxed or not. The EU sales list must be submitted no later than the 25th day of the month following the end of the return period, in case of goods on a monthly basis only.

INTRASTAT reporting is compulsory for taxable persons performing intra-Community transactions related to the supply or acquisition of goods. Such transactions must be electronically reported to customs authorities on a special form and the reporting period is a calendar month. Transactions under the threshold of CZK 8 million are exempt from the reporting duty.

From 1 January 2016, almost all taxable persons must submit a VAT control statement with the VAT return. The VAT control statement contains basic information on taxable supplies provided and received. In the case of companies, the VAT control statement must be submitted no later than the 25th day of the month following the end of the return period. Individuals must submit a VAT control statement monthly or quarterly, according to the filing of the VAT return.

VAT grouping

Related parties may form a VAT group. Parties are related if one directly or indirectly holds at least 40% of the share capital or voting rights in the other or the same party directly or indirectly holds 40% of the share capital or voting rights in both. Parties may also be related if they share the same management.

Blacklist of VAT payers

The VAT Act contains measures in the fight against tax evasion, including the introduction of an unreliable taxpayers' register. If a supplier is identified as an unreliable payer and does not pay tax on its outputs, the Tax Authority may enforce a claim for tax on its customers. It can be anticipated that customers will endeavour not to deal with VAT payers on the blacklist, which will reduce the risk of tax evasion. According to information from the General Financial Directorate, as of January 2013 the following situations are considered serious breaches of the VAT obligation, triggering a possible entry in the register:

- Where tax exceeding CZK 500 000 had to be assessed or additionally assessed by other means (i.e. substitute means not drawing on the taxpayer's documents)
- Where the taxpayer has not paid the amount demanded under a 'securement' order within the specified time
- Where the tax authorities record VAT arrears of at least CZK 500 000 for a period of at least three consecutive calendar months

Electronic record of sales

As of 1 December 2016, selected businesses that accept cash must keep an electronic record of sales by immediately reporting cash transactions to the tax authorities electronically.

Businesses entered into the system of electronic record of sales gradually, as follows:

- 1st Phase – as of 1 December 2016: accommodation and food services
- 2nd Phase – as of 1 March 2017: retail and wholesale

The next two phases related to, among others, liberal professions, transport, agriculture and selected crafts and production activities, which were to be in force since 2018, have been postponed until the amendment to the Act.

7. Personal taxation

Personal income tax

Territoriality and residence

Individuals are subject to personal income tax. If they are resident for tax purposes in the Czech Republic, they are liable in respect of their worldwide income, whereas non-residents are liable in respect of their Czech-source income only.

An individual is considered resident in the Czech Republic if their permanent home or habitual abode is located there. Physical presence for 183 days or more in a calendar year is sufficient to establish a habitual abode.

The family unit

There is no joint taxation of married couples or other types of households. Each taxpayer is a separate taxable person. However, collaborating individuals (a spouse or other persons living in one household and as of 2015 also a family member taking part in the operation of the family business) can share in the joint income and tax separately.

Taxable income

Personal income tax is charged on:

- Employment income
- Business income
- Investment income
- Rental income
- "Other" income

Taxable income is calculated separately for each type of income and the result aggregated. Certain types of investment income may, however, be subject to a final withholding tax and thus not be aggregated in the total taxable base.

Taxable period

The normal taxable period is the calendar year.

Exempt income

Exempt income includes alimony payable under law and prizes not exceeding CZK 10 000. For exempt capital gains, see below.

Income from employment

Income from employment includes all forms of remuneration in cash and in kind from an employment relationship, past, present or future. Fees paid to managers and directors of limited liability companies are classified as employment income, as is the income of a limited partner in a limited partnership.

Under Czech law, an employee's social security contributions are not deductible when calculating taxable income and the employer's contributions are included in the employee's taxable income.

Benefits in kind

Although all benefits in kind are in principle taxable, a wide range of benefits is exempt. Exempt benefits include:

- Reimbursement of business travel (if within the stipulated limits)
- Employer's contributions to an employee's supplementary pension fund and private life insurance not exceeding CZK 50 000 per year
- Vocational training fees
- Free works canteens and catering
- The value of temporary accommodation not exceeding CZK 3500 per month
- Employer's contributions to printed books
- Benefit issuing from interest-free loan up to the principal of CZK 300 000

A further range of benefits is exempt if provided out of a special fund for employee welfare financed by the employer from post-tax income. These include recreational and healthcare facilities, workplace nurseries and loans at favourable rates of interest for housing or in case of financial difficulties.

Where benefits are taxable, they are normally valued at market value. The value of a company car is the greater of 1% of the acquisition cost of the vehicle and CZK 1000 per month, plus the cost of employer-provided fuel for private use.

There are no deductions for expenses in employment.

Salary tax

Employers are required to deduct income tax and social security contributions from salary payments.

Business and professional income

This category of income includes income from farming, trade or business and the liberal professions, as well as the profit shares of partners in a general partnership and of general partners in a limited partnership.

Taxable income is calculated in one of two ways. For businesses registered in the Commercial Register or having annual turnover exceeding CZK 25 million, double-entry bookkeeping under the accrual method is compulsory. Such individuals compute their income and deductible expenses under the same rules that apply to companies (see Chapter 6). In other cases, income and expenditure are calculated on a cash basis.

In principle, all expenditures incurred in deriving taxable income are deductible. For depreciation, see Chapter 6.

Taxpayers operating on the cash basis may choose between deducting actual allowable expenditures or claiming a standard, lump-sum deduction, as follows:

Table 3

Type of business	Deduction as % of turnover
Agriculture or industry	80 (max. CZK 800 000)
Other activities requiring a licence	60 (max. CZK 600 000)
Non-licensable business or profession	40 (max. CZK 400 000)
Hire or leasing of business assets	30 (max. CZK 300 000)

A decrease of the maximum amounts to half the value in comparison to previous periods is to apply from the 2018 taxable period. On the other hand, a taxpayer will be entitled to claim a tax credit for spouse and children.

Losses may be deducted from rental income or other income. Any excess may be carried forward for up to five years.

Investment income

Dividends

Dividends from Czech companies are normally subject to a 15% withholding tax (see Chapter 6), which is final.

Interest

Interest from securities and savings accounts is also subject to a final 15% withholding tax.

Royalties

Royalties are normally taxable as business and professional income.

Rental income

Taxable income from the rental of movable or immovable property may be reduced by actual expenses incurred or by a lump-sum 30% deduction (max. CZK 300 000). A loss may be deducted from business and professional income or other income. Any excess may be carried forward for up to five years.

Other income

Other taxable income includes non-exempt capital gains but is exempt to the extent it does not exceed CZK 30 000.

Capital gains

Capital gains are in principle taxable as income, but there are some important exceptions.

Gains on the sale of immovable property are exempt if the taxpayer has held the property for at least five years. In the case of the taxpayer's main residence, the gain is exempt if it has been such for at least two years preceding the sale.

Gains from the sale of portfolio shareholdings are exempt after a holding period of three years. Gains not exceeding CZK 100 000 per year is exempt.

Gains from the sale of shares in limited-liability companies are exempt after a holding period of five years.

Deductions and allowances

Several types of private expenditure qualify for a deduction against taxable income.

Mortgage interest

The first CZK 300 000 per year of interest payable on a loan to purchase the taxpayer's main residence is deductible.

Pension contributions

Contributions paid to the state supplementary pension fund or to private pension funds are deductible up to a maximum of CZK 24 000.

The same holds for life insurance premiums.

Social security contributions are not deductible (see Chapter 9).

Charitable and other donations

Donations to charitable, cultural, educational and scientific bodies are deductible, provided that the total value of deductions is the greater of CZK 1000 and 2% of taxable income before donations. The maximum deduction that may be claimed is 15% of taxable income.

Personal allowances

The taxpayer's personal circumstances are recognised through a system of tax credits rather than allowances. The main allowances are shown in Table 4.

Table 4

Type of credit	Amount (CZK)
Personal	24 840 ⁽¹⁾
Spouse	24 840 ⁽²⁾
Partial disability	2520
Full disability	5040
Severe disability	16 140
Study	4020 ⁽³⁾
Child (per child)	15 204 ⁽⁴⁾

⁽¹⁾ Not available against pension income

⁽²⁾ Provided that the spouse's taxable income does not exceed CZK 68 000 (the credit is CZK 49 680 if the spouse is severely disabled)

⁽³⁾ The student must be no older than 26 (28 in the case of a doctorate)

⁽⁴⁾ For the second child the amount of credit is CZK 19 404, for the third and each additional child CZK 24 204.

Starting in 2015 it is also possible to claim a credit for placement of a child in a preschool. The tax credit may be applied in the amount of expenses actually incurred, up to a maximum of CZK 12 200.

Taxpayers receiving pension income are eligible for the personal credit. Pensions themselves are exempt up to an amount of CZK 396 000.

Tax rate

There is a single, flat tax rate of 15%. However, from the year 2013, a surtax of 7% will be applied to that part of taxable income from employment, a business or profession exceeding 48 times the annual average salary. This amount is CZK 1 438 992 in 2018.

Returns and administration**Returns**

Taxpayers receiving employment income not exceeding CZK 1 355 136 (a yearly limit for surtax of 7% in 2017) and no more than CZK 6000 from all other sources are not obliged to file a tax return. Other taxpayers must do so if their aggregate income exceeds CZK 15 000. Tax returns must normally be filed by 1 April. Where a tax adviser is involved, or the taxpayer has a business that is subject to statutory audit, the deadline is extended to 1 July.

As of 2017, an employee can decide to file a simplified tax return.

Assessment and payment

The taxpayer makes a self-assessment and pays the balance of any tax due at the same time as the tax return is filed. The tax authorities must refund overpayments within 30 days of the taxpayer's application. The tax authorities have three years in which to challenge the taxpayer's self-assessment.

Inheritance and gift taxes

As of 1 January 2014, inheritance and gift taxes have been abolished and the relevant types of income are subject to income tax. Inheritances are generally tax-exempt. Gifts are exempt if made between certain family members and between persons living in the same household for a period of at least one year before the gift was made.

Moreover, gifts up to the annual value of CZK 15 000 are generally exempt from income tax. Gifts provided abroad are generally subject to 15% withholding tax unless the relevant double tax treaty provides otherwise.

Wealth tax

There is no wealth tax in the Czech Republic.

8. Other taxes



Immovable property tax

Owners of land and buildings are liable to an annual immovable property tax. Except for agricultural and forestry land, which is valued at the average price of the land, the tax is based on the area, potential for development and location of the land (more precisely, the local authority in whose territory it is located). The rate may be set as a percentage of the average price or at a set amount per square metre. Local authorities may increase these rates by a coefficient of between 2 and 5. There is a broad range of exemptions, to which local authorities may add to a certain extent.

Since 1 May 2015 an exemption from the immovable property tax is available in respect of investment incentives. The exemption may be granted for up to five years, depending on the consent of the municipality. The municipality determines the amount of the tax exemption.

Immovable property acquisition tax

There are generally no restrictions on the acquisition by a foreign investor (legal entity or individual) of immovable property in the Czech Republic. Unless there is a specific limit, a foreign investor may acquire the property directly and will be registered as its owner in the Czech Land Register. However, most investors acquire immovable property in the Czech Republic through a Czech company.

For a transfer of immovable property, the law requires the conclusion of a written contract on transfer of title (e.g. sale, donation etc.). The signatures of the parties to the contract must be on the same page. The signatures of the seller on the copy of the contract that the Cadastral Office will use to register the transfer must be officially verified. To be legally effective, the transfer of title to immovable property must be registered in the Land Register.

Information about the legal status of the immovable property, including copies of relevant legal documents, is available in the Land Register. With certain exceptions, all immovable property in the territory of the Czech Republic is registered in the Land Register.

The transfer of immovable property for a consideration is taxed at a rate of 4% of the higher of:

- The purchase price of the property; and
- 100% of the comparative tax value (75% of the usual market price determined by a statutory expert or calculated based on guidelines, taking into account the location, size and type of the real estate).

The law was amended as of 1 November 2017 and now only the buyer pays the tax (previously it was the seller by default and the buyer only based on mutual agreement). Certain transactions (e.g. transformation of business corporations) are not subject to this tax; other transactions are exempt from real estate acquisition tax. When the shares of a company owning immovable property are transferred, however, the underlying land is not deemed transferred.

Road tax

Road tax is charged on motor vehicles and their trailers registered and operated in the Czech Republic (vehicles), if used for business purposes.

The annual tax rate is based on the engine size of a passenger car and the number of axles and the overall load of a lorry. The tax ranges from CZK 1200 to CZK 4200 for a passenger car and from CZK 1800 to CZK 50 400 for a lorry. The tax base may be reduced by up to 48% depending on the age of the vehicle. Further tax reliefs apply for lorries in some circumstances.

The tax period is the calendar year. Tax returns for road tax must be filed by 31 January of the calendar year following the tax year.

Customs duties

The Czech Republic is a member of the European Union, and hence customs duties under the Common Customs Code (Regulation (EC) No 450/2008) are imposed on the importation into the Czech Republic of goods from outside the European Union. There are no customs duties on the movement of goods within the European Union.

Excise duties

The Czech Republic levies excise duties on alcoholic beverages, tobacco and tobacco products and energy products (hydrocarbon oils, natural gas, coal and coke, and electricity).

Environmental tax

Energy taxes are charged on supplies of natural gas, solid fuels and electricity. The payers of tax are suppliers delivering products to end-consumers and operators of distribution or transmission systems, as well as entities that use energy for other than tax-exempt purposes.

9. Social security contributions

Employers and employees

Social security contributions are payable to four distinct funds, as follows:

- Pension fund
- Sickness fund
- Unemployment fund
- Health insurance fund

The contributions are charged on the employee's gross income. The ceiling for contributions for all funds except health insurance is 48 times the average annual salary (CZK 1 438 992 in 2018). There is no ceiling on health contributions.

As noted in Chapter 7, employees' contributions are not deductible from their taxable income and the employer's contributions are added to taxable income as equivalent to a benefit-in-kind. Employer contributions are, however, deductible for corporate tax purposes.

Rates are as shown in Table 6.

Table 6

Fund	Employer (%)	Employee (%)	Total (%)
Pension insurance fund	21.5	6.5	28.0
Sickness insurance fund	2.3	0	2.3
Unemployment insurance fund	1.2	0	1.2
Health insurance	9.0	4.5	13.5
Total	34.0	11.0	45.0

Self-employed contributors

The self-employed pay the combined rate of employer and employee contributions, but on a tax base of their own choosing. This may, however, not be less than the higher of:

- 50% of their taxable professional or business income; and
- 50% of 12 times the average monthly salary (CZK 179 874 in 2018) for health contributions and 25% of 12 times the average monthly salary (CZK 89 937 in 2018) for the other contributions

The 2.3% contributions to the sickness insurance fund are not compulsory for the self-employed.

The ceiling for social security contributions by the self-employed is CZK 1 438 992 in 2018.

10. Moore Stephens in the Czech Republic

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Appendix 1: double tax treaties

Comprehensive double tax treaties

The Czech Republic has comprehensive double tax treaties with the following countries:

Albania	India	Philippines
Armenia	Indonesia	Poland
Australia	Iran	Portugal
Austria	Ireland	Romania
Azerbaijan	Israel	Russia
Bahrain	Italy	Saudi Arabia
Barbados	Japan	Serbia
Belarus	Jordan	Singapore
Belgium	Kazakhstan	Slovakia
Bosnia Herzegovina	Kuwait	Slovenia
Brazil	Latvia	South Africa
Bulgaria	Lebanon	South Korea
Canada	Liechtenstein	Spain
Chile	Lithuania	Sri Lanka
China	Luxembourg	Sweden
Columbia	Macedonia	Switzerland
Croatia	Malaysia	Syria
Cyprus	Malta	Tajikistan
Denmark	Mexico	Thailand
Egypt	Moldova	Tunisia
Estonia	Mongolia	Turkey
Ethiopia	Montenegro	Ukraine
Finland	Morocco	United Arab Emirates
France	Netherlands	United Kingdom
Georgia	New Zealand	United States
Germany	Nigeria	Uzbekistan
Greece	North Korea	Venezuela
Hong Kong	Norway	Vietnam
Hungary	Panama	
Iceland	Pakistan	

Double tax treaties: air transport and shipping

The Czech Republic has double tax treaties with the following jurisdictions covering profits from air transport only.

Algeria	Iraq
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Double tax treaties: estates, gifts and inheritances

The Czech Republic has agreements covering taxes on estates, gifts and inheritances with the following countries.

Austria	Slovakia
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Agreements on mutual administrative assistance

The Czech Republic has separate agreements on mutual administrative assistance in tax matters with the jurisdictions outside the European Union shown in the following table. Within the European Union, administrative assistance (except in relation to VAT) is guaranteed under EU Directive 2010/24/EU and in respect of VAT under Council Regulation 904/2010/EU. Several of the Czech Republic's double tax treaties also contain provisions for mutual administrative assistance.

Andorra	Bermuda	Guernsey
Aruba	British Virgin Islands	Isle of Man
Bahamas	Cayman Islands	Jersey
Belize	Cook Islands	San Marino

Social security agreements

The interaction of national social security systems within the European Economic Area is governed by EU Regulations which also extend, by agreement (and with some differences), to Switzerland. The Czech Republic has pre-existing bilateral agreements with some of these states. These have largely been superseded by the EU Regulations but may be applied where occasionally they give a more beneficial result. The following non-EEA countries have social security agreements with the Czech Republic, the terms of which differ from case to case.

Australia	Japan	Serbia
Bosnia Herzegovina ¹	Macedonia	South Korea
Canada	Moldova	Syria
Chile	Montenegro	Turkey
India	Québec	Ukraine
Israel	Russia	United States

¹ The agreement concluded with the former Socialist Federal Republic of Yugoslavia applies

Appendix 2: Moore Stephens around the world

Moore Stephens member firms may be found in 107 countries and territories around the world, with correspondent firms in another eight. For more details, see www.moorestephens.com under “Locations”.

Albania	Ecuador	Liechtenstein*	Saudi Arabia
Argentina	Egypt	Lithuania	Serbia
Australia	El Salvador*	Luxembourg	Seychelles
Austria	Finland	Macedonia	Singapore
Azerbaijan	France	Malaysia	Slovakia
Bahamas	Germany	Malta	South Africa
Bahrain	Ghana*	Mauritius	South Korea
Bangladesh	Gibraltar	Mexico	Spain
Belgium	Greece	Moldova	Sri Lanka*
Belize	Guatemala	Monaco	Suriname
Bermuda	Guernsey	Mongolia*	Sweden
Bolivia	Honduras	Morocco	Switzerland
Brazil	Hong Kong	Nepal*	Taiwan
British Virgin Islands	Hungary	Netherlands	Tajikistan*
Bulgaria	India	New Zealand	Thailand
Burundi	Indonesia	Nicaragua	Tunisia
Cambodia*	Iraq	Nigeria	Turkey
Canada	Ireland	Norway	Uganda
Cayman Islands	Isle of Man	Oman	Ukraine
Chile	Israel	Pakistan	United Arab Emirates
China	Italy	Panama*	United Kingdom
Colombia	Japan	Paraguay	United States
DR Congo	Jersey	Peru	Uruguay
Costa Rica	Jordan	Philippines	Venezuela
Croatia	Kazakhstan	Poland	Vietnam
Cyprus	Kenya	Portugal	Yemen
Czech Republic	Kuwait	Qatar	Zambia
Denmark	Latvia	Romania	Zimbabwe*
Dominican Republic	Lebanon	Russia	

*denotes a correspondent firm only

For more detail, see www.moorestephens.com under ‘Locations’.

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