Taxation and Investment in Czech Republic 2017

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The Czech Republic is a parliamentary democracy. The National Legislature consists of two houses: the lower house, the Chamber of Deputies, which has 200 members; and the upper house, the Senate, with 81 members. The president is the formal head of state and the prime minister is the head of government. The Czech Republic is divided into 14 regions.

The Czech Republic is a member of the European Union (EU). As an EU member state, the Czech Republic is required to comply with all EU directives and regulations, which it follows with regard to trade treaties, import regulations, customs duties, agricultural agreements, import quotas, rules of origin and other trade regulations. The EU has a single external tariff and a single market within its external borders. Restrictions on imports and exports apply to items such as dual-use technology, protected species and some sensitive products from emerging economies. Companies operating in the Czech Republic have access to a tariff-free market of consumers through the country's membership of the EU, and free trade with Iceland, Liechtenstein, Norway and Switzerland through other agreements.

EU member states

Austria	Estonia	Italy	Portugal
Belgium	Finland	Latvia	Romania
Bulgaria	France	Lithuania	Slovakia
Croatia	Germany	Luxembourg	Slovenia
Cyprus	Greece	Malta	Spain
Czech Republic	Hungary	Netherlands	Sweden
Denmark	Ireland	Poland	United Kingdom*

EU candidate countries

Albania	Macedonia	Montenegro	Serbia
Turkey			

European Economic Area (EEA) member states

EU member states	Iceland	Liechtenstein	Norway

* In a referendum on 23 June 2016, the UK electorate voted to leave the EU, but the UK will remain an EU member state until a secession agreement is concluded with the EU. The formal process to begin negotiations to exit the EU was started on 29 March 2017 when article 50 of the Treaty of Lisbon was formally triggered by the UK.

The Czech Republic also is a member of the OECD and the World Trade Organization (WTO).

OECD member countries

Australia	France	Korea (ROK)	Slovakia
Austria	Germany	Latvia	Slovenia
Belgium	Greece	Luxembourg	Spain
Canada	Hungary	Mexico	Sweden
Chile	Iceland	Netherlands	Switzerland
Czech Republic	Ireland	New Zealand	Turkey
Denmark	Israel	Norway	United Kingdom

Estonia	Italy	Poland	United States
Finland	Japan	Portugal	
Enhanced engagement countries			
Brazil	China	India	Indonesia
South Africa			
OECD accession candidate countries			
Colombia	Costa Rica	Lithuania	

The Czech Republic's economy is driven primarily by exports to the EU, particularly Germany, and increased foreign and domestic investment. The country's main imports are machinery, industrial goods, semi-finished products, chemicals and natural resources (mainly fossil fuels). The main exports are cars, semi-finished products, electronic products and chemicals.

Price controls

The Act on Prices is the basic legislative framework for price controls, although other laws also apply. The Ministry of Finance (or, in the field of pharmaceuticals, the Ministry of Health) can set prices directly, specify minimum or maximum prices in the case of unprecedented market situations or to limit economic competition and establish periods when prices may not change. The ministries can require sellers deemed to be in a position of market dominance to provide one month's notice of any planned price changes. The government publishes a list of goods and services to which price regulations apply.

Despite its relatively broad powers in this area, the government favors a *laissez-faire* pricing policy on many products. Goods and services still subject to controls primarily include some raw materials, domestic rent, pharmaceuticals and rail and bus transport. Maximum prices apply to mail and telecommunications tariffs.

Intellectual property

Czech intellectual property law generally is similar to legislation in other EU member states and is fully aligned with relevant EU legislation. Relevant legislation protects copyrights, patents, trademarks, etc. The most important domestic legislation includes the Authors Act, the Act on Patents and the Act on Trademarks.

The Czech Republic is a member of the World Intellectual Property Organization (WIPO) and is a party to international treaties administered by the WIPO (such as the Paris Convention and the two Madrid Agreements), the Trade-Related Aspects of Intellectual Property Rights agreement concluded through the platform of the WTO, the European Patent Convention and various other agreements.

1.2 Currency

The currency is the Czech koruna (CZK). The Czech Republic is not part of the Eurozone.

1.3 Banking and financing

With the Czech Republic's accession to the EU in 2004, several banks gained a foothold in the country without having to obtain a local license. Based on the EU's unified banking license rules, these banks informed the Czech National Bank (central bank) of their option to exercise the freedom to provide services within the Czech Republic on a cross-border basis (without the establishment of branches). The central bank of the Czech Republic must approve any purchase of bank shares by foreigners.

The minimum capital requirement for new banks is CZK 500 million. An acquisition of more than 20% of the registered capital or voting rights of a bank by a legal entity requires approval by the central bank of the Czech Republic.

The financial center of the Czech Republic is Prague.

1.4 Foreign investment

The Civil Code and the Act on Business Corporations set out the main legal framework for doing business in the Czech Republic. No restrictions are imposed on the import or export of capital. The government offers economic incentives, in line with EU law, to encourage investment in certain industries and regions. No special government approval is required for most types of foreign investment.

1.5 Tax incentives

Grants are a direct form of business support, and are crucial financial tools that enable effective co-funding through state budget resources and EU funds. The main focuses of support for grants include R&D projects, purchases of new technologies and information technology, renovation of real estate, environmental reclamation, energy savings, education and training, and establishment or expansion of shared services centers. Cash grants may be provided in the range of 40% to 100% of total project costs.

Indirect forms of business support can include tax allowances for R&D activities, as well as investment incentives for the establishment or expansion of production, technological centers or strategic service centers (strategic centers include shared services centers, software development centers or high-tech repair centers) in the Czech Republic. As part of a tax allowance, the taxpayer’s tax base can be reduced by the costs of R&D activities. Investment incentives are available in certain circumstances and include, for example, a 10-year tax relief, job creation grants, grants for retraining employees and property-related incentives.

1.6 Exchange controls

The central bank is responsible for overseeing and administering foreign exchange policy. Guidelines for exchange controls are set out in the Foreign Exchange Act. There are no restrictions on nonresidents holding local currency.

The Czech koruna is freely convertible into foreign currency for current account transactions, including day-to-day and business transactions. Nonresidents, including individuals and branches of foreign firms, may repatriate the koruna in a foreign currency or transfer funds from a koruna account to a destination abroad without restriction. This includes the repatriation of profits.

2.0 Setting up a business

2.1 Principal forms of business entity

The Czech Republic Act on Business Corporations recognizes a variety of legal entities and forms of business vehicle through which it is possible to do business in the country. The most common forms of business vehicle are the joint stock company (a.s.), limited liability company (s.r.o), limited commercial partnership (k.s.), general commercial partnership (v.o.s.), cooperative and branch of a foreign company.

The *Societas Europaea* (SE) company form also is available. The SE is designed to enable companies to operate across the EU with a single legal structure, to facilitate mergers and to create flexibility for companies that want to move their head office from one EU state to another. Companies from two or more EU member states are permitted to merge to form an SE or create an SE holding company or branch. A company may convert an existing entity to SE status without liquidating.

Businesses can establish as a European Economic Interest Grouping (EEIG). Companies (even non-EU companies, if the vehicle is a subsidiary in an EU country) that want to start working with a Czech company but do not want to commit to a formal joint venture, may set up an EEIG. The grouping functions much like a partnership in that the income is taxed in the hands of the member companies. At least two of the companies involved must be from different EU member states.

Formalities for setting up a company

The basic legislative framework governing the establishment of companies is Act No. 90/2012 Coll., the Act on Business Companies and Cooperatives (Act on Business Corporations), as amended, and Act No. 89/2012 Coll., the Civil Code, as amended, which contains fundamental provisions on the formation and structure of companies, partnerships and cooperatives.

Unless otherwise provided in the Act on Business Corporations, a company with more than one founder is established on the basis of a memorandum of association, signed by all of the founders. If there is only one founder, the founding document is a founding deed. The founding document of a limited liability company or a joint stock company must be executed in the form of a notarial deed.

Companies with their seat in the Czech Republic, foreign companies operating in the Czech market or branches of foreign entities established in the Czech Republic must register with the Commercial Register. A court generally should consider the application within five business days.

A company officially comes into being on the day of its incorporation in the Commercial Register. The application for entry in the Commercial Register must be filed with the registration court within six months of the company's formation. The following documents are required for registration of a company:

- A founding document (memorandum of association or founding deed);
- An original record of the founders' registration in the Commercial Register;
- Consent of the owner of the property where the official seat of the company is to be registered, together with the relevant land registry certificate;
- Trade licenses or other relevant licenses (depending on the nature of the business);
- Declaration of the contributions administrator evidencing payment of the contributions of the founders;
- A sworn affidavit, signed by the company's executive, declaring that legal requirements for performance of its office have been met;
- A clear criminal record certificate (police statement) of the company's statutory body; and
- Other documents, in particular cases.

Signatures on many of the above documents must be notarized.

An entity or individual intending to conduct regular business activities in the Czech Republic must obtain a business license. For many activities, a trade license obtained from the relevant Trade Licensing Office is sufficient. A single trade license is sufficient to conduct most business activities. An entity carrying out a trade may be required to appoint an authorized representative who is responsible for ensuring that the entity complies with Czech legislation.

Requirements for a.s. and s.r.o

Capital: *AS*: The minimum registered capital is CZK 2 million. At the time of incorporation (the day of the company's entry into the Commercial Register), at least 30% of the registered capital must be fully paid-up. The share capital of the company must be secured completely by subscription. A shareholder's investment contribution in a company is the aggregate of its pecuniary funds ("a monetary investment contribution") and/or another asset appraisable in money ("a nonmonetary investment contribution" or "in-kind investment contribution"). The value of a nonmonetary contribution to an AS (or an SRO) must be based on a report drawn up by an independent expert. Nonmonetary contributions must be fully paid before incorporating the company. *SRO*: The minimum capital is CZK 1 (if the company has a sole shareholder) owing to the fact that the minimum investment contribution for individual equity holders in the company is CZK 1. At least 30% of each shareholder's contribution must be paid before the company is incorporated.

Founders and shareholders: *AS and SRO*: There are no restrictions on the number, nationality or residence of shareholders or founders.

Supervisory body: *AS*: An AS must have a supervisory board of at least one member elected by the shareholders at the general meeting. The shareholders may not elect a person who is a member of the company's board of directors. *SRO*: The format is flexible. A supervisory board may be set up but is not required.

Statutory body: *AS*: The statutory (executive) body of the company represents the board of directors. The directors are elected by the shareholders at the general meeting for a term of one year, unless the decision of the general meeting or the articles of association stipulate otherwise. The board of directors is responsible for the day-to-day management of the company, preparation of annual financial statements and corporate reports, and maintenance of the company's accounts. Without the consent of the shareholders, a member of the board of directors may not operate a business similar to or be an executive officer of another company with a scope of activity similar to that of the company of which he is a board member or be a member with unlimited liability. *SRO*: The statutory body of the company is one or more executives elected at the company's general meeting.

It is possible to set up the internal structure of corporate bodies with the administrative board as the main managing body of the company and the single statutory director as the statutory body. The chairman of the administrative board also can be the statutory director. The rules regarding the board of directors generally will apply to the statutory director and the rules regarding the supervisory board will apply to the administrative board.

Taxes and fees on incorporation: *Both*: The court registration fee for the incorporation of an AS is CZK 12,000; for an SRO it is CZK 6,000, not including fees for the notary or trade license fees (if required).

Types of share: *AS*: Shares may be registered or bearer. Registered shares may be issued in certificate form or in book-entry form. Bearer shares may be issued only in book-entry form. The issue price of a share may not be lower than its nominal value. There is no minimum value or further limitation placed on the value of shares. *SRO*: The registered capital in an SRO is comprised of investment contributions of the members. The minimum investment contribution of one shareholder into an SRO is CZK 1. There are no specific restrictions on the total amount of the registered capital (sum of investment contributions). It is possible to set up different types of share having different rights and obligations.

Control: *AS*: A simple majority of voting shares generally is sufficient for most decisions. In some cases, a two-thirds or three-quarters majority is required. Minority shareholders may have special rights (e.g. to request from the board of directors that certain items be added to the agenda of a general meeting or that the management of the company be investigated). A quorum is obtained at the general meeting when shareholders holding at least 30% of the company's equity are present. *SRO*: A simple majority generally is sufficient for most decisions but a two-thirds or three-quarters majority may be required for certain decisions. A general meeting is quorate if shareholders holding at least 50% of all the votes are present. The founding deed of the company or articles of association may stipulate different rules; however, the rights of minority shareholders must be respected.

Branch of a foreign corporation

A foreign company may establish a branch in the Czech Republic, but a branch may engage only in activities for which it has an appropriate trade license or similar business authorization (if necessary, depending on the scope of the business activity of the branch). The incorporation process is similar to the process of incorporation of a company, although the founding document does not need to be executed by a notary public. A branch of a foreign company resident outside the EU must be registered in the Commercial Register. Registration of a branch of an EU company is optional but usually is done.

Branches are taxed on Czech-source income at the normal corporate rate. There is no special branch profits tax.

Since a branch is not a separate legal entity, the founder of the branch remains the subject of all contractual and other relationships and assumes the resulting rights and liabilities.

It also is possible to operate in the Czech Republic as a representative office; however, representative offices are not explicitly regulated by law and there is often a very narrow line between a representative office and the obligation to establish a branch. Generally, a representative office must not perform or be involved in a real business, which means that only general marketing or, in some cases, targeting activities are acceptable. The possibility of operating as a representative office should be considered from a legal point of view on an individual basis.

2.2 Regulation of business

Mergers and acquisitions

Mergers and acquisitions primarily are regulated by Act No. 125/2008, on the Transformations of Business Companies and Cooperatives (the Act), as amended, which implemented EU directive 2005/56/EC on cross-border mergers of limited liability companies and 2011/35/EU on mergers of public limited liability companies. The Act governs both domestic and cross-border transformations, i.e. cross-border mergers, demergers and transfers of the registered seat.

The following methods of domestic company transformation are possible in the Czech Republic: merger; demerger; transfer of business assets to a shareholder; and conversion of legal form.

A merger may be effected by an acquisition, where one or more companies cease to exist and all assets and liabilities (including rights and obligations from labor law relations) pass to the successor company. A merger also may be effected by the formation of a new company, where two or more companies cease to exist and their business assets and liabilities (including rights and obligations from labor law relations) pass to a newly formed company.

A demerger may be effected as a division by the formation of new companies, where a company is dissolved and all its assets and liabilities (including rights and obligations from labor law relations) are split between the (two or more) newly formed successor companies, based on the demerger project. Alternatively, a demerger may occur through an acquisition, where the assets and liabilities (including rights and obligations from labor law relations) of the dissolving company pass to (two or more) existing companies based on the contract on demerger, or by combination of these two methods. A demerger may be effected through a spinoff. Unlike a simple demerger, the divided company does not cease to exist—only some of its assets and liabilities are transferred to one or more newly established companies (demerger by spinoff with the formation of a new company or companies) or simultaneously merged with an existing company (demerger by spinoff by acquisition). A combination of a demerger by spinoff with the formation of a new company or companies and a demerger by spinoff by acquisition also is possible.

A transfer (takeover) of business assets is possible where one shareholder (a company or an individual residing in the Czech Republic) holds more than 90% of the shares in a joint stock company or a limited liability company. As in the case of a merger, the company is dissolved without liquidation and all its assets and liabilities (including rights and obligations from labor law relations) pass to the main shareholder. Subsequently, the minority shareholders are paid out by the main shareholder, based on a valuation report made by a court-appointed expert and defined in the takeover contract.

The above transformations, which generally are tax neutral, require compliance with complex legal and tax procedures.

The EU merger control regulation also governs mergers or other concentrations in the Czech Republic. The Commission of the EU has jurisdiction in two cases:

1) Where the combined aggregate worldwide turnover of all of the undertakings concerned is more than EUR 5 billion and the aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 250 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state; and

2) Where the aggregate global turnover of the undertakings concerned exceeds EUR 2.5 billion for all businesses involved, aggregate global turnover in at least three member states is more than EUR 100 million, aggregate turnover of at least two undertakings in each of these three member states is more than EUR 25 million and aggregate EU-wide turnover of at least two of the undertakings is more than EUR 100 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state.

If a merger normally would not fall within the European Commission's purview, the affected companies may ask the commission to review it if they otherwise would be obliged to notify three or more member states' authorities. The Commission proceeds as a "one-stop shop" only if none of the relevant member states' authorities objects within 15 days.

If the thresholds for EU jurisdiction (and application of EU Merger Control Regulation) are not met, the following transactions are considered a concentration of undertakings falling within the jurisdiction of the Office for the Protection of Competition (UOHS), the state agency that oversees economic competition in the Czech Republic:

- A merger of one or more undertakings previously operating independently in the market;
- The acquisition by a business of another undertaking or a part thereof;
- A situation in which one or more persons who are not entrepreneurs already control at least one undertaking, or if one or more entrepreneurs acquire the possibility to directly or indirectly control another undertaking; or
- The establishment of joint control over an undertaking (joint venture).

A concentration of undertakings generally is subject to UOHS approval if either of the following apply: (i) the total net turnover achieved in the Czech market in the last accounting period of all undertakings concerned exceeds CZK 1.5 billion and each of at least two of the undertakings concerned achieved a net turnover in the Czech market exceeding CZK 250 million in the last accounting period; or (ii) the net turnover achieved in the Czech market in the last accounting period by one of the undertakings is higher than CZK 1.5 billion and, at the same time, the worldwide net turnover achieved in the last accounting period by another undertaking concerned exceeds CZK 1.5 billion.

Monopolies and restraint of trade

The Act on Protection of Competition addresses agreements between undertakings, abuse of dominant positions of undertakings and concentration of undertakings (takeovers of independent competitors, as described above).

Agreements (both horizontal and vertical) leading to the distortion of economic competition generally are prohibited. This does not apply to insignificant agreements, agreements where the UOHS or the European Commission grant an exception and agreements allowed under EU law (e.g. so-called block exemptions applicable to certain types of agreement or industry sector).

Market dominance is defined as a market position that enables one or more undertakings to behave, to a significant extent, independently of other undertakings or consumers. A dominant market share is considered to be 40%, unless proven to the contrary. Abuse of a dominant position to the detriment of other undertakings or consumers is prohibited.

2.3 Accounting, filing and auditing requirements

Czech GAAP applies. Financial statements must be prepared annually. Publicly traded companies must apply IFRS, as governed by the relevant EU directive, for their books of account and for preparing financial statements. Joint stock companies must prepare audited financial statements if they satisfy one of the following conditions (or two of three conditions, for limited liability companies): (1) the accounting value of assets exceeds CZK 40 million; (2) net annual turnover exceeds CZK 80 million; or (3) the average number of employees exceeds 50.

3.0 Business taxation

3.1 Overview

The principal taxes applicable to companies in the Czech Republic are the corporate income tax, withholding tax, value added tax (VAT), social security contributions, road tax and real property tax. There is no branch profits tax, excess profits tax or alternative minimum tax.

The Czech Republic has transfer pricing and thin capitalization rules and an extensive network of tax treaties that aim to eliminate double taxation.

The Czech Republic has implemented the EU parent-subsidiary (PSD), interest and royalties, and merger directives. The Czech Republic also has implemented the new mutual assistance directive on the mandatory exchange of information through some rearrangement of existing provisions in Czech tax legislation.

The parliament is responsible for passing laws, but a law must be authenticated by the president before it can enter into force; the law is then published in the official journal.

Czech Republic Quick Tax Facts for Companies	
Corporate income tax rate	19% (5% for some types of funds, etc.)
Branch tax rate	19%
Capital gains tax rate	0%/19%
Basis	Worldwide basis
Participation exemption	Yes
Loss relief	
• Carryforward	Five years
• Carryback	No
Double taxation relief	Yes
Tax consolidation	No
Transfer pricing rules	Yes
Thin capitalization rules	Yes
Controlled foreign company rules	No
Tax year	Calendar year or fiscal year
Advance payment of tax	Yes
Return due date	First day of fourth month/seventh month after end of tax year
Withholding tax	
• Dividends	15%/35%
• Interest	15%/35%
• Royalties	15%/35%
• Technical service fees	15%/35%
• Branch remittance tax	No
Capital tax	No
Social security and health insurance (employer)	34% (partially capped)
Real estate tax	Varies
Transfer tax	4% (transfers of real estate)

VAT (standard rate)	21% (standard rate)/15%, 10%, 0% (reduced rates)

3.2 Residence

A corporation is resident if it is incorporated or managed and controlled in the Czech Republic.

3.3 Taxable income and rates

Residents are taxed on worldwide income; nonresidents are taxed only on Czech-source income. Foreign-source income derived by residents is subject to corporate income tax in the same way as Czech-source income. Branches are taxed the same way as subsidiaries.

The standard corporate income tax rate is 19%, with a reduced rate of 5% applying to income from investment funds (funds listed on a regulated stock market within the EU) and a reduced rate of 0% for pension funds. Investment income received by Czech companies from abroad forms a separate tax base that is taxed at 15%. The income tax rate is the same for foreign and domestic investors. Branches are taxed at the same rate as domestic companies.

Taxable income defined

Corporate income tax is levied on the worldwide income and capital gains of resident taxpayers, and is assessed on the basis of a company's annual net profits minus deductible expenses. Nonresident companies are taxed only on Czech-source income.

A participation exemption applies to dividends (and capital gains) on qualifying shareholdings. Dividend distributions between Czech companies are exempt from tax if the parent company maintains a holding in the subsidiary (with the subsidiary and parent company having the prescribed legal form) of at least 10% of the distributing company for an uninterrupted period of at least 12 months.

Foreign-source dividends derived by a Czech resident company generally constitute a separate tax base subject to tax at 15%. If the EU PSD directive applies, however, foreign-source dividends paid by an EU (or EEA) subsidiary to its Czech parent company are exempt from tax in the Czech Republic, provided the following requirements are met:

- Both the subsidiary and the parent have one of the forms listed in the directive and are subject to a corporate income tax listed in the directive, with no possibility of opting for zero taxation or of being exempt; and
- The Czech parent company holds at least 10% of the capital of the subsidiary for an uninterrupted period of at least 12 months (although the holding period requirement can be satisfied subsequently if it is likely that the requirement will be met).

The exemption also applies to dividends received from non-EU/EEA resident subsidiaries, provided the holding requirement is met and the subsidiary has a legal form comparable to a Czech joint stock company, limited liability company or a cooperative; is resident in a country that has concluded a tax treaty with the Czech Republic; and is subject to a corporate income tax of at least 12%.

Deductions

Deductions are permitted for operating expenses, including payments for transfers of know-how, losses and most tax payments other than the corporate tax itself. Firms generally may deduct charitable donations exceeding CZK 2,000 up to 10% of the tax base, subject to certain conditions.

The costs of low-value fixed assets, as well as travel expenses up to statutory limits and lease payments, generally are deductible. Bad debts are deductible when court proceedings are completed, when a debtor goes into bankruptcy or when bankruptcy is rejected for lack of assets.

Special (additional) deductions are available for qualifying R&D expenses. To claim the special tax deduction, the taxpayer must record the expenses separately from the company's main operations, and the expenses must be incurred on activities that meet the legal definition of R&D.

Nondeductible expenses include the cost of purchasing securities and entertainment expenses.

Depreciation

Assets valued at more than CZK 40,000 may be depreciated for tax purposes under the straight-line method, the accelerated method or the extraordinary depreciation method. The accelerated method is based on a formula that uses division coefficients that vary according to the category of the asset. Once a method is chosen, it applies during the life of the asset.

Tangible fixed assets have six categories, with corresponding depreciation periods of three, five, 10, 20, 30 and 50 years. The categories mainly reflect the regular expected lifetime of an asset. For example, the first category (three years) pertains to equipment such as tools and computers. Cars, vans, aircraft, tractors, lorries and furniture are depreciated over five years. Heavy machinery is depreciated over 10 years. Wooden buildings, pipelines, buildings for the production of energy, and buildings and halls built near mines, are depreciated over 20 years. Buildings (excluding those depreciated for 20 and 50 years), motorways, tunnels, bridges and suspended highways are depreciated over 30 years. Hotels and similar buildings, administrative buildings, department store buildings, buildings for social and cultural purposes, museums and libraries are depreciated over 50 years. Assets that cannot be classified in any of these categories are usually included in the second category, with a depreciation schedule of five years.

Intangible assets generally are depreciated on a straight-line basis over the period of use agreed in the relevant contract. However, where such a contract has not been concluded for a definite period, the depreciation is three years for software, five years for incorporation expenses and six years for all other intangible assets.

Certain assets used for generating solar electricity and related amendments of finance lease terms must be depreciated on a monthly basis without interruption, up to 100% of the input price over a period of 240 months. The taxpayer must start the depreciation in the month following the month in which the depreciation conditions are fulfilled. Technical improvement increases the input price of these assets; the taxpayer applies depreciation to the increased input price over a minimum of 120 months.

Provisions

The creation of provisions (reserves) generally is nondeductible. However, where certain conditions stipulated by the Act on Tax Reserves are satisfied, the creation of provisions for nonstatute-barred receivables from an unrelated party can be tax deductible, including provisions of up to:

- 100% for a receivable from a debtor that is in insolvency proceedings, if the receivable is claimed;
- 100% for a receivable up to CZK 30,000 that is more than 12 months overdue; and
- 50% of the book value of a receivable that is more than 18 months overdue and 100% of the book value of a receivable that is more than 30 months overdue. The rule applies to provisions for receivables which arose after 31 December 2014. Different rules apply for creation of provisions in respect of receivables that arose before 1 January 2015.

Other rules apply to provisions created by banks and insurance companies.

Losses

Losses may be carried forward for five years but they may not be carried back. The deduction of losses is restricted where there has been a significant change (more than 25%) in the structure of persons or entities directly participating in the equity/share capital that controls the loss-making company, or if a merger was carried out, unless 80% of the income in the period in which the loss is used is derived from the same activities as those in the period in which the loss was declared (i.e. same activity test).

3.4 Capital gains taxation

For tax residents, gains derived from the sale of assets generally are included with other taxable income and taxed at the regular corporate income tax rate. Capital gains on the sale of shares and participations in companies resident in the EU/EEA are exempt from tax if conditions similar to those required to qualify for the dividend exemption under the PSD are satisfied.

Other capital gains are exempt if derived from the sale of a subsidiary that: is tax resident in a non-EU country with which the Czech Republic has concluded a tax treaty; has a specific legal form; satisfies the conditions for the dividend exemption (similar to those of the EU PSD); and is subject to a tax in its home country similar to the Czech corporate income tax, at a rate of at least 12%.

If a foreign owner sells an investment in a company based in the Czech Republic, any gains will be subject to tax as part of the aggregate tax base, regardless of where the purchaser is resident, unless otherwise provided in an applicable tax treaty. An exemption applies when the seller is an EU/EEA resident company that has an eligible legal form and that holds at least 10% of the company sold for an uninterrupted period of at least 12 months.

3.5 Double taxation relief

Unilateral relief

Relief for foreign tax paid is available only under tax treaties. If relief is not available under a treaty, income tax paid abroad may be deducted as an expense in the following year, provided it is imposed on income included in Czech taxable income.

Tax treaties

The Czech Republic has a broad tax treaty network, with many treaties following the OECD model treaty. Treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other and protect companies resident in one country from discriminatory taxation in the other. Czech treaties generally contain OECD-compliant exchange of information provisions.

To obtain benefits under an applicable tax treaty, a beneficial ownership declaration and a certificate of tax residence for the income recipient must be available.

The Czech Republic was one of the 68 countries that signed the OECD multilateral instrument on 7 June 2017.

Czech Republic Tax Treaty Network

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

Ethiopia	Lebanon	Russia	Vietnam

*The treaty with the former Serbia and Montenegro continues to apply.

3.6 Anti-avoidance rules

Transfer pricing

Related party transactions must be conducted at arm's length. Parties are related if one party has direct or indirect ownership of more than 25% of the capital or voting rights of the other party, or if one entity participates in the management or control of the other entity.

Accepted transfer pricing methods are the comparable uncontrolled price, resale price, cost plus, profit split and transactional net margin methods. The most reasonable method should apply, taking into account the specific circumstances of a transaction.

If the prices between related entities differ from those contracted with unrelated parties under the same or similar conditions and the difference is not properly documented, the Czech tax authorities may adjust the taxpayer's income tax base. In applying the arm´s length standard, the Czech Republic has implemented the OECD transfer pricing guidelines.

There is no legally binding provision on the obligatory scope of transfer pricing documentation. The OECD guidelines generally are followed. There is no statutory deadline for the submission of documentation; the tax authorities may request documentation during a tax audit.

Certain companies are required to provide in an appendix to the income tax return details of all related party transactions that took place during the tax year.

Advance pricing agreements may be obtained from the tax authorities.

Country-by-country (CbC) reporting

As a consequence of the OECD BEPS report on action 13, a CbC reporting obligation is imposed on multinational groups with a minimum annual consolidated turnover of EUR 750 million. Only a limited number of companies with their seat in the Czech Republic will have the obligation to complete a CbC report and submit it regularly to the Czech tax administration. Proposals to implement CbC reporting are undergoing the required legislative process. Under the proposals, the first notification obligation deadline would be 31 January 2018 and the filing obligation deadline for the first reporting period (2016) would be 30 April 2018 at the earliest.

The Czech Ministry of Finance has signed the Multilateral Competent Authority Agreement (MCAA) on the automatic exchange of CbC reporting information but the signing of the MCAA assumes the adoption of related legislation at the local level.

The Czech Republic will more often act as a recipient of CbC reports and the automatic exchange of such information will become one of the important information sources for the Czech Tax Administration in conducting a risk analysis for transfer pricing purposes.

Thin capitalization

Thin capitalization rules are applied to related persons and to loans and credits from unrelated parties if the related parties are obliged to grant a directly related loan or borrowing to an unrelated party ("back-to-back financing"). The proportion of loans and borrowings to equity must not exceed 4:1 (6:1 if the debtor is a bank or insurance company). Financial expenses related to loans and credits where the interest or the maturity is derived from the profit of the debtor are fully nondeductible.

Controlled foreign companies

The Czech Republic does not have CFC rules.

General anti-avoidance rule

The Tax Procedure Code stipulates a substance-over-form rule. Additionally, the Czech Supreme Administrative Court has, in principle, adopted the abuse-of-law doctrine developed by the Court of Justice of the European Union.

BEPS

The following table summarizes the steps the Czech Republic has taken to date to implement the BEPS recommendations:

Action	Implementation
VAT on business to customers digital services (Action 1)	The EU VAT directive applies and is already implemented into domestic law.
Hybrids (Action 2)	The Czech Republic has implemented the anti-hybrid rules in the amended EU PSD into its domestic law. This law denies an exemption for dividend income received where the dividends are tax deductible for the payer company. As an EU member state, the Czech Republic is subject to the two EU anti-tax avoidance directives (ATAD and ATAD 2) and, therefore, is required to implement the directives into its domestic law. The ATAD and ATAD 2 include anti-hybrid rules that cover hybrid mismatches between EU member states, and between EU member states and non-member states. Member states are required to adopt the domestic legislation necessary to comply with the directives by 31 December 2019 (with an extension until 31 December 2021 for the reverse hybrid provisions) On 9 March 2017, the parliament approved the draft EU Council Directive on hybrid mismatches.
CFCs (Action 3)	As an EU member state, the Czech Republic is subject to the ATAD, which must be implemented into domestic law by 31 December 2018 and contains minimum standard provisions for CFC rules.
Interest deductions (Action 4)	The Czech Republic already has thin capitalization rules but it is unclear whether these rules will be amended as a result of the final G20/OECD BEPS recommendations. As an EU member state, the Czech Republic is subject to the ATAD, which must be implemented into domestic law by 31 December 2018. The ATAD includes an interest limitation provision to discourage artificial debt arrangements designed to minimize taxes, although a transition period may apply for member states that already have national, targeted rules for preventing BEPS that are equally effective as action 4. The transition period lasts until 31 December 2023.
Harmful tax practices (Action 5)	The Czech Republic has implemented the EU directive on administrative cooperation in the field of taxation regarding the exchange of tax rulings (EU DAC III), with effect from 1 April 2017. The exchange will take place on a biannual basis, with one-time information exchanges taking place in respect of rulings issued between 1 January 2012 and 31 December 2013, providing they were effective on 1 January 2014. Information also will be exchanged on rulings issued between 1 January 2014 and 31 December 2016. The Czech Republic does not have a patent box regime.
Prevent treaty abuse (Action 6)	Measures should be implemented based on the MLI (principal purpose test), see action 15.
Permanent establishment status (Action 7)	Measures should be implemented based on the MLI, see action 15.
Transfer pricing (Actions 8-10)	The OECD transfer pricing guidelines are directly applied in administrative tax practice through the

	general provision on transfer pricing (contained in the Income Taxes Act). The Czech tax authorities typically focus on the economic substance of transactions. The introduction of specific measures generally follows updates to the OECD guidelines.
Disclosure of aggressive tax planning (Action 12)	Not yet known.
Transfer pricing documentation (Action 13)	The Czech Republic does not impose any obligation to maintain transfer pricing documentation; in practice, the OECD transfer pricing guidelines and EU master file concept are followed. The tax authorities have not announced any specific measures relating to transfer pricing documentation requirements under action 13, although the master file/local file approach is recommended and is broadly applicable in practice.
CbC reporting (Action 13)	Legislation implementing CbC reporting in Czech tax practice is still in the proposal stage and should be applicable as from 5 June 2017. The proposed rules generally follow the OECD/EU standards. The Czech Republic has signed the multilateral competent authority agreement for the automatic exchange of CbC reports.
Dispute resolution (Action 14)	On 9 March 2017, the Czech Parliament approved the draft EU Council Directive on double taxation dispute resolution mechanisms in the EU.
Multilateral instrument (Action 15)	The Czech Republic signed the multilateral instrument (MLI) on 7 June 2017, although only the minimum standard articles are expected to be implemented (i.e. articles 6, 7 (principal purpose test) and 16). There currently is public discussion about the MLI and further details regarding the practical implementation of the changes have not been released.

3.7 Administration

Tax year

The tax year for corporations can be a calendar year, an economic year, a period from the key date of a merger to the end of the calendar or economic year when the merger becomes effective, or an accounting period exceeding 12 months. An economic year is a 12-month period that starts on the first day of any month except January.

Filing and payment

The standard deadline for filing a tax return is the first day of the fourth month following the end of the taxable period (tax year). This deadline is extended to the first day of the seventh month where the tax return is prepared and submitted by a registered tax advisor under a power of attorney. The power of attorney must be filed with the tax office before the standard filing deadline. The deadline for companies that are subject to statutory audits is automatically extended to the first day of the seventh month after the end of the taxable period. At the company’s request, an additional three-month extension to the filing deadline may be granted at the discretion of the tax authorities.

Electronic submission of the tax return and certain other filings is mandatory for taxpayers that are either audited companies or that have an activated data box (essentially, a statutory authorized electronic storage site used for two-way communication with public authorities) or that are represented by a representative under a power of attorney (tax advisor, attorney-at-law, etc.) with an activated data box.

Any tax liability is due on the deadline for filing the tax return. Additionally, two or four advance payments are required, depending on the tax liability for the previous tax year.

Penalties apply for the late filing of returns leading to an additional tax assessment by the tax office and for the failure to fulfill some nonmonetary tax obligations. The penalty for late filing is 0.05% of the tax assessed for each day of the delay, starting from the sixth business day following the deadline for submission of a tax return and is capped at CZK 300,000. The penalty may be reduced by 50% in some cases. The penalty where a formal additional tax assessment is raised is calculated as 20% of any additional tax or 1% of any reduction in the tax assessed where the revised assessment results in a reduction of the overall tax liability. Penalties also apply for the late payment of tax. The default interest annual rate is set as the repo rate of the Czech National Bank, plus 14%. The repo rate used for the calculation of interest is checked and updated every six months whilst the tax is unpaid but the current rate of 0.05% has remained unchanged since November 2012. A penalty of up to CZK 500,000 may be imposed on a taxpayer for noncompliance with registration, recording or reporting obligations.

Up to 75% of a penalty for a formal additional tax assessment may be remitted if the additional tax assessed is paid. The full amount of the default interest may be remitted if the overdue tax is paid. Remission of both the penalty and the default interest rely on specific conditions stipulated by tax authority being fulfilled.

Consolidated returns

No provision is made for group taxation or group treatment; all entities are taxed separately and must file a separate return.

Statute of limitations

Tax may not be assessed after three years from the date the tax return should have been filed or tax should have been paid. The three-year assessment period may be extended for an additional year in certain cases (i.e. filing a supplementary tax return, invoking extraordinary appeals, etc.) or may start to run anew (e.g. in the case of the commencement of a tax audit). The Income Tax Act stipulates a longer period for tax assessment for taxpayers that benefit from investment incentives (tax relief), that incurred tax losses or that are lessees of a financial lease contract. The statute of limitations for the collection and enforcement of payment of underpaid tax (i.e. assessed tax) is six years from the respective tax liability due date.

Tax authorities

In general, there are four tiers of tax authority, with the Ministry of Finance being the highest authority, followed by the General Financial Directorate, the Tax Appellate Authority and the Financial Offices. There are 15 Financial Offices (including the Specialized Financial Office). Companies generally fall under a Financial Office on a territorial basis; however, the Specialized Financial Office administers selected taxpayers (e.g. companies with a turnover of more than CZK 2 billion; selected financial institutions; and members of groups, according to the VAT Act) with national jurisdiction.

The tax authorities below the level of the Ministry of Finance mainly perform the following duties: tax administration; financial audits; price control; proceedings for offenses; imposing fines; collecting fees, charges, payments, fines and penalties; international assistance with tax administration and enforcement of financial claims; and control over compliance with the obligations set for accounting entities.

Rulings

Advance rulings may be obtained in specific cases, particularly for advance pricing agreements, the utilization of losses when there has been a significant change to the shareholding structure, R&D projects and the calculation of the tax base allocated to the activity of a Czech permanent establishment (PE) of a tax nonresident. The rulings are binding and effective for a maximum period of three years. If there is a change in the relevant legislation or any other key circumstances within the three-year period, the advance ruling cease to have effect.

3.8 Other taxes

The Czech Republic does not levy any other significant direct taxes on business.

A requirement for all business entities to electronically register their sales carried out by establishments in the Czech Republic is being phased in across various business sectors as follows:

- 1 December 2016 (first phase) – accommodation and food services;
- 1 March 2017 (second phase) – retail trade and wholesale;

- 1 March 2018 (third phase) – other professions (except those in the fourth phase), such as freelance professionals, transport and agriculture; and
- 1 June 2018 (fourth phase) – selected crafts and manufacturing activities.

A sale must be registered if paid in cash, by credit card or by similar means, if it results in business income that is taxable for Czech income tax purposes (and if the transaction is not specifically exempt from registration under the relevant legislation). Payments made by direct bank account transfers or bank debits do not have to be registered.

4.0 Withholding taxes

Tax residents from EU/EEA member states are entitled to file a tax return after the end of the tax period in which they are allowed to charge relevant expenses against select Czech-source income (such as interest or royalties). If the withheld tax is higher than the resulting Czech tax liability, the foreign resident has a tax overpayment and is entitled to a refund.

4.1 Dividends

Dividends paid to residents and nonresidents are subject to a final withholding tax of 15%. However, under the EU PSD, dividends paid by Czech companies to parent companies (as defined in the directive) located in other EU member states, Iceland, Norway and Switzerland are exempt from withholding tax if the parent company maintains a holding of at least 10% of the distributing company for an uninterrupted period of at least 12 months. Dividend distributions between two Czech companies are exempt from tax under similar conditions.

A 35% rate applies where dividends are paid to a jurisdiction that has not concluded a tax treaty or an agreement for the exchange of information on tax issues with the Czech Republic.

4.2 Interest

Interest paid to a nonresident is subject to a 15% withholding tax, unless the rate is reduced under a tax treaty or the interest qualifies for exemption under the EU interest and royalties directive or EU-Swiss agreement, or meets comparable requirements for payments to Iceland or Norway. Taxpayers from EU/EEA member states are allowed to file a tax return at year end to deduct costs related to interest payments.

A 35% rate applies where interest is paid to a jurisdiction that has not concluded a tax treaty or an agreement for the exchange of information on tax issues with the Czech Republic.

4.3 Royalties

Royalties paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty. Royalties paid to related party recipients in the EU, Iceland, Norway or Switzerland are exempt if the requirements for application of the EU interest and royalties directive, the EU-Swiss agreement or comparable requirements for payments to Iceland or Norway are met. Taxpayers from EU/EEA member states are allowed to file a tax return at year end to deduct costs related to royalty payments.

A 35% rate applies where royalties are paid to a jurisdiction that has not concluded a tax treaty or an agreement for the exchange of information on tax issues with the Czech Republic.

4.4 Branch remittance tax

The Czech Republic does not impose a branch remittance tax.

4.5 Wage tax/social security contributions

Tax on employment income is withheld by the employer from the employee's gross income and remitted to the tax authorities.

The employer must contribute the equivalent of 34% of gross wages to the state social security and public health insurance schemes, comprising 21.5% for pension insurance, 9% for health insurance, 2.3% for sickness insurance and 1.2% for unemployment insurance. Payments are made monthly to separate social security offices, organized by district, and to health insurance companies (with which the respective employees are registered). Employees pay an additional 11% of gross wages to the funds. A cap equal to 48 times the average monthly wage is applicable to the assessment base for social security for both employer and employee contributions. There is no maximum assessment base for health insurance purposes for employer and employee contributions.

4.6 Other

Income paid to a nonresident for technical services rendered in the Czech Republic is subject to a 15% withholding tax that generally is precluded by a tax treaty (although the treaty with India allows a 10% withholding tax) or if a service PE is created (generally after six months of rendering services in the Czech territory). In the latter case, no withholding tax applies, but the PE is taxable on a net basis at 19%.

A 35% rate applies where income for technical services is paid to a jurisdiction that has not concluded a tax treaty or an agreement for the exchange of information on tax issues with the Czech Republic (referred to in practice as a tax haven jurisdiction).

These considerations also apply to payments for other services and independent activities (e.g. commercial, consultancy and management) provided in the Czech Republic. Czech treaties do not allow withholding tax to be imposed on fees from other services or independent activities.

The 15%/35% domestic withholding tax rate also applies to rental payments for the use of movable assets in the Czech Republic (5% if payments are made for a financial lease with a subsequent purchase of the leased asset).

Additionally, payments made to a non-EU/EEA recipient from a Czech source that do not fall within any of the above categories generally are subject to a 10% tax “securement” (1% in certain cases) as an advance payment of income tax.

5.0 Indirect taxes

5.1 Value added tax

VAT is charged on the supply of most goods and the provision of services at a standard rate of 21%. A reduced rate of 15% applies to the supply of certain goods and services such as food and drinks, medical instruments, etc. and a reduced 10% rate applies to the supply of certain other goods (e.g. special nutrition for babies, certain medical drugs and books). Imported goods are assessed to VAT at the same rates as domestic goods; the export of goods to non-EU countries is an exempt supply.

Companies whose seat is in the Czech Republic with turnover exceeding CZK 1 million per 12 consecutive calendar months are required to register for VAT. Simplified registration is required if purchases from other EU countries exceed CZK 326,000 per calendar year and for some specific transactions—such as the acquisition of certain services. A company can register voluntarily, even if its turnover fails to reach the threshold, if it renders taxable supplies in the Czech Republic.

A foreign company must register once a first supply in the Czech Republic is made, unless the VAT on such a supply is reverse-charged by the recipient (which has become common since July 2016, when the reverse-charge mechanism was made applicable in the case of any goods sold by a foreign company not yet registered for VAT in the Czech Republic to a Czech VAT payer.

The VAT return must be filed and the tax paid within 25 days after the end of the taxable period. The taxable period is a calendar month or calendar quarter, depending on the taxpayer's turnover. For newly registered VAT payers, the taxable period is the calendar month.

Any person registered for VAT (whether an individual or a legal entity) must submit local sales/purchases reports that will enable the authorities to match sales with purchases, including supplies received from other EU member states and supplies for private purposes (for which only an internal document usually is issued).

The Czech VAT Act contains various simplifications, including: call-off stock simplification, triangulation simplification and self-assessment of import VAT.

The act also contains various arrangements for tackling VAT fraud, e.g.:

- Application of the domestic reverse charge mechanism to the supplies of certain goods and services (i.e. VAT is reported by the customer). From 1 July 2017, the list of such supplies is extended (e.g. to include involuntary supplies of goods).
- Requiring a guarantee for tax (special situations when the company/individual is liable for VAT not paid to the tax authority by the supplier). Lists of unreliable payers and reliable bank accounts, etc. are some of the instruments related to the application of the guarantee.

5.2 Capital tax

No capital tax is levied in the Czech Republic.

5.3 Real estate tax

Land and building owners are subject to an annual real estate tax. The tax base for land depends on the area of land occupied (residential land) or the price of land (agricultural land). The tax on buildings is assessed depending on the size of the land/building. Rates are multiplied by a coefficient of one to five, depending on the location of the property. For additional taxes on real estate, see 5.4 Transfer tax.

5.4 Transfer tax

A real estate transfer tax of 4% is levied either on the agreed purchase price or on 75% of the "market value," whichever is higher. The taxpayer usually is the vendor of the property but may be the purchaser if agreed in the purchase contract. If the transaction is not exempt from VAT, the selling price would be increased by the relevant VAT for the purposes of RETT calculation based on the interpretation of the Czech Ministry of Finance.

5.5 Stamp duty

No stamp duty is levied in the Czech Republic.

5.6 Customs and excise duties

Customs duties are imposed on the import of goods from non-EU countries. No export duties currently are in place. The Czech Republic is member of the single customs territory of the European Community, which means that trading in goods within the EU is not subject to customs duties. In addition, the Czech Republic uses EU customs classifications and tariffs.

Customs tariffs depend on the classification of goods and their origin. Various exemptions and duty-free quotas are in place. Traders also are allowed to use various customs regimes that may reduce the amount of customs duty paid in specific situations and under conditions provided by legislation.

Excise tax is imposed on entities that produce or import certain goods, particularly hydrocarbon fuels and lubricants, alcohol and spirits, beer, wine and tobacco products. The tax is based on the quantity of goods, expressed in specific units, and tax may be levied only once on a particular good.

5.7 Environmental taxes

Environmental taxes are assessed on consumption of gas, solid fuels and electricity.

5.8 Other taxes

A road tax applies on vehicles, depending on the engine capacity and axle number. There are exemptions and reductions for new vehicles.

6.0 Taxes on individuals

Individuals in the Czech Republic are subject to personal income tax (which also applies to gifts and inheritances), social security contributions, real estate tax, real estate transfer tax and road tax (if a vehicle is used for entrepreneurial activities).

Czech Republic Quick Tax Facts for Individuals	
Income tax/gift tax/inheritance tax rate	15%
Solidarity surcharge	7%
Capital gains tax rates	0%/15%
Basis	Worldwide income
Double taxation relief	Yes
Tax year	Calendar year
Return due date	1 April
Withholding tax	
• Dividends	15%/35%
• Interest	15%/35%
• Royalties	15%/35%
• Technical service fees	15%/35%
Net wealth tax	No
Social security and health insurance	11% (partially capped)
Real estate tax	Varies
Transfer tax	4% (transfers of real estate)
VAT	21% (standard rate)/0%, 10%, 15% (reduced rates)

6.1 Residence

For tax purposes, a resident is defined as an individual who has a home in the Czech Republic in which he/she intends to stay permanently, or an individual who usually stays/resides in the Czech Republic for 183 days or more (continuously or intermittently) in the relevant calendar year. The residence status of an individual may be affected by a tiebreaker clause in an applicable tax treaty.

There is no special expatriate tax regime.

6.2 Taxable income and rates

Resident individuals are liable to tax on their worldwide income. Nonresidents are taxed on Czech-source income only. Relief from double taxation may be provided under an applicable tax treaty, or under domestic legislation in the case of foreign-source employment income from a treaty country.

Taxable income

All forms of compensation, whether in cash or in kind, generally are taxable as income (except for some tax-exempt benefits).

Small business owners may opt to pay a lump sum income tax payment instead of paying tax on actual profits. This option applies if an individual operates a business as a sole proprietor and did not have annual income of more than CZK 5 million for the previous three tax years but it is rarely used.

The Income Taxes Act recognizes five basic sources of income: employment, entrepreneurial activity, capital, leased property and “other.” General taxable income is defined as the difference between gross income and allowable expenses incurred in obtaining this income. The total income tax base comprises the sum of the tax bases from the five sources of income. Domestically sourced dividends and interest income are taxed separately via withholding at source.

Employment income includes salaries, wages, bonuses and other compensation, including remuneration of executives and board members.

Pension distributions exceeding 36 times the minimum wage per year (CZK 396,000 for 2017) are subject to tax; in addition, the whole amount of pension distributions is subject to tax if the total amount of income from dependent activities, business and rentals exceeds CZK 840,000 per taxpayer per year.

Some income in the Czech Republic is tax exempt, including:

- Gains from the sale of a flat or house (if the seller lived there for at least two years before the sale);
- Gains from the sale of movable property, such as cars, planes and boats (if they were held for at least one year before the sale) or immovable property (if the property was held for at least five years before the sale);
- Gains from the transfer of an interest in a business entity (if the interest was held for at least five years);
- Gains from the sale of securities (if they were held for at least three years, or if the total gross income from their sale does not exceed CZK 100,000); and
- Insurance payments.

Nonmonetary benefits provided to employees in the form of the use of an educational or healthcare facility, entry to a sporting or cultural event, or vacations (up to a value of CZK 20,000 per year) are not considered a taxable benefit if provided as a nonmonetary benefit from the company's after-tax profit. The same conditions apply to benefits provided to the employee's family members.

Deductions and reliefs

No expenses may be deducted in calculating taxable income from employment. The tax base for income from employment includes social security and health insurance that the employer is required to pay (34% of gross income up to the cap—see 6.6 Social security contributions). Health insurance and social security contributions paid by an employee (11% of gross income) to the state social security and health insurance systems are not tax deductible for employees.

For other categories of income (entrepreneurial activity and leased property), deductions may be a fixed percentage of income (up to the income of CZK 2 million), or the total actual expenses incurred in deriving the income (without limitation).

From the overall tax base, the following may be deducted:

- Donations to recognized charities (up to a maximum of 15% of the tax base);
- Private life insurance premiums (up to CZK 24,000 per year);
- Private pension insurance contributions (except for the first CZK 12,000 of the contributions paid in that year, up to CZK 24,000 per year); and
- Mortgage interest to finance primary living (up to CZK 300,000) may be deducted.

These deductions are available only to Czech tax residents, or tax residents of another EU/EEA country with more than 90% of income taxable in the Czech Republic.

The standard personal tax credit amounts to CZK 24,840. Additional tax credits provided are CZK 24,840 for a dependent spouse (if the spouse does not earn more than CZK 68,000 per year) and CZK 13,404, CZK 19,404 and CZK 24,204 for the first, second, and third and any subsequent dependent children respectively, living in the taxpayer's household in the EU/EEA. The credits for a dependent spouse and dependent child are not available to entrepreneurs and lessors who applied fixed percentages of deductions against their entrepreneurial and/or rental income, if this income constitutes more than 50% of their total taxable income. Individuals with a disability may deduct from CZK 2,520 to CZK 16,140, depending on the severity of the disability. A student tax credit of CZK 4,020 is provided to students of high schools or universities up to 26 years of age. The taxpayer may deduct from his/her income tax the fees paid to a pre-school facility for each child, up to CZK 11,000 in 2017. All tax credits (except for the standard and student tax credit) are available only to Czech tax residents, or tax residents of another EU/EEA country with more than 90% of income taxable in the Czech Republic.

Losses on business assets (other than land) sold below their book value are deductible.

Rates

The personal income tax rate is 15%. Dividends and interest are subject to a 15% withholding tax at source.

A 7% additional tax called a "solidarity surcharge" is imposed on the sum of gross income from employment and the tax base from entrepreneurial activity that exceeds 48 times the average wage, i.e. CZK 1,355,136 for 2017. Advance payments for this solidarity surcharge are withheld monthly by the employer thorough the payroll, together with the personal income tax advance payments. The monthly threshold for the solidarity surcharge is CZK 112,928 for 2017.

Capital gains generally are taxed at 15%, but may be exempt if certain conditions are satisfied.

6.3 Inheritance and gift tax

Gifts and inheritances also are subject to the income tax regime. Gifts between close family members and all inheritance are tax-free; otherwise, the standard 15% income tax rate applies.

6.4 Net wealth tax

The Czech Republic does not impose a net wealth tax.

6.5 Real property tax

Land and building owners are subject to an annual real estate tax. The tax base for land depends on the area of land occupied (residential land) or the price of land (agricultural land). The tax on buildings is assessed depending on the size of the building. Rates are multiplied by a coefficient of one to five, depending on the location of the property.

A real estate transfer tax also applies at a rate of 4%.

6.6 Social security contributions

Employees pay 11% of gross wages to the state social security and public health insurance schemes. A cap equal to 48 times the average monthly wage (CZK 1,355,136 for 2017) is applicable to the assessment base for social security purposes but there is no minimum assessment base for social security purposes in the case of employment. Health insurance is uncapped, although there is a minimum assessment base for health insurance purposes equal to the minimum wage.

Entrepreneurial activities also are subject to social security and health insurance levies. The rate for social security contributions is 29.2%, including an optional 2.3% disability insurance contribution (31.5% if the entrepreneur participates in optional sickness insurance), applied to 50% of the personal income tax base of the entrepreneur. For health insurance, the applicable rate is 13.5%, also applied to 50% of the personal income tax base of the entrepreneur. Minimum assessment bases apply as well. The social security assessment base is capped at CZK 1,355,136.

6.7 Other taxes

There are no other significant taxes on individuals in the Czech Republic.

6.8 Compliance

The tax year for individuals is the calendar year.

Tax on employment income is withheld by the employer and remitted to the tax authorities. Employees may ask their employer for annual reconciliation of tax advances under certain conditions.

An individual whose income exceeds CZK 15,000 or who incurs a tax loss (except for employees under certain conditions) must file a separate return; joint filing for married couples is not available. The tax return must be filed by 1 April of the following year. This deadline may be extended to the first day of the seventh month if the tax return is prepared and submitted by the registered tax advisor under a power of attorney. Upon application, a taxpayer not represented by such an advisor may be granted a three-month extension to file the return at the discretion of the tax authorities.

Income exempt from taxation and income taxed separately at source generally is not included in the tax return, with some exceptions. A taxpayer must notify the tax authority by the tax filing deadline of tax-exempt one-off income exceeding CZK 5 million.

Penalties apply for failure to file or late filing, for under declaring income and for failure to fulfill other nonmonetary obligations. Interest is applied to late payments of tax. Penalties of up to CZK 500,000 can be imposed for failure to register, report or keep records as prescribed by law or the tax authorities. Up to 75% of a penalty for under declaring income may be remitted if the tax on the undeclared income is paid. The full amount of interest charged on the late payment of tax may be remitted if the late tax ultimately was paid and the payment of the interest was considered too harsh.

7.0 Labor environment

7.1 Employee rights and remuneration

The Labor Code, as amended, regulates legal relations between employees and their employers, and, in particular, provides protection for employees, obliges employers to consult with trade unions before making layoffs, sets out working and overtime working hours and gives employees the right to know strategic information concerning their employer. The Labor Code also prohibits employment discrimination, provides for the equal treatment of EU nationals and Czech employees and applies EU rules to trade unions.

The Labor Code further requires all employers to conclude a written contract with their employees. This must specify the type and place of work and the date on which the work will begin. Typical contracts include clauses specifying gross monthly wages and the length of the trial period, which may not exceed three months (six months in the case of managerial employees). The contract is valid for an unlimited time, unless otherwise stated.

Working hours

The official work week is 40 hours, not including 30 minutes per day for meals. For overtime working, employees are entitled to receive their regular wages plus a premium of at least 25% of their average earnings, or compensatory time off in lieu of the premium if agreed with the employer. Employees cannot be obliged to work more than 150 hours of overtime per calendar year but may agree to work up to 416 hours of overtime per calendar year. A 10% premium on average earnings applies to employees working at weekends or between 10pm and 6am, and a 100% premium for work on a public holiday; another premium is payable for employees working in an arduous working environment. Certain limitations relating to working conditions apply to disabled persons, women (when pregnant and nursing), employees having children up to the age of 15 and adolescent employees.

7.2 Wages and benefits

The basic monthly minimum wage is set by decree and generally is reviewed and adjusted annually. From 1 January 2017, the rate is CZK 11,000.

Employers must safeguard equal treatment for all employees with regard to working conditions, remuneration and career advancement. Any form of discrimination in labor-law relationships is strictly prohibited. This rule is further supported by the Anti-Discrimination Act, according to which men and women must have equal entitlement to the provision of remuneration.

Pensions

The Czech Republic employs a mandatory pay-as-you-go pension system. The pension system is administered by the social security authorities and pension contributions form a part of total social security contributions.

It also is possible to participate in voluntary additional pension insurance. Taxpayer contributions to this additional pension insurance may be deducted from the tax base in an amount equal to the total contributions paid by taxpayer in the taxable period, reduced by CZK 12,000 and subject to a maximum deduction of CZK 24,000 per tax period.

The pension funds are managed by private pension companies, while the contributions are collected by the tax authorities and distributed to the private pension companies based on the individual's registration.

Social insurance

The state administers the social security system, which includes old-age pensions, sickness and maternity benefits, support in unemployment and health insurance. These benefits are financed by contributions from the participants and their employers. For details on the contributions, see sections 4.5 Wage tax/social security contributions and 6.6 Social security contributions.

Unemployment benefits

Unemployment benefits are provided for up to five months for employees up to 50 years of age, up to eight months for employees between 50 and 55 years of age and up to 11 months for employees aged over 55. The benefit is 65% of the previous net average wage for the first two months of unemployment, 50% for the next two months and 45% for the remainder of the period.

Other benefits

Employees who have worked for a particular company for at least 60 continuous working days are entitled to paid annual holidays (on a pro rata basis, based on the number of days worked in the calendar year). The minimum annual holiday is four weeks for all employees. Where an employment contract lasts for less than one year, 1/12th of the annual holiday accrues for each month of its duration. If less than 60 days were actually worked, the employee is only entitled to 1/12th of the annual holiday per 21 days worked.

Maternity leave lasts 28 weeks (37 weeks for women giving birth to more than one child). Parental leave follows after the maternity leave and can continue until the child reaches three years of age (four years of age if agreed between the employer and employee). During maternity leave and parental leave, the mother has no right to wages but qualifies for sickness benefits during maternity leave and for parental benefits during parental leave. Men also may apply for parental leave after the birth of a child.

If an employee is absent from work because of illness, he/she is entitled to salary/wage compensation from the employer after the first three working days of the illness, until the 14th calendar day of the illness. This compensation is not payable to executives or board members. From the 15th day of the illness, employees (as well as executives and board members) receive sickness benefits from the state social security fund, instead of a salary/wage. Different rules apply in the event of a work injury.

7.3 Termination of employment

An employment contract generally may be terminated via a pre-arranged termination agreement, a termination notice, a termination with immediate effect or termination within a probationary period. An employer may give a termination notice to the employee only in the following circumstances:

- If the employer ceases to exist or is transferred to another location;
- If the employee becomes redundant because of a decision of the employer based on a change in its products, technologies, efficiency or other organizational changes;
- If an employee is unable to fulfill the requirements for a given job or for health reasons; or
- If there is breach of duties on the part of the employee.

Where notice of termination has been given, the employment relationship will come to an end upon the expiration of the notice period (which must be at least two months). The notice period starts to run on the first day of the calendar month following delivery of the notice and ends on the last day of the relevant calendar month. Upon termination of employment based on structural or organizational reasons, employees are entitled to receive a severance payment of up to three times their average monthly earnings, according to the length of employment. (Higher severance may be negotiated as part of an employee’s employment contract or termination agreement.)

A special act protects the rights and benefits of employees whose employer becomes bankrupt. Based on this act, employees are entitled to receive any remuneration which they are owed directly from the Labor Office, which will subsequently claim this amount from the company in bankruptcy.

7.4 Labor-management relations

Collective bargaining is conducted both at the national and enterprise level; trade unions are formally included in the Tripartite Council, which also includes representatives of the government and employers. The Council meets annually to discuss labor grievances. Strikes are usually avoided through direct negotiations with the government, particularly for the larger unions.

The Act on Collective Bargaining specifically deals with work stoppages. The trade union must notify the employer in writing of a planned strike at least three working days before the start. The act spells out the right to collective bargaining, but does not automatically extend it to all workers in the country. Benefits from collective bargaining agreements apply to all employees of an employer even if they are not trade union members.

7.5 Employment of foreigners

Czech labor legislation distinguishes between the hiring of foreign nationals in the Czech local labor market and the assignment of foreign nationals to work in the Czech Republic.

Foreigners (other than EU nationals) seeking to work in the Czech Republic must obtain an employee card (covering both a work permit and a residence permit). Employees in apprenticeships and similar on-the-job training arrangements do not need to obtain an employee card, nor do family members of EU nationals.

8.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database that places up-to-date worldwide tax rates and other crucial tax information within easy reach. DITS is accessible through mobile devices (phones and tablets), as well as through a computer.

Connect to the source and discover:

A database that allows users to view and compare tax information for different jurisdictions that includes:

- Corporate income tax rates;
- Historical corporate rates;
- Domestic withholding tax rates;
- In-force and pending tax treaty withholding rates on dividends, interest and royalties;
- Indirect tax rates (VAT/GST/sales tax); and
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Guides and Highlights: Deloitte's Taxation and Investment Guides analyze the investment climate, operating conditions and tax systems of most major trading jurisdictions, while the companion Highlights series concisely summarizes the tax regimes of over 100 jurisdictions.

Jurisdiction-specific pages: These pages link to relevant DITS content for a particular jurisdiction (including domestic rates, tax treaty rates, holding company information, Taxation and Investment Guides and Highlights).

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