Investing in the Czech Republic

An overview of the current tax system | 2021

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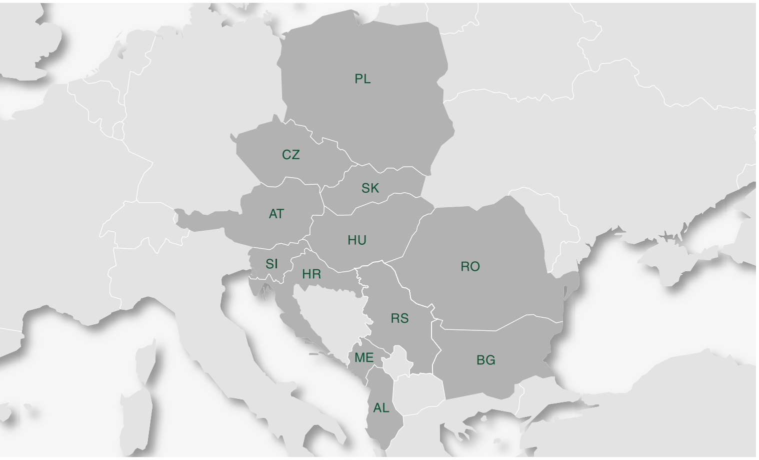

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Investing in the Czech Republic.
An overview of the current tax system.

The current developments within Central and Eastern European countries are accompanied by ongoing changes in tax systems. For investors, this means numerous new developments to take into account.

TPA's CEE Country Series covers 12 Central and South Eastern European countries, and gives an overview of the business environment and the most important new developments, including:

- Different types of business organisations, and their most important features
- Key details of corporate and personal income tax and VAT in each country
- Current tax allowances, reliefs and concessions
- Core provisions of double taxation agreements

In the TPA-Country Series there are booklets on Albania, Austria, Bulgaria, Croatia, the Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia. Visit our website www.tpa-group.com, for detailed information and updates, or subscribe to our electronic newsletter at service@tpa-group.com

The information in these folders is based on the present legal situation and current administrative practice, and is therefore subject to change. The information is general in nature, and of necessity abridged: the booklets are not a substitute for individual, specific advice.

Our CEE experts will be happy to answer your questions in more detail.

Contents

Types of organisation

	Name in local language	*Registrable in commercial register / legal personality*	*Minimum capital*	*Sole shareholder company*
Limited liability company	společnost s ručením omezeným, ("spol.s r.o." or "s.r.o.")	yes / yes	CZK 1 (EUR 0.038)	yes
Stock company	akciová společnost ("akc.spol." or "a.s.")	yes / yes	CZK 2 million (EUR 76,002) or EUR 80,000	yes
Cooperative (with limited liability)	Družstvo	yes / yes	no, amount of minimum capital has to be set in articles of association	no (at least 3 members)
General partnership	veřejná obchodní společnost, "veř. obch. spol." or , "v.o.s."	yes / yes	no	no
Limited partnership	komanditní společnost ("kom. spol." or "k.s.")	yes / yes	no, minimum capital per limited partner CZK 1 (EUR 0.038)	no
Registered branch office	Organizační složka	yes / no	no	–
Permanent establishment	Stálá provozovna	no / no	no	–

	Capital tax / registration fees	*Written form / notarisation*	*Tax transparency*	*Registration with tax authorities*	*Statutory audit (a lot of conditions and variants, however, in general: revenues in excess of CZK 80 million (EUR 3 million); total assets in excess of CZK 40 million (EUR 1.5 million), more than 50 employees)*
Limited liability company	– /registration in commercial register	yes / yes	no	yes	if at least two of the thresholds are exceeded in two successive years
Stock company	– /registration in commercial register	yes / yes	no	yes	if at least one of the thresholds is exceeded in two successive years
Cooperative (with limited liability)	– /registration in commercial register	yes / yes	no	yes	if at least two of the thresholds are exceeded in two successive years
General partnership	– /registration in commercial register	yes / no	yes	yes	if at least two of the thresholds are exceeded in two successive years
Limited partnership	– /registration in commercial register	yes / no	general partner, yes; limited partner, no	yes	if at least two of the thresholds are exceeded in two successive years
Registered branch office	– /registration in commercial register	–	–	yes	if at least two of the thresholds are exceeded in two successive years
Permanent establishment	– / –	–	–	yes	–

Exchange rate: EUR 1 = CZK 26,315 (EUR amounts rounded)

Corporate income tax

Subject to tax	Income incl. gifts and inheritance
Tax rate	19 % Corporate income tax rate for corporations with unlimited or limited liability to tax, no minimum corporate income tax 5 % for basic investment funds
Tax liability	
Unlimited	Legal persons (a.s., s.r.o., v.o.s., k.s.), branches and public sector institutions with their residence or management in the Czech Republic, on their worldwide income
Limited	Foreign legal persons neither resident nor managed in the Czech Republic, on their Czech income
Financial year	Calendar year; different financial year possible, but must be reported to the tax office in writing 3 months in advance
Accounting	In general, double-entry bookkeeping as specified in Bookkeeping Act
Loss carrybacks	Loss set-off possible; Accumulated limit to loss carry back from one taxable period in the amount of CZK 30 million (EUR 1.14 million), may be deducted in full or in part during 2 preceding years.
Loss carryforwards	Loss set-off possible; no limits to amounts of loss carryforwards, may be deducted immediately, in full or in part, time limit of 5 years; Possibility to waive the right to utilise the tax loss in subsequent tax periods.
Shell companies	Purchased tax losses (shell companies): loss carry-forwards cease to be deductible where there is a major change of ownership (25 % or more of share capital) and a change of business activities.
Related parties	As defined in Czech Income Tax Act, where a person has a direct or indirect interest in at least 25 % of the share capital or the voting rights of one or more legal persons, then the parties involved are all related parties; individuals or their relatives controlling or managing one or more legal persons, then the parties involved are all related parties; persons who have set up a legal relationship with the intent to reduce tax base are all related parties;
Operating expenses	Expenses incurred to procure, secure or maintain business income
Transfer prices	Arm’s length basis
Interest on financing of acquisition of share	Non-deductible; interest on loans taken up in the six months preceding the acquisition are treated as connected with the acquisition of share and are not deductible (evidence to the contrary possible)
Debt/equity	As a general rule, interest expense on credits and loans from parties will be deductible only if the debt/equity ratio does not exceed 4:1 (6:1 for banks and insurance companies).
	Credits or loans from related parties also include a credit or loan granted by a third party (e.g. a bank) if its provision was contingent upon a cash deposit of an related party with the bank (so-called “back-to-back” loan, e.g. the parent company deposits money with the bank and the subsidiary receives a loan in return). Financing is regulated in accordance with EU Anti-Tax Avoidance Directive (ATAD). Thresholds for tax deductibility of net borrowing costs: ▪ CZK 80,000,000 (EUR 3,040,091), or ▪ 30 % of EBITDA Net borrowing costs exceeding the higher of the two thresholds are considered tax non-deductible. Financing expenses of credits and loans if the interest rate depends on the borrower's profit, are not tax deductible (in case of such dependence, higher profits mean higher interest).
Acquisition price of land	In case of sale deductible without limitation
Tax depreciation	Tax depreciation available to eligible tax payers (usually legal owners or funds; not available to lessees in the case of finance leases) The tangible asset is classified into 1 of 6 categories (depreciation over 3 – 50 years); For intangible assets, tax depreciation corresponds to the accounting depreciation. Tax depreciation methods: straight-line or reducing balance, time-based, unit-of production method (only for certain production equipment), a possibility to apply special tax depreciation for assets acquired in 2020 or 2021 and classified into 1st or 2nd deprecia-tion category (depreciation over 12, resp. 24 months following after the month of acquisition). Depreciation is not mandatory and can be interrupted for a time. Changes in method are not permitted Depreciation for accounting purposes is the responsibility of the company, and should reflect the expected useful life of the asset Writedowns for loss of value in use and additional depreciation for extraordinary wear and tear are not possible for tax purposes. Low-value items up to CZK 80,000 (EUR 3,040) can be fully expensed in the year of acquisition.
Accelerated depreciation	For most newly acquired plant and equipment an accelerated depreciation of 10 %, 15 % (for equipment for water purification and treatment) or 20 % (for agricultural production machines) can be claimed in the first depreciation year.
Depreciation of photovoltaic plants	Tangible fixed assets used in the production of solar electricity are depreciated using the straight-line method over 240 months beginning in the month following capitalization. This depreciation cannot be interrupted.
Provisions	Provisions for tax purposes are governed by a special provisions law. Only provisions for repairs, bank and insurance provisions, electro-waste from photovoltaic panels, and provisions for reafforestation and environmental restoration are allowable as tax deductible costs.

Corporate income tax

		The provision for repairs is only deductible if matching funds are deposited in a bank account specially designated for the purpose of this provision. No provisions for severance payments and pensions, or other liabilities of uncertain amount.
	Motor vehicle expenses	Depreciation over 5 years; Special tax depreciation may be applied (24 months) for the assets acquired in 2020 or 2021. Allowable acquisition cost: no ceiling Deduction of input VAT on acquisition costs
Non-deductible expenses		Refreshment and beverage expenses Expenses in connection with acquisition of share (direct and indirect costs); indirect costs are taken as being 5 % of the dividends on the share (evidence to the contrary possible). Expenses directly related to non-taxable income Taxes paid on behalf of another taxpayer
Withholding tax		Withholding tax is generally at 15 %, increasing to 35 % for non-EU residents from states without DTA or TIEAs.
	Interest	At 15 % (35 %), or per applicable DTA and applying the EU Interest and Royalty Directive for group purposes
	Royalties	At 15 % (35 %), or per applicable DTA and applying the EU Interest and Royalty Directive for group purposes; exception – 5 % for finance leasing
	Dividends	At 15 % (35 %), or per applicable DTA and applying the EU Parent Subsidiary Directive for group purposes.
National parent-subsidiary exemption		▪ Dividends are tax exempt ▪ Gains on disposal are tax exempt Requirements: qualifying period 12 months; minimum share 10 %
International parent-subsidiary exemption (EU, Switzerland, Norway, Iceland and Liechtenstein)		▪ Dividends are tax exempt ▪ Gains on disposal are tax exempt Requirements: qualifying period 12 months; minimum share 10 %
Non-EU states		▪ Dividends are tax exempt ▪ Gains on disposal are tax exempt Requirements: Qualifying period 12 months, minimum share 10 %, a double taxation agreement exists with the third country, minimum corporate income tax of 12 % in the third country.
Interest and Royalty Directive (EU, Switzerland, Norway, Iceland and Liechtenstein)		Exemption from withholding tax on interest on loans and royalties provided that the following conditions are met: ▪ Qualifying period: 2 years ▪ Minimum share: 25 % Exemption from withholding tax must be confirmed by tax office ruling

Withholding tax reporting obligation	Withholding tax exempted incomes paid out into a foreign country must be reported to the Czech tax authority. No duty to inform arise if the income of the same kind not taxable in the Czech Republic paid out to a single recipient does not exceed CZK 300,000 (EUR 11,400) during a calendar month; Or for an income from employment that is subject to withholding tax.
Goodwill amortization	Goodwill amortization over 15 years: only for asset deals Not deductible for tax purposes in the case of mergers or contributions in kind
Tax groups / pooling	Not possible

Income tax

Tax rate		15 % 23 % The rate of 15 % is applied to the tax base up to CZK 1,701,168 (EUR 64,646) for 2021. For employee, this rate is applied to the gross monthly salary up to CZK 141,764 (EUR 5,387) for 2021. For the tax base, which exceeds the amount CZK 1,701,168 (EUR 64,646) the rate of 23 % is applied.
Tax liability		
	Unlimited liability	Natural persons who have their residence or habitual abode in the Czech Republic, are liable to tax in the Czech Republic their worldwide income (except where DTA restricts the right to assess tax).
	Limited liability	Natural persons, who have neither their residence nor their habitual abode in the Czech Republic, are liable to tax in the Czech Republic income from sources in the Czech Republic only.
Tax assessment period		Calendar year
Income categories		Income from: 1. Employment 2. Self-employment 3. Rental and leasing 4. Capital assets 5. Other income
Accounting		Double-entry bookkeeping, is mandatory in case (i) a natural person is recorded in the Business Register or (ii) their turnover or the previous calendary year exceeds the amount of CZK 25,000,000 (EUR 979,624).
Loss set-offs		“Horizontal” set-off (within individual income categories): self-employment and rental income. The Tax Loss may be generated from self-employment and rental income only. “Vertical” set-off (between individual income categories): possible, with the exception of income from employment.

Income tax

Loss carrybacks	Loss set-off possible; Accumulated limit to loss carry back from one taxable period in the amount of CZK 30 million (EUR 1.14 million), may be deducted in full or in part during 2 preceding years.
Loss carryforwards	Losses from self-employment and from rental can be carried forward and set off for 5 taxable periods. No limit on the amounts that may be carried forward and set off is applied.
Operating expenses	Expenses incurred to procure, secure or maintain business income
Business expenses	Expenses incurred to procure, secure or maintain business income
Flat-rate option	For operating expenses of self-employment, flat-rate options are available: 80 % for income from agriculture and forestry and craft trade. Expenses can be claimed at the maximum amount of CZK 1,600,000 (EUR 60,802). 60 % for trade and business income. Expenses can be claimed at maximum amount of CZK 1,200,000 (EUR 45,601). 40 % for income governed by special provisions (professions). Expenses can be claimed at the maximum amount of CZK 800,000 (EUR 30,401). 30 % for rental income. Expenses can be claimed at the maximum amount of CZK 600,000 (EUR 22,801).
Motor vehicles	Depreciation over 5 years; Special tax depreciation may be applied (24 months) for the assets acquired in 2020 or 2021. Maximum allowable acquisition cost: no ceiling Input VAT on cars deductible
Social insurance	Not tax deductible for natural persons (private individuals and business people)
Withholding tax	Withholding tax is generally at 15 % for EU residents and non-EU residents from states with DTA or TIEAs; increasing to 35 % for non-EU residents from states without DTA or TIEAs.
Interest	15 % (35 %), or applicable DTA
Royalties	15 % (35 %), (5 % in the case of finance leasing), or applicable DTA
Dividends	15 % (35 %), or applicable DTA

Filing dates and deadlines

Annual returns	Personal and corporate income tax Filing deadline: 3 months (4 months if filed electronically) after the end of the assessment period, 6 months if represented by a tax adviser or where there is an audit requirement.
	In case a taxpayer has income from abroad, the deadline may be extended by the end of the tenth month following the end of the taxable period (subject to prior approval of tax authority).
VAT	Quarterly or monthly; filing deadline: 25th of the following month;
Real estate tax (on land and buildings)	31 January
Road tax	31 January
Filing	All tax returns are required to be filed in electronic way if data-box is established

Other taxes

Business tax	no
Wealth tax	no
Transaction tax	no (real estate acquisition tax abolished in 2020)
Road Tax	For motor vehicle used for business purposes, calculation depends on motor vehicle characteristics
Special tax	Special tax of 10 % applicable for the time period of state aid entitlement for solar electricity income from photovoltaic plants whose output exceeds 30 kW. This applies for photovoltaic plants put into service in 2010.

Tax regulations

Advance rulings	Binding rulings only possible with respect to ▪ Apportionment of costs relating not only to taxable income Fee: CZK 10,000 (EUR 380) ▪ Apportionment of expenses relating to real estate used for both business and private purposes Fee: CZK 10,000 (EUR 380) ▪ Estimate of changes to capital assets constituting technical improvements Fee: CZK 10,000 (EUR 380) ▪ Estimate of costs representing research and development Fee: CZK 10,000 (EUR 380) ▪ Determination of applicable VAT rates on taxable supplies Fee: CZK 10,000 (EUR 380) ▪ Assessment of whether transfer prices between related parties are on arm's- length basis Fee: CZK 10,000 (EUR 380) ▪ Carryforward of losses where there is a major change in ownership Fee: CZK 10,000 (EUR 380)

	▪ Assessment concerning Electronic Records of Sales Fee: CZK 1,000 (EUR 38) ▪ Assessment of Permanent Establishment profit allocation Fee: CZK 10,000 (EUR 380) ▪ Assessment concerning reverse charge mechanism application Fee: CZK 10,000 (EUR 380)
Penalties for late payment	Penalty for late payment and for assessments based on corrected tax returns filed by taxpayer (in case the delay exceeds 4 workdays): Repo rate of CNB increased by 8 percentage points on a daily basis. Tax audit by the tax office: REPO rate of CNB increased by 8 percentage points per day, plus one-time penalty of 20% of the additionally assessed tax liability or of the reduction of a tax excess; 1% in case of reduction of tax loss. Penalty for late filing of tax returns (applicable if the delay exceeds 5 workdays): 0.05% per day, maximum 5% of the assessed tax; 0.01% per day, maximum 5% of the assessed tax loss; 0.05% per day, maximum 0.5% of the amount indicated in the tax return or tax computation. Absolute minimum CZK 500 (EUR 19), maximum CZK 300,000 (EUR 11,400). In case of tax profit a tax audit can be carried out within 3 years after the end of the filing period for the regular tax return(e.g. tax proceedings for the 2020 income tax must be initiated by the1st April 2024). In case of tax loss tax field audit can be carried out within 8 years after the end of the filing period for the regular tax return.
Criminal provisions	Tax Administration Act Penalties for underpayment of tax: fines Penalties for deliberate tax evasion: fines or imprisonment In general, administrative proceedings

Tax reliefs

Direct		None
Indirect		
	Allowances	CZK 27,840 (EUR 1,058) personal allowance CZK 24,840 (EUR 944) spouse allowance for spouse with income of less than CZK 68,000 (EUR 2,665) CZK 15,204 (EUR 578) child allowance for the first child, CZK 19,404 (EUR 737) for the second child and CZK 24,204 (EUR 920) for each other child CZK 4,020 (EUR 153) allowance for students (up to age of 26 years) CZK 2,520 (EUR 96) / CZK 5,040 (EUR 192) partial / full invalidity allowance Allowance for the placement of a child to nursery at the amount of the real costs. Maximum allowance amounts to CZK 15,200 (EUR 578). Persons with limited liability to tax are only entitled to claim allowances (except the personal allowance) in case that 90% of their world income arises from the Czech Republic.
	Deductions	Donations to public institutions in an EU Member State, Norway, Iceland and Liechtenstein (maximum: 15% of taxable income) Interest on home loan savings and mortgage – maximum: CZK 150,000 (EUR 5,700) Contributions to state subsidized supplementary pension insurance – maximum: CZK 24,000 (EUR 912) Contributions to a private life insurance – maximum: CZK 24,000 (EUR 912)
Grants		
	State subsidies	The state subsidies (investment incentives) are available under specified circumstances (minimum investment, industry, region etc.) to manufacturing industry, to technological centers (research and development) and to centers of strategic services (research, SW, shared service centers, high-tech repair centers, data processing centers). The provision of investment incentives is newly approved by the Government of the Czech Republic. Forms: ▪ Tax incentive: Corporate income tax relief for up to 10 years ▪ Subsidy in the amount of CZK 300,000 (EUR 11,400) for each newly created job (in regions with the highest rates of unemployment) ▪ Subsidy in the range from 25% to 50% of training and retraining costs for employees (in regions with the highest rates of unemployment) The maximum amount of the subsidy is 25-45% of total eligible costs, i.e. either assets or two years' gross wages for newly created jobs.

Immovable property

Depreciation		Depreciation for accounting purposes is the responsibility of the company, and should reflect the expected useful life of the asset.
	Tax depreciation	Straight-line or declining balance over the expected legal useful life of the asset Immovable property is allocated to the 5th or 6th depreciation category. Depreciation over a period of 30 or 50 years.
	Additional depreciation	not possible
Depreciation categories		
	Land	no depreciation
	Buildings	Factories, warehouses etc.: 30 years Office buildings, department stores, business centers, hotels, etc.: 50 years

Immovable property

Tax base for buildings	Allocation to a single category based on predominant use
Special depreciation	Tenants and other users (e.g. subtenants) who make structural improvements (subsequent acquisition costs) to rented assets may depreciate the cost of improvements (depreciation spread over the life of the underlying building). Structural improvements to historic monuments can be written down over 15 years.
Write-ups	Not allowable
Real estate tax (Land tax and buildings tax)	
Land tax	Objects of taxation: land ▪ Agricultural land: 0.25 % or 0.75 % of the price per m² ▪ Paved area of land CZK 1 or 5 (EUR 0.038 or 0.19) per m² ▪ Development land CZK 2 (EUR 0.0760) per m² Developed land CZK 0.2 (EUR 0.0076) per m² The amounts provided by statute are indicative, and are increased by different coefficients in each municipality.
Buildings tax	Objects of taxation: buildings, constructions and units (apartments and commercial premises) ▪ Agricultural buildings and units: CZK 2 per m² (EUR 0.0760) ▪ Industrial buildings and units: CZK 10 per m² (EUR 0.3800) ▪ Office buildings and units: CZK 10 per m² (EUR 0.3800) An additional CZK 0.75 per m² (EUR 0.0285) is levied for each additional floor Increase of buildings tax by 50 % at the discretion of the municipality possible where buildings used for business purposes (but not for residential purposes). Each municipality may also establish local coefficients of 2, 3, 4 or 5 for all land (except agricultural land) and buildings within its boundaries. The taxpayer's total tax liability is then multiplied by the applicable coefficient (for individual types of land and buildings). Each municipality may also exempt land and buildings within its boundaries in favored industrial zones (this applies for the companies, which received the Decision on the Covenant of Investment Incentives).
Real estate funds	Both public real estate fund and special real estate fund can be set up under the Act on Investment Companies and Investment Funds. Real estate fund must comply with specific investment limits and restrictions which depend on the fund form and fund investment strategy.

Basic investment fund, CIT rate 5 %	Starting 1 January 2015 only certain funds, so called basic investment funds, are subject to a special 5 % corporate income tax rate. The basic investment funds are: 1) investment funds whose shares are being publicly traded on European regulated market (provided further conditions are met, esp. that no corporate taxpayer owns more than 10 % share in the fund and that the fund does not perform activities regulated under the Czech Trade Licensing Act), 2) mutual funds, 3) investment funds and subfunds of the stock company with variable capital investing at least 90 % of their assets into selected financial instruments, 4) comparable foreign funds domiciled in EU/EEC.
Special funds for qualified investors (Fond kvalifikovaných investorů)	Special funds for qualified investors can be established, among other forms, in the form of corporations (public limited liability companies). Such funds are subject to liberal statutory regulations – the nature of fund assets, the debt financing ratio, and risk management policies can as a general rule be freely determined in the funds' articles of incorporation, subject always to appropriate diversification of fund assets. Starting 1 January 2015 only certain funds, so called basic investment funds, are subject to a special 5 % corporate income tax rate. The funds that do not fulfil the requirements for basic investment fund are taxed by standard income tax rate of 19 %. Distributions by the fund to the shareholders are subject to deduction of tax at source at the standard rate of 15 % (35 % in specific cases). This may be reduced by DTA or exempt under the Czech implementation of the EU Parent Subsidiary Directive in certain cases. Minimum number of investors: 2 Maximum number of investors: not limited (natural or legal persons) Minimum investment: EUR 125,000 or corresponding amount The fund requires a depository bank and is supervised by the Czech National Bank
Collective investment funds (Fond kolektivního investování)	Collective investment funds that invest in real estate may only be open-ended funds or stock company with variable capital (SICAV). Open-ended real estate funds have no legal personality of their own. Fund assets are managed as special assets of a capital investment company (investiční společnost) in the fund's name but for the account of the investors. SICAV has its own legal personality; it invests in its own name and for its own account. Funds' shares must be redeemable on demand. Funds may acquire property directly or via property companies. Extensive investor protection regulations apply (nature of fund assets, risk diversification, debt financing, liquidity).

Immovable property

		Funds require a depository bank and are supervised by the Czech National Bank. Starting 1 January 2015 only certain funds, so called basic investment funds, are subject to a special 5 % corporate income tax rate. The funds that do not fulfil the requirements for basic investment fund are taxed by standard income tax rate of 19 %. Distributions are classified as dividends and are generally subject to a withholding tax of 15 % (resp. 35 %). This may be reduced by DTA.
	Foreign investment funds	For investment funds established in another state a special corporate income tax rate of 5 % in case of so called basic investment funds can be applied. The funds that do not fulfil the requirements for basic investment fund are taxed by standard income tax rate of 19 %.

Social insurance

Social and health insurance		Statutory health, accident and pension insurance for all gainfully employed persons
Contribution rates and maximum basis of assessment		There is a maximum basis of assessment for both self-employment and employment for the social security. There is no maximum basis for the health insurance.
Self-employed persons		
	Basis of calculation	50 % of tax base (income net of expenses)
	Annual contribution ceiling	health insurance: no pension and unemployment policy insurance: CZK 1,701,168 (EUR 64,646)
	Health insurance	13.5 % (medical care in case of illness)
	Pension insurance	28 %
	Sickness insurance	2.1 % (not obligatory)
	Contribution to national employment policy	1.2 % (unemployment insurance)
Employed persons		
	Basis of assessment	Gross income
	Annual contribution ceiling	health insurance: no pension, unemployment and sickness insurance: CZK 1,701,168 (EUR 64,646)
	Health insurance	Employee 4.5 %, employer 9 %
	Pension insurance	Employee 6.5 %, employer 21.5 %
	Sickness insurance	0 % Employee, employer 2.1 %
	Contribution to national employment policy	0 % Employee, employer 1.2 % Employees' contributions total 11 % and employer's contributions total 33.8 % Employer also pays accident insurance (varying, depending on employment category): from 0.28 % to 5.04 %

General managers

Civil law	Service agreement
Social and health insurance	Governed as well as contributions paid by employees Management board members (stock company) and supervisory board members: social and health insurance
Income tax	Czech tax residents: income tax from employment, including all fringe benefits (the same like for employee) Czech tax non-residents: withholding tax amounting to 15 % or 35 % applicable. Tax base is calculated in the same way as the tax base for income tax from employment.
VAT	Employee: no VAT
Work permit	No work permit needed for EU/EEA/Swiss citizens
Residence permit	Automatic right of residence and settlement for EU/EEA/Swiss citizens (in case of stay longer than 30 days announcement obligation arises)
Liability	In case of negligence
Minimum remuneration	No minimum – appropriate remuneration Remuneration is tax deductible for the company

VAT

Tax rates	Standard rate: 21 % applicable also for the transfer of a residential building (except so-called welfare housing) if the building is sold within 5 years after initial acceptance of work, commissioning after significant reconstruction or first use. First reduced rate: 15 % e.g. for food, construction or assembly work performed on finished buildings, building work, renovation and construction work in apartments, houses and tenement houses for welfare housing (e.g. apartment smaller than 120 squ.m., house smaller than 350 squ.m., tenement house exclusively used for welfare housing), supply of welfare housing including land directly related to welfare housing, medical care, various medical devices, aviatic public transport, etc. Second reduced rate: 10 % e.g. for books (including e-books), certain types of medication, certain types of child nutrition and certain types of mill products used for production of groceries suitable for celiacs, public land transport, accommodation services, catering services, entry to various cultural/sport events, supply of heat, cold, tap water, etc.

VAT

Supply of goods	Supply of goods and withdrawal for private use (self-supply) are taxable. Supply of goods free of charge is also taxable, in case input VAT was previously deducted from such goods by the respective VAT payer. Harmonized rules for call-off stock arrangements applicable as of 1 September 2020.	
Place of supply of goods	Principally the place where the item is located at the time disposal is transferred (static supply). In case of dispatch/transportation by the supplier or purchaser: the place where dispatch/ transportation begins (moving supply). In case of import: in that country, where the goods are cleared through customs (customs procedure) Supply of goods on the board of a ship, airplane, railroad within the EU: the place of departure. Special regulations apply for chain transactions and triangular transactions.	
Supply of services	Supply of services and private use / supply of services without consideration (self-supply) are taxable	
Place of supply of services	From 1 January 2010 a differentiation is made between services rendered ▪ to taxable persons (“Business to Business”, “B2B”) or ▪ to non-taxable persons (“Business to Customer”, “B2C”). For purposes of determining the place of the supply of services, ▪ taxable persons with independent business activities and ▪ non-taxable legal entities with VAT registration number will be considered as “taxable persons”.	
▪ Basic rule	**B2B**	**B2C**
	Place of recipient (The place where the recipient of services has established his business)	Place of supplier (The place where the supplier of services has established his business)
▪ Special cases	**B2B**	**B2C**
Supplies of services by intermediaries	Place of recipient (Basic rule)	Place of the underlying transaction
Property services	Place of the property	Place of the property
Cultural, artistic, scientific, educational, sports, entertainment or similar services, like services in connection with fairs and exhibitions or related other services which also include services of the respective organizers. These services do not include the right of entrance for these events.	Place of recipient (basic rule)	Where the services are physically carried out
Cultural, artistic, scientific, educational, sports, entertainment or similar services concerning the right of entrance for these events (e.g. tickets for these events) and related other services connected with this right of entrance.	Where the services are physically carried out	Where the services are physically carried out
Passenger transport	Distances covered	Distances covered
Transportation of goods (without intra-community portion)	Place of recipient (basic rule)	Distances covered
Intra-community goods transportation	Place of recipient (basic rule)	Place of departure of the transport
Ancillary transport services	Place of recipient (basic rule)	Where the services are physically carried out
Appraisal and processing of movable tangible objects	Place of recipient (basic rule)	Where the services are physically carried out
Restaurant and catering services	Where the services are physically carried out	Where the services are physically carried out
Restaurant and catering services in connection with intra-community passenger transport	Place of departure	Place of departure
Hiring of means of conveyance for up to 30 days	Where the means of transport is actually put at the disposal of the customer. In case of third countries where the services are effectively used.	Where the means of transport is actually put at the disposal of the customer. In case of third countries where the services are effectively used.
Hiring of means of conveyance for over 30 days	Place of recipient (basic rule). In case of third countries where the services are effectively used.	Where non-taxable person is established (special regulations for hiring pleasure boats) In case of third countries where the services are effectively used.

"Listed services" to third country recipients	Generally place of recipient (basic rule) . However, in case the recipient is the CZ VAT payer and the service is consumed in CZ, place of the supply is in CZ (applicable for all the services with basic rule applicable).	Where non-taxable person is established
Telecom, broadcasting and TV services	Place of recipient (basic rule)	Where non-taxable person is established
Electronically supplied services	Place of recipient (basic rule)	Where non-taxable person is established
Reverse Charge (reversal of tax liability)	For all supplies of services and work supply. Special regulation (among others) for supply of building services	
Requirements	The supplier of the service has no domicile, no habitual abode, and no permanent establishment involved in the transaction, in the Czech Republic. The recipient of the supply of services is either a domestic taxable person (even with non-taxable activities), a domestic non-taxable legal entity, or a domestic legal entity under public law with Czech VAT registration number (only in special cases also a person not having domicile, place of business or fixed establishment in the Czech Republic). Special provision implemented as of 1 April 2019 for supplies of goods with installation/assembly. Newly, not-established supplier who effected supplies of goods with installation/assembly to person registered for CZ VAT cannot apply reverse-charge, if this supplier is registered as a Czech VAT payer. Reverse-charge is also applicable in case non-established entity not registered as a CZ VAT payer supplies the goods locally within the Czech Republic to CZ VAT payer.	
Consequences	Invoice without VAT, indication of the reverse charge, VAT registration numbers of the supplier and the recipient The recipient is liable for the VAT.	
Special regime for the transfer of tax liability between Czech tax payers	The tax must be declared and paid by the recipient of the supply of services or supply of goods. This applies only for: ▪ Supply of gold ▪ Supply or processing of waste ▪ Trade with emission certificates for global warming gases ▪ Provision of construction and installation work ▪ Supply of goods listed in Government regulation, e.g. metals, cereals and industrial crops, sugarcane, mobile telephones, integrated circuits, tablets and video game consoles (from 1 April 2015 for supplies over CZK 100,000 (EUR 3,800)) ▪ Transfer of immovable property in case the seller opts for taxation of the sale, i.e. sale of plots which are not considered as building plots, sale of building after 5 years after initial commissioning, commissioning after significant reconstruction or first use (from 1 January 2016)	

	▪ Resale of gas, electricity (from 1 February 2016) and telecommunication services (from 1 October 2016) under specific conditions. Provision of construction workers by outplacement agency (from 1 July 2017)
Tax exemption	Important differentiation concerning input VAT deduction
Zero rated (Input VAT deduction is applicable in spite of VAT-free supply of goods and services)	▪ Intra-community supplies of goods (as of 1 September 2020, IC Sales of goods MUST be declared also in VIES declaration in order to apply exemption from VAT) ▪ Exports of goods ▪ Supplying of services for movable assets in a third country (for a person without domicile in the Czech Republic, and the goods leave the Czech Republic after the services) ▪ Transportation and services directly connected with import and export of goods ▪ International passenger transport ▪ Exempt import of goods (e.g. so called regime 42, where the goods are imported in one EU state and subsequently dispatched to another EU state)
VAT exemption (Input VAT deduction is not applicable)	▪ Financial services (exhaustive list) ▪ Postal services ▪ Property sale ▪ Transfer of land (except building lots) and buildings 5 years after initial commissioning, commissioning after significant reconstruction or first use; for buildings acquired before 1 January 2013 the exemption time limit is still 3 years; the supplier is entitled to opt for taxation of the transfer of real property. ▪ Health services and related goods ▪ Educational services
Taxable base for supply of goods and services between related parties	The taxable base is the arms'-length price (as determined by an expert opinion) if it differs from the agreed price and the difference would affect tax liability as a whole. This applies to services between: ▪ persons connected by capital (25 %) ▪ persons connected otherwise (personally) ▪ closely related persons (relatives) ▪ association
Claim to input VAT deduction	Since 2011 onwards the conditions for claiming input VAT deduction have been changed. The claim can only be asserted at the moment the taxpayer receives the tax document.
Correction of input VAT	For real property the period for input VAT corrections is extended to 10 years (including structural improvement). For other long-term assets the period for input VAT corrections is 5 years. Correction of input VAT may be applicable also for significant repairs (value above CZK 200,000 / approx. EUR 7,600) related to the sold immovable property.
Real Estate	
Rent	Renting of immovable property (land and buildings) is VAT exempt; the lessor can opt for application of VAT if both of the following conditions are met: ▪ if the lessee is VAT payer ▪ if the lessee uses premises for business purposes

VAT

	As of 1 January 2021, opt for taxation cannot be applied for lease of premises used for housing purposes (such as lease of house, apartment, land connected to house, etc.).
Sale	Revenues from the sale of land which is neither considered as a building land nor built-on are VAT exempt; otherwise VAT regime of building is taken over. Sale of buildings is tax exempt if it occurs 5 years after initial commissioning, commissioning after significant reconstruction or first use, otherwise 21 % for residential buildings (except so-called welfare housing) and 21 % for other buildings is applied. For buildings acquired before 1 January 2013 the exemption time limit is still 3 years. The supplier is entitled to opt for taxation of the transfer of property exempt from VAT (customer who is registered as a Czech VAT payer has to provide its agreement with the taxation in advance). In case the opt for taxation has been applied and the recipient is CZ VAT payer, reverse-charge is applicable.
Leasing	If the lessee is contractually obliged to buy the real estate, a purchase of the real estate is assumed. As of 1 January 2020, also leasing contract with an option to purchase where the purchase seems as the only rational economical option will be treated as purchase of real estate. Leasing with no option to buy is treated as rental service (see above).
Input VAT refund for Czech taxable persons within the EU	Application for refund is no longer required to be made at the foreign tax authorities, instead: Electronic application (via the internet portal of the Finance ministry) to be made by the Czech taxable person at its competent Czech tax office at the latest by 30 September of the following year.
Foreign taxable persons	Taxable persons without domicile or permanent establishment in the Czech Republic.
Registration	Registration required if sales are effectuated in the Czech Republic.
Input VAT refund for taxable persons domiciled in the EU	If no sales (with some exceptions) are effected in the Czech Republic, a taxable person registered in another member state can apply for input VAT refund concerning goods and services purchased in the Czech Republic. The application must be filed electronically at the competent tax office in the member state of the establishment of the taxable person at the latest by 30 September of the following year. The application must be in the Czech language and must be accompanied by the electronic copy of the tax document if the tax base exceeds the equivalent of EUR 1,000 (EUR 250 for fuel costs). The period for which an input VAT refund can be applied is a maximum of 1 year and a minimum of 3 months. The minimum input VAT refund is EUR 400 if the refund period is less than a calendar year but more than 3 months, and EUR 50 if the refund period is the calendar year or period less than 3 months at the end of the year.
Input VAT refund for taxable persons not domiciled in the EU	If no sales are made in the Czech Republic, a taxable person registered in a third country can apply for input VAT refund concerning goods and services purchased in the Czech Republic. Input VAT is refunded based on a principle of reciprocity. Refund must be applied by 30 June of the following year. The period for which an input VAT refund can be applied is a maximum of 1 year and a minimum of 3 consecutive months (shorter period possible, if it relates to the rest of the calendar year). The minimum input VAT refund is CZK 7,000 (EUR 266) if the refund period is less than a calendar year but more than 3 months, and CZK 1,000 (EUR 38) if the refund period is the calendar year or period less than 3 months at the end of the year.
Liability for unpaid taxes	The recipient is liable if he knew or could have known that the tax was not paid on purpose, or that the supplier purposefully created a situation where he could not pay the tax, or that tax evasion or fraudulent obtaining of tax advantages was involved. Since 2013 the system of liability is extended to other cases as well e.g. the customer pays for the supply to the bank account which is not published by the tax authority (in case of payments exceeding CZK 540,000 (EUR 20,520)) or the supplier is known to be an “unreliable VAT payer”.
Special mode of tax collection	The tax can be paid by the recipient of the taxable upply on behalf of the supplier directly to the tax authorities, in case the recipient has its doubts whether the supplier will pay the due VAT.

Mergers & Acquisitions

Financing	
Financial assistance by the subsidiary	Financial assistance is possible in the Czech Republic provided certain requirements are satisfied.
Subordinate debt (mezzanine capital)	The use of subordinate debt is allowed.
Interest expenses for acquisition financing	Interest on debt used to purchase a share in a subsidiary (participation > 10 %, time period of possession at least 12 consecutive months) is not tax-deductible (exemption possible). Interest on debt used to asset deal is tax deductible (exemption possible).
Interest expense on subordinate debt (mezzanine capital)	Interest expense for subordinate debt is tax-deductible (exemption possible).
Acquisition debt push down (the debt is transferred to the subsidiary after the acquisition)	There is no special legal regulation, interest on such credit is generally regarded as tax-deductible.

Mergers & Acquisitions

Squeeze-out options		
	Possibility to exclude minority shareholders	In the Czech Republic this option is available to shareholders in a company with an interest of more than 90 % in the share capital. There is also an option for majority shareholders to take over assets.
Capital gains – corporations and partnerships		
	Sale of shares in a joint stock corporation	The gain on the sale of shares is taxable income, except the conditions of the participation exemption are met
	Sale of shares in a limited liability company	The gain on the sale of ownership interest in a limited liability company is taxable income, except the conditions of the participation exemption are met
	Sale of interest in a partnership	In the Czech Republic neither the ownership interest in a general partnership nor the ownership interest of the general partner in a limited partnership can be sold. The income from the sale of ownership interest of the limited partner in a limited partnership is taxable income.
	Parent-subsidiary exemption	Capital gains from the sale of a share in a subsidiary company with EU residency by a parent company are exempt. The minimum holding period is 12 consecutive months and the minimum interest in the subsidiary company is 10 %. Capital gains from the sale of a share in a subsidiary company with non-EU residency are also exempt under conditions stipulated in the Income Tax Act and DTAs.
Purchase of business		
	Definition	A business can be sold as a whole. The parts of the business include tangible and intangible non-current assets, current assets, liabilities, and employees as well as all the rights & obligations connected with the business.
	Valuation in statutory financial statements	Option between two methods: 1. Assets and liablities are stated at book value, the difference between book value and fair value of the business is shown among assets as special item “valuation difference”. 2. Individual assets are stated at fair value based on an expertise, liabilities are stated at book value. The remaining difference to the fair value of the business is shown on the balance sheet as goodwill or negative goodwill.
	Amortization of goodwill/ valuation difference	Goodwill is generally amortized within 60 months for financial statement purposes and over 180 months for tax purposes. The valuation difference is amortized over 180 months both for financial statement and for tax purposes.

Mergers & demergers		
	Types of mergers	Merger by acquisition or merger by formation, including cross-border mergers, takeover of assets by majority shareholders. Demerger, spin-off.
	Valuation	Merger: revaluation of companies being acquired (dissolved) in the merger. The revaluation has no tax effect. Where a parent company is merged with a wholly owned subsidiary, revaluation is possible but not required by law. In mergers of companies in common ownership with the same relationship, a revaluation is possible but not required. Valuation during demerger and spin-off has similar conditions.
	Valuation in financial accounting	Selection of two methods: 1. Assets and liabilities are recognised at carrying values, and the difference between aggregate carrying values and market values (expert valuation) is disclosed separately as an special item "valuation difference". 2. The individual assets are recognized at market values established by expert valuation, and liabilities are taken over at carrying values. Any remaining difference in the total value of the business is recognized as goodwill or negative goodwill.
	Amortization of goodwill/ valuation difference	Amortization of goodwill is generally spread within 60 months for financial statement purposes. The difference on valuation is written down over a period of 180 months for financial statement purposes.
	Tax treatment	Differences on valuation and goodwill resulting from mergers are not tax deductible.
Contributions (transfer of assets into the equity of a company)		
	Contribution in kind	Contribution in kind made by a shareholder into the equity is possible if the contributed assets are considered to be utilizable for business operations. It must be made prior to the entry of the company into the Commercial register. The value of such a contribution must be assessed by an expert opinion.
	Amortization of goodwill and difference on valuation	Amortization of goodwill is generally spread within 60 months for financial statement purposes. The difference on valuation is written down over a period of 180 months for financial statement purposes.
	Tax treatment	Differences on valuation and goodwill resulting from the contribution in kind are not tax deductible.

Double taxation agreements (DTAs)

All bilaterally concluded double taxation agreements (DTAs) in force are listed below. The right to taxation in the event of sale of interests in property companies is subject to differing provisions. In accordance with the OECD Model Agreement, for those countries for which there is a "yes" in the real estate clause column the right to taxation of share deals lies not only with the country of residence of the vendor but also with the country in which the property is situated. Where "D" is stated instead of a treaty rate, the domestic rate applies.

Country	*Effective date*[1]	*Real estate clause*	*Dividends %*	*Interest %*	*Royalties %*
Albania	10.09.1996	no	5/15	5	10
Armenia	15.07.2009	yes	10	5/10	5/10
Australia	27.11.1995	yes	5/15	10	10
Austria	22.03.2007	no	0/10	0	5
Azerbaijan	16.06.2006	yes	8	5/10	10
Bahrain	01.01.2013	yes	5	0	10
Barbados	01.01.2013	yes	5/15	5	5/10
Belarus	15.01.1998	no	5/10	5	5
Belgium	24.07.2000	no	5/15	10	5/0/10
Bosnia and Herzegovina	12.05.2010	no	5	0	0/10
Botswana	01.01.2021	yes	5	7,5	7,5
Brazil	14.11.1990	yes	15	10/15	15/25
Bulgaria	02.07.1999	no	10	10	10
Canada	28.05.2002	yes	5/15	10	10
Chile	01.01.2017	yes	15	4/10	5/10
China	01.01.2012	yes	5/10	7.5	10
Colombia	01.01.2016	yes	5/15	10	10
Croatia	28.12.1999	no	5	0	10
Cyprus	26.11.2009	yes	0/5	0	0/10
Denmark	01.01.2013	yes	0/15	0	0/10
Egypt	04.10.1995	yes	5/15	15	15
Estonia	26.05.1995	yes	5/15	10	10
Ethiopia	30.05.2008	yes	10	10	10
Finland	12.12.1995	yes	5/15	0	0/1/5/10
France	01.07.2005	yes	0/10	0	0/5/10
Georgia	04.05.2007	no	5/10	8	0/5/10
Germany	17.11.1983	yes	5/15	0	5
Ghana	01.01.2021	yes	6	10	8
Greece	23.05.1989	no	D	10	0/10
Hong Kong	01.01.2013	yes	5	0	10
Hungary	27.12.1994	no	5/15	0	10
Iceland	28.12.2000	no	5/15	0	10
India	27.09.1999	yes	10	10	10
Indonesia	26.01.1996	no	10/15	12.5	12.5
Iran	01.01.2017	yes	5	0/5	8
Ireland	21.04.1996	yes	5/15	0	10
Israel	23.12.1994	yes	5/15	10	5
Italy	26.06.1984	no	15	0	0/5
Japan	25.11.1978	no	10/15	10	0/10
Jordan	07.11.2007	no	10	10	10
Kazakhstan	29.10.1999	yes	10	10	10

Country	*Effective date*[1]	*Real estate clause*	*Dividends %*	*Interest %*	*Royalties %*
Korea	01.01.2020	yes	5	5	0/10
Kuwait	03.03.2004	no	0/5	0	10
Kyrgyzstan	01.01.2021	no	5/10	5	10
Latvia	22.05.1995	yes	5/15	10	10
Lebanon	24.01.2000	no	5	0	5/10
Liechtenstein	01.01.2016	yes	0/15	0	0/10
Lithuania	08.08.1995	yes	5/15	10	10
Luxembourg	01.01.2015	no	0/10	0	0/10
Macedonia	17.06.2002	no	5/15	0	10
Malaysia	09.03.1998	no	10	12	12
Malta	06.06.1997	yes	5	0	5
Mexico	27.12.2002	yes	10	10	10
Moldova	26.04.2000	yes	5/15	5	10
Mongolia	22.06.1998	no	10	10	10
Morocco	18.07.2006	yes	10	10	10
Netherlands	05.11.1974	no	0/10	0	5
New Zealand	07.11.2007	yes	15	10	10
Nigeria	02.12.1990	no	12.5/15	15	15
North Korea	07.12.2005	yes	10	10	10
Norway	09.09.2005	no	0/15	0	0/5/10
Panama	01.01.2014	yes	10	5/10	10
Pakistan	01.01.2016	yes	5/15	10	10
Philippines	23.09.2003	yes	10/15	10	10/15
Poland	01.01.2013	no	5	5	10
Portugal	01.10.1997	no	10/15	10	10
Romania	11.08.1994	no	10	7	10
Russia	18.07.1997	yes	10	0	10
Saudi Arabia	01.01.2014	yes	5	0	10
Serbia and Montenegro	27.06.2005	no	10	10	5/10
Singapore	21.08.1998	no	5	0	0/5/10
Slovakia	14.07.2003	no	5/15	0	0/10
Slovenia	28.04.1998	no	5/15	5	10
South Africa	03.12.1997	yes	5/15	0	10
South Korea	03.03.1995	no	5/10	10	0/10
Spain	05.06.1981	no	5/15	0	0/5
Sri Lanka	19.06.1979	no	15	10	0/10
Sweden	08.10.1980	yes	0/10	0	0/5
Switzerland	23.10.1996	no	0/15	0	5/10
Syria	12.11.2009	no	10	10	12
Tajikistan	19.10.2007	no	5	7	10
Taiwan [2]	01.01.2021	yes	10	10	5/10
Thailand	14.08.1995	yes	10	10	5/10/15
Tunisia	25.10.1991	no	10/15	12	5/15
Turkey	16.12.2003	yes	10	10	10
Turkmenistan	01.01.2019	yes	10	10	10
UAE	09.08.1997	no	5	0	10
Ukraine	20.04.1999	yes	5/15	5	10

Double taxation agreements (DTAs)

United Kingdom	20.12.1991	no	5/15	0	0/10
USA	23.12.1993	yes	5/15	0	0/10
Uzbekistan	15.01.2001	yes	5/10	5	10
Venezuela	12.11.1997	yes	5/10	10	12
Vietnam	03.02.1998	yes	10	10	10

[1] For details of effective dates of application, see applicable DTA
[2] Formally not a double tax treaty, provisions implemented via national law due to the specific position of Taiwan

Covid-19-virus relief measures

The main relief measures of the Government regarding COVID-19 can be found on our website: www.tpa-group.com/en/covid19

TPA Group

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