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# Investment in the Czech Republic

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KPMG in the Czech Republic



# Preface



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## Dear Reader,

This is one in a series of booklets regularly published by KPMG in the Czech Republic to provide information to those interested in investing or doing business here.

The purpose of [Investment in the Czech Republic](#) is to set out some general guidelines on investment and business in this country. The information contained in this booklet is of a general nature and should be used only as a guide for preliminary planning purposes. As the tax and legal systems in the Czech Republic are still comparatively new, certainty about the legal effects of transactions is sometimes less easy to obtain than in more developed economies. In addition, Czech and EU legislation is frequently amended. Accordingly, the information should be viewed only as a general guide. Please consult KPMG in the Czech Republic for specific advice concerning your situation.

KPMG in the Czech Republic employs several hundred professionals who can offer you such assistance. They would be pleased to provide you with more detailed information on the matters discussed in this publication.

Every care has been taken to ensure that the information presented is correct and reflects the situation as of February 2013.

More detailed information can be obtained from KPMG in the Czech Republic ([www.kpmg.cz](http://www.kpmg.cz)), which provides audit, tax, advisory and legal services for Czech and multinational companies, government entities and inward investors.

Thank you for taking the time to read this guide. All of us here at KPMG in the Czech Republic hope that you will find it helpful and informative.

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# General information

### Overall characteristics

The Czech Republic enjoys the status of an advanced democracy and is a country based on the free-market economy. After 1989, it went through profound political and economic reform, including a redefinition of the nation-state, and has provided a stable environment for its citizens ever since.

Czech foreign policy is pursued in an environment consisting of international organisations and institutions. The Czech Republic is a member of:

- the European Union (EU)
- the Council of Europe
- the North Atlantic Treaty Organisation (NATO)
- the Organisation for Economic Co-operation and Development (OECD)
- the United Nations
- the International Monetary Fund
- the International Labour Organisation
- the World Trade Organisation
- and others.<sup>1</sup>

The Czech Republic prides itself on having a highly developed industrial base. Its main sectors include automotive, industrial machinery and equipment, electronics, metallurgy, mining and quarrying, glass manufacture and production of beverages (beer in particular). The past decade has seen strong growth in high-tech industries, which benefited from the knowledge base of research centres and Czech universities – mainly in the life sciences, nanotechnology and aerospace. Many manufacturers also operate research and development (R&D) centres in the Czech Republic.

The service sector has shown intensive growth over the past 20 years. Originally oriented towards the national market only, it has gone through a process of internationalisation. Several Czech companies, mainly in the IT sector, have become truly global players and now rank among the global top 10 in their respective markets, or are leaders within Central Europe. At the same time, foreign companies have found the Czech Republic to be an ideal location for business support centres – in particular shared services centres, IT centres and software development centres.

<sup>1</sup> Ministry of Foreign Affairs, Členství České republiky v mezinárodních organizacích; at: [http://www.mzv.cz/jnp/cz/zajimave\\_odkazy/mezinarodni\\_organizace.html](http://www.mzv.cz/jnp/cz/zajimave_odkazy/mezinarodni_organizace.html)

The Czech Republic's growth and international competitiveness are driven by inward investment flows, significant investment into infrastructure, a skilled labour force and an ideal geographical location. This development is reinforced by the rapid growth in the number of Czech suppliers, a shift away from labour-cost-sensitive investments to high value added activities, and extensive R&D. The Bertelsmann Stiftung's Transformation Index BTI 2012<sup>2</sup> ranked the Czech Republic as the most successful country in terms of the state of its democracy and market economy in a global index of 128 countries in transformation.

### **Economy and fiscal policy**

The immediate macroeconomic challenge for the Czech economy is the long-lasting economic stagnation and the related high unemployment.

The recession started at the end of 2011 and growth is not likely to return before 2014. The roots lie equally in the lacklustre performance of the euro area – the Czech Republic's main trading partner – and in the low confidence of domestic consumers. The situation is not helped by the fiscal austerity programme of the current government, whose term expires in mid-2014. At the same time, however, the long-term fundamentals and attractiveness of the Czech economy are very solid, underpinned by a competitive export sector, fiscal prudence, a stable financial sector with a large domestic deposit base, low inflation and interest rates, and a flexible exchange rate facilitating macroeconomic adjustments.

The Czech economy is experiencing a double-dip recession. After a post-crisis recovery in 2010 and 2011 the economy contracted again in 2012 by 1.1 percent<sup>3</sup> and unemployment averaged 8.6 percent<sup>4</sup> – above the long-term average of 8 percent. Although not as deep as in 2009, the current recession is the longest since 1993 and growth is not likely to return before 2014, according to both the Czech National Bank (CNB, the central bank) and the Ministry of Finance. The economic downturn is visible in contracting domestic demand – especially household consumption – and investments, while exports keep on growing. The contraction of domestic demand, which has been weak since 2010, reflects the difficult process of restoring consumer confidence in the post-crisis era. The ongoing fiscal malaise of the euro area and the fiscal austerity package and changing tax codes enacted by the current centre-right government all add to the macroeconomic uncertainty and undermine the investment climate.

<sup>2</sup> Bertelsmann Stiftung, BTI 2012; at: <http://www.bti-project.org/index/status-index/>

<sup>3</sup> Czech Statistical Office, GDP flash estimate; at: <http://www.czso.cz/csu/csu.nsf/engineformace/cpoh021413.doc>

<sup>4</sup> Czech Statistical Office, Macroeconomic Indicators; at: [http://www.czso.cz/eng/redakce.nsf//macroeconomic\\_indicators](http://www.czso.cz/eng/redakce.nsf//macroeconomic_indicators)

Despite this, the fundamentals of the export-based economy are solid. The export sector (which accounts for 75 percent of GDP) has managed to stay competitive and is growing at a steady pace (net exports grew by about 2 percent in 2012<sup>5</sup>) in the face of an unimpressive recovery in the euro area, the most important export market. Productivity remains high and the trade balance is positive and growing. Private sector and household indebtedness remains very low – perhaps too low, given the shrinking consumption.

The resilience of the financial system is strong. It has been well tested during the financial crisis and the economy remains a safe haven for foreign investors. The country has a well capitalised and profitable banking sector and the ratio of total non-performing loans is stable (slightly above 6 percent<sup>6</sup>) despite the economic downturn. Although predominantly foreign-owned, banks are well funded from internal sources and local deposits. The large deposit base reflects a high rate of private savings, making the Czech economy a net creditor, an exception among its peers in the region. Despite the floating exchange rate, currency risk is not a serious issue, as the financial sector is not euroised and households hold low levels of foreign currency debt and assets, unlike in some other economies in the region.

Although the fundamentals are solid, the main challenge in tackling unemployment and the recession appears to be in dealing with perceptions, namely in restoring consumer and business confidence. The improving outlook for the world economy should provide the basis for the recovery of the export-dependent economy. However, an additional stimulus from macroeconomic policies is likely to be needed, too. Indeed, the fiscal austerity and rising taxes have not been helping the business climate, and the government has promised to avoid further tax increases before the next elections, scheduled for mid-2014.

After years of fiscal carelessness, the current centre-right government has embarked on a serious programme of fiscal austerity and consolidation, which aims to reduce the public deficit to below 3 percent of GDP in 2013 and provide a basis for long-term fiscal sustainability. Although public debt remains relatively low in the European context (below 40 percent of GDP<sup>7</sup>), it had been growing steadily since the end of the 1990s and suffered a significant hit during the financial crisis – in 2009 the budget deficit reached 5.1 percent of GDP<sup>8</sup>. The deficit target (agreed with the European Commission under the Excessive Deficit Procedure) should be achieved through a combination of expenditure

<sup>5</sup> Czech Statistical Office, GDP flash estimate; at: <http://www.czso.cz/csu/csu.nsf/enginformace/cpoh021413.doc>

<sup>6</sup> Czech National Bank, ARAD database; at: <http://www.cnb.cz/docs/ARADY/HTML/index.htm>

<sup>7,8</sup> Czech Statistical Office, Macroeconomic Indicators; at: [http://www.czso.cz/eng/redakce.nsf/i/macroeconomic\\_indicators](http://www.czso.cz/eng/redakce.nsf/i/macroeconomic_indicators)

cuts, higher direct and indirect tax rates, and social and health contributions. At the same time, reforms of the social security, health service and pension systems should underpin the sound fiscal position in the medium term.

Despite their dampening effect on the economy, the fiscal consolidation efforts appear to be working. The deficit target of 3 percent of GDP has practically been achieved already. The sovereign debt rating has improved in response (local currency rating: S&P – AA, Moody's – A1) and the yields on government securities have fallen to historical lows (10Y sovereign bond yields averaged 2.8 percent last year<sup>9</sup>), significantly alleviating the debt service burden on the budget.

Against the backdrop of fiscal austerity, the main responsibility for fighting the recession lies with monetary policy. The declining economy has been putting downward pressure on inflation, which threatens to fall significantly below the central bank's inflation target of 2 percent in the medium term. Although headline inflation hovered around the upper band of the target for much of 2012 (averaging 3.3 percent<sup>10</sup>), this mostly reflected the temporary effect of indirect taxes and commodity prices, while prices of domestically produced goods – as measured by the GDP deflator – have been falling for the last three years. With the tax effects evaporating by the end of 2013 and the exchange rate outlook stable, the stagnating economy is threatening to send inflation towards zero after 2013 – barring resolute action by the CNB.

The CNB has been taking extraordinary steps to combat the danger of below-target inflation and revive the economy. It cut the policy rate to close to zero in November 2012 (the policy rate is at effective zero) and has repeatedly threatened to carry out foreign exchange interventions (which would be the first since 2002) to weaken the Czech crown and support exporters. Although it is premature to judge the effectiveness of these steps (especially at a time when other central banks are considering similar steps to fight recession in their economies), the initial signs suggest that the policy is working. Nevertheless, a serious rebound cannot be expected before 2014.

<sup>9</sup> Bloomberg, 10 Year Sovereign Bond Generic; at: <http://www.bloomberg.com>

<sup>10</sup> Czech Statistical Office, Macroeconomic Indicators; at: [http://www.czso.cz/eng/redakce.nsf/i/macroeconomic\\_indicators](http://www.czso.cz/eng/redakce.nsf/i/macroeconomic_indicators)

**Table 1:** Czech Republic: Key macroeconomic indicators<sup>11</sup>

## Real economy indicators

Indicator		2008	2009	2010	2011	2012
GDP per capita	CZK/capita, current p.	368,986	358,288	361,268	365,961	365,721
GDP per capita in PPS	PPS/capita, current p.	20,227	19,406	19,536	20,230	-
GDP	%, y/y, real terms	3.1	-4.5	2.5	1.9	-1.3
Household consumption	%, y/y, real terms	3.0	0.2	1.0	0.7	-3.6
Gross fixed capital formation expenditure	%, y/y, real terms	4.1	-11.0	1.0	-0.7	-1.7
Exports of goods and services	%, y/y, real terms	3.9	-10.9	15.6	9.4	3.8
Imports of goods and services	%, y/y, real terms	2.7	-12.0	15.9	6.7	1.9
GDP deflator	%, y/y	1.9	2.3	-1.4	-0.8	1.4
Gross national saving rate	%	27.5	22.2	21.5	22.5	23.2
Gross household saving rate	%	9.5	11.4	11.5	9.8	12.7
Aggregate labour productivity	%, y/y	0.6	-2.2	2.6	0.7	-1.3
Unit labour costs	%, y/y	2.3	2.9	-0.7	-0.2	2.7
Industry – sales	%, y/y, current p.	-0.3	-15.9	9.5	7.6	1.7
Construction output	%, y/y, real terms	0.0	-0.9	-7.4	-3.6	-7.6
Services – sales	%, y/y, real terms	0.2	-9.9	-1.4	-1.9	-0.7
Agriculture – sales	%, y/y, real terms	-3.8	7.1	6.4	8.2	-
Registered unemployment rate (new methodology)	%, avg	5.44	7.98	9.01	8.57	8.6
Average real wages*	%, y/y	1.4	2.3	0.7	0.5	-0.6
CPI	%, y/y, avg	6.3	1.0	1.5	1.9	3.3

<sup>11</sup> Czech Statistical Office, Macroeconomic Indicators; at: [http://www.czso.cz/eng/redakce.nsf/i/macroeconomic\\_indicators](http://www.czso.cz/eng/redakce.nsf/i/macroeconomic_indicators)

Indicator		2008	2009	2010	2011	2012
PPI – industry	%, y/y, avg	4.5	-3.1	1.2	5.6	2.1
PPI – construction work	%, y/y, avg	4.5	1.2	-0.2	-0.5	-0.7
PPI – agricultural producers	%, y/y, avg	8.8	-24.8	5.4	19.1	4.1
Prices of exports of goods	%, y/y, avg	-4.6	0.2	-1.0	1.7	2.9
Prices of imports of goods	%, y/y, avg	-3.3	-3.5	2.0	4.3	4.2

Notes:

- = not available

y/y = year-on-year change

\* = full time equivalent, entire national economy

PPS = Purchasing Power Standards

CPI = Consumer Price Index

PPI = Producer Price Index

## Monetary indicators

Indicator		2008	2009	2010	2011	2012
CZK/EUR	avg	24.9	26.5	25.3	24.6	25.1
CZK/USD	avg	17.0	19.1	19.1	17.7	19.6
Real effective exchange rate	%	105.4	99.7	100.0	102.9	99.5
M1*	%, y/y	9.7	6.1	7.8	6.0	8.9
M2*	%, y/y	14.0	0.8	0.3	3.7	4.9
Current account/GDP	%	-2.1	-2.4	-3.9	-2.7	-2.4
Financial account/GDP	%	2.4	3.8	4.6	1.5	3.2
CNB international reserves	CZK bn	716.0	764.3	796.8	803.4	855.3
Coverage of goods and services imports by forex reserves	month	3.6	4.4	3.9	3.6	3.7

Notes:

y/y = year-on-year change

\* = end of period

## Fiscal indicators

Indicator		2008	2009	2010	2011	2012
General government deficit (surplus)/GDP	%	-2.2	-5.8	-4.8	-3.3	-3.4
General government debt/GDP	%	28.7	34.2	37.8	40.8	44.0

### Inflow of foreign direct investment (FDI)

According to the 2012–2013 Global Competitiveness Report published by the World Economic Forum<sup>12</sup>, the Czech Republic ranks 39th among 144 world economies in terms of competitiveness.

CzechInvest, the investment and business development agency of the Czech Republic, states that the Czech Republic is one of the most successful Central and Eastern European (CEE) countries in terms of attracting FDI. The introduction of investment incentives in 1998 stimulated a massive inflow of FDI into greenfield projects. The Czech Republic's accession to the EU in 2004 and the amendments to the investment-incentives legislation have further boosted investment. According to the Economist Intelligence Unit, the Czech Republic has consistently attracted a high rate of foreign direct investment per capita since 2000, which confirms the country's status as a highly attractive destination for foreign investors.<sup>13</sup>

### Modern history and government

The Czech Republic was under communist rule from 1948 until November 1989, when the "Velvet Revolution" took place. The communist party relinquished political power and the Czech Republic has enjoyed a multi-party democratic political system ever since. In 1989 Václav Havel was elected head of state, in 2003 he was succeeded by Václav Klaus; Miloš Zeman was elected president in 2013.

Until 1993, the Czech Republic was part of a federation with Slovakia, which constituted the former Czechoslovakia. Peaceful negotiations concerning the division of the country led to an agreement that the state of Czechoslovakia would cease to exist as of 1 January 1993.

<sup>12</sup> World Economic Forum, The Global Competitiveness Report 2011–2012; at: <http://reports.weforum.org/global-competitiveness-report-2012-2013/>

<sup>13</sup> CzechInvest; at: <http://www.czechinvest.org/en/why-invest-in-the-czech-republic>

Today the country's official name is the Czech Republic, and it is a parliamentary republic. Parliament is elected by universal suffrage. The lower house (the Chamber of Deputies) consists of 200 representatives and is elected on the basis of a proportional representation system. The upper house (the Senate) consists of 81 members and is elected on the basis of a plurality system. Political parties must pass a five-percent threshold to win seats in the Parliament.

## Geography and climate

The Czech Republic is located in the geographical heart of Europe, close to most major Western European economic centres. It shares borders with Austria, Germany, Poland and Slovakia. The Czech Republic has an area of 78,864 square kilometres (approximately 30,500 square miles) and consists of three distinct regions: Bohemia in the west, and Moravia and part of Silesia in the east. The climate is continental, with hot, short summers and frequently cold winters; rainfall is generally moderate.

## Population

According to the latest statistics, the population of the Czech Republic is 10.5 million (as of 1 January 2012). Population density is around 133 per square kilometre and most inhabitants live in towns and cities. Prague, the capital, is the largest city, with a population of 1,241,664. Other major urban centres include:

- Brno (378,965)
- Ostrava (299,622)
- Plzeň (167,302)
- Liberec (102,005)
- Olomouc (99,529)
- Ústí nad Labem (94,258)
- České Budějovice (93,620)
- Hradec Králové (93,490)
- Pardubice (89,552)<sup>14</sup>

The Czech Republic has a working population of about 5.2 million<sup>15</sup>. The well educated and skilled workforce, together with favourable labour costs, makes it one of the main attractions of the Czech economy.

<sup>14</sup> Czech Statistical Office, Počet obyvatel v obcích České republiky k 1. 1. 2012; at: [https://www.czso.cz/csu/2012edicniplan.nsf/publ/1301-12-r\\_2012](https://www.czso.cz/csu/2012edicniplan.nsf/publ/1301-12-r_2012)

<sup>15</sup> Czech Statistical Office, Pracovní síla dle oblastí a krajů; at: [http://www.czso.cz/csu/2012edicniplan.nsf/kapitola/3103-12-r\\_2012-104](http://www.czso.cz/csu/2012edicniplan.nsf/kapitola/3103-12-r_2012-104)

## Educational level

Ninety-two percent of the population in the 25–64 age range has completed at least upper secondary education, ranking the Czech Republic among the highest of all of the OECD countries, compared to the OECD average of 74 percent and EU average of 75 percent. Of the same age range, 17 percent have attained tertiary education.<sup>16</sup>

## Language skills

The official language of the Czech Republic is Czech. The foreign languages most widely spoken are English and German. In foreign-language education, English is predominant in primary schools while German is taught more often in secondary schools. The proportion of secondary-level students studying English is as high in vocational courses as in academic areas, and is high by European standards, at 95 percent. According to the Institute for Information on Education, 79 percent of university students study one foreign language, 19 percent study two and 1.7 percent study three or more foreign languages.<sup>17</sup>

## Living and working conditions

### Schengen area

The Czech Republic joined the Schengen area, a group of 26 European countries that have abolished all border controls between them, in 2007. Any Schengen citizen, or non-Schengen citizen with a valid Schengen visa, is allowed to travel freely throughout the 26 countries.

### Residency and visas

Foreign nationals who come to the territory of the Czech Republic are subject to the so-called Foreigners Act, which establishes two categories of foreigners:

- EU citizens; the same treatment is applied to citizens of the European Economic Area (EEA: Norway, Iceland, Liechtenstein) and Switzerland and their family members
- nationals of third countries, i.e. countries excluding the EU/EEA and Switzerland.

<sup>16</sup> OECD (2012), Education at a Glance 2012: Highlights, OECD Publishing; at: [http://dx.doi.org/10.1787/eag\\_highlights-2012-en](http://dx.doi.org/10.1787/eag_highlights-2012-en)

<sup>17</sup> Czechinvest, Skills in the Czech Republic; at: <http://www.czechinvest.org/en/educated-workforce>

EU citizens may stay temporarily in the Czech Republic, without any permit, on the basis of a passport or an identity card. Under the Act, if their intended stay is longer than 30 days, foreigners are required within 30 days of arrival to report their presence to the office of the Foreign Police responsible for the area in which they are staying. If they intend to stay in the Czech Republic for longer than three months, they can request a certificate of temporary residence or a permanent residence permit.<sup>18</sup>

Third country nationals are subject to visa policy. For short-term stays (not exceeding three months), most are required to hold a visa, while citizens of some third countries are exempt from the visa requirement. Lists of these countries can be found at: [http://www.mzv.cz/jnp/en/information\\_for.aliens/index.html](http://www.mzv.cz/jnp/en/information_for.aliens/index.html). To stay in the Czech Republic for more than three months, citizens of non-EU countries require a long-term visa or a long-term or permanent residence permit.<sup>19</sup>

Citizens of the EU, the EEA or Switzerland, and their family members, do not need a work permit in order to work in the Czech Republic.

Third country nationals may be recruited and employed, provided that:

- the foreigner has a valid work permit and a valid residence permit for the Czech Republic, or
- holds a green card (a permit for long-term residence for employment purposes in the Czech Republic under special circumstances), or
- holds a blue card (a long-term stay permit for the purpose of employment for foreigners with a higher qualification that is in demand in the Czech Republic).<sup>20</sup>

Natural persons with a permanent residence outside the Czech Republic or legal entities with a registered office outside of the Czech Republic may run a business in the Czech Republic under the same conditions and under the same limitations as a Czech person/entity. A natural person who holds a permanent residence permit or who has been granted asylum, and a legal entity with a registered office in the Czech Republic are also treated as Czech entities. Foreign nationals with permanent residence status, and asylum holders and persons granted supplementary protection therefore have the same status in terms of their ability to run a business as Czech citizens. Foreign nationals without permanent residence status in the Czech Republic (this excludes EU, EEA and Switzerland citizens) must possess a valid residence

<sup>18</sup> Ministry of the Interior, Immigration, EU citizens and their family members; at: <http://www.mvcr.cz/mvcren/article/eu-citizens-and-their-family-members.aspx>

<sup>19</sup> Ministry of the Interior, Immigration, Third-country nationals; at: <http://www.mvcr.cz/mvcren/article/third-country-nationals-third-country-nationals.aspx>

<sup>20</sup> Ministry of Labour and Social Affairs, Integrovaný portál MPSV, Green Card – Information for Employers; at: [http://portal.mpsv.cz/sz/zahr\\_zam/zelka/zam](http://portal.mpsv.cz/sz/zahr_zam/zelka/zam)

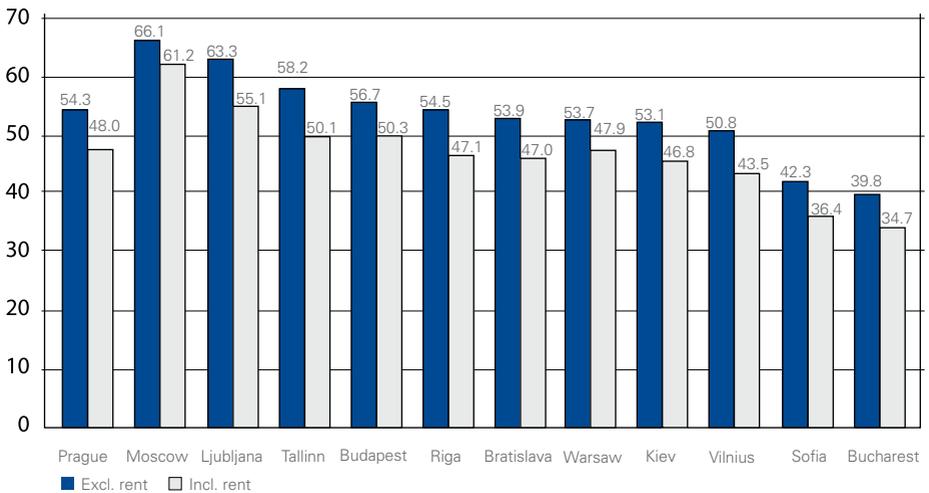
permit in order to run a business in the Czech Republic (a visa for a stay exceeding 90 days, long-term residence permit).<sup>21</sup>

More detailed information about foreign nationals in the Czech Republic can be found on the Ministry of the Interior website at: <http://www.mvcr.cz/mvcren/article/immigration.aspx>.

### Cost of living

According to UBS<sup>22</sup>, average prices of goods and services in Prague are 54.3 (excluding rent) and 48 (including rent) in comparison with a New York benchmark of 100 (based on the cost of a basket of 122 goods and services weighted according to European consumption habits). Domestic purchasing power (subject to gross hourly pay) in Prague is 45.2 compared to New York’s 100. Wage levels (calculated as effective hourly wages for 15 professions, weighted by distribution; net after tax and social security deductions) in Prague are 25.1, compared to the New York 100.

**Figure 1: Average prices of goods and services (New York = 100)<sup>23</sup>**



<sup>21</sup> Ministry of the Interior, Information Publication for Foreigners; at: <http://www.mvcr.cz/mvcren/SCRIPT/ViewFile.aspx?docid=21686490>

<sup>22, 23</sup> UBS, Prices and Earnings (Edition 2012); at: [https://www.ubs.com/global/en/wealth\\_management/wealth\\_management\\_research/prices\\_earnings.html](https://www.ubs.com/global/en/wealth_management/wealth_management_research/prices_earnings.html)

## Residential accommodation and office space

Prague and other major urban centres offer a wide choice of rented furnished and unfurnished housing for expatriates and their families, and many estate agencies offer relocation services. Sale and rental prices of residential premises vary, depending on the city, location, size and quality. The purchase price of a three-room apartment (approximately 70 square metres) in Prague ranges from USD 2,000 to 3,000 per square metre, in Brno from USD 1,500 to 2,000 per square metre, and in Ostrava from USD 950 to 1,200 per square metre. The average monthly rent for a standard three-room apartment is USD 650 in Prague, USD 400 in Brno and USD 370 in Ostrava. Prices in other cities are lower than those in Prague or Brno.<sup>24</sup>

The highest office occupancy costs in the country are in the centre of Prague: approximately EUR 272.16 per square metre per year.<sup>25</sup>

## Transport

Compared to that of Western Europe, the public transportation system in the Czech Republic is comprehensive, efficient and reasonably priced. Every major urban centre offers an excellent local transportation network.

Foreigners who hold a driving licence issued by an EU or EEA member country or Switzerland can use it for driving in the Czech Republic. Driving licences issued by other countries that comply with conditions specified in the Convention on Road Traffic entitle their holders to drive in the Czech Republic if they have a short- or long-term visa or a long-term residence permit. If they have a permanent or temporary residence permit, they need to replace their driving licence with a Czech one. Drivers with licences that do not comply with these conditions are not entitled to drive in the Czech Republic. More information can be found on the Ministry of the Interior website at: <http://www.mvcr.cz/mvcren/article/is-my-license-valid-in-the-cr-may-i-do-i-have-to-replace-it-with-a-czech-driving-license.aspx>.

The Czech Republic has 55,752 kilometres of roads in operation, of which 734 kilometres are motorways. In terms of road infrastructure, the Czech Republic ranks among the leading European countries, with a density of 0.7km of roads and motorways per square kilometre.<sup>26</sup>

<sup>24</sup> CzechInvest, Life in the Czech Republic; at: <http://www.czechinvest.org/en/life-in-the-czech-republic>

<sup>25</sup> Cushman & Wakefield, Office Space Across the World 2013; at: <https://www.cushwake.com/cwglobal/jsp/kcReportDetail.jsp?Country=GLOBAL&Language=EN&catId=100003&pld=c47100010p>

<sup>26</sup> Road and Motorway Directorate of the Czech Republic, Roads and Motorways in the Czech Republic 2011; at: <http://www.rsd.cz/doc/Silnicni-a-dalnicni-sit/silnice-a-dalnice-v-ceske-republice-2011>

Motorways and major roads carry the heaviest traffic volumes and connect the most important administrative, financial and recreational centres. Prague is at the centre of the road network. The main roads run from the capital to Brno (then on to Slovakia, Austria or through Ostrava to Poland), České Budějovice (on to Austria), Plzeň, Karlovy Vary, Ústí nad Labem (on to Germany), Liberec and Hradec Králové (on to Poland).

## Medical care

The Czech healthcare system provides a high level of professional medical care, which is paid for by a range of health insurance providers. For a foreigner seeking medical care in the Czech Republic, it is essential to have medical insurance to pay for the cost of care in the event of a sudden illness or injury. A foreigner can be insured either under the public health insurance programme or through commercial travel health insurance.

The public health insurance programme is available to the following individuals: Czech and EU citizens, foreigners with a permanent residence permit, all foreigners employed in the Czech Republic, and some foreigners in special cases as specified at: <http://www.cizinci.cz/clanek.php?lg=1&id=716>.

Detailed information on healthcare for foreign nationals can be found on the Ministry of Health website at: <http://www.mzcr.cz/Cizinci/>.

## Education

There are a number of international schools in the Czech Republic, with a growing choice of foreign-language education programmes, ranging from kindergartens to Master of Business Administration (MBA) courses.

The Czech Republic has 26 public, two state and 44 private universities<sup>27</sup>. Many offer courses in foreign languages (primarily English) and MBA programmes. For these, tuition fees usually must be paid. The Institute for Language and Preparatory Studies, Charles University in Prague (<http://ujop.cuni.cz>) offers Czech language courses for foreigners, and prepares applicants for university studies.

The Ministry of Education, Youth and Sports annually offers scholarships to foreign nationals, pursuant to bilateral intergovernmental or departmental agreements concluded with a number of countries. Regional exchange programmes include Aktion (bilateral cooperation between the Czech Republic and Austria in the field of science and education), Ceepus (programme which aims to build a Central

<sup>27</sup> Ministry of Education, Youth and Sports, Přehled vysokých škol; at: <http://www.msmt.cz/vzdelavani/prehled-vysokych-skol?lang=1>

European university network), and the International Visegrad Fund (grant and scholarship programmes through which the Czech Republic, Hungary, Poland and Slovakia develop closer cooperation in culture, science and research, and education). The Czech government also offers scholarships within its Foreign Development Assistance Programme in support of the study of foreign nationals from developing countries at public institutions of higher education in the Czech Republic. Information on scholarships can be found on the Ministry of Education, Youth and Sports website at: <http://www.msmt.cz/international-cooperation-1/scholarships?lang=2>.

A number of higher education institutions offer student mobility programmes under bilateral university agreements. European students can take advantage of a number of exchange programmes, e.g. Erasmus or EEA/Norway Grants. The Erasmus Mundus programme offers scholarships to non-European students. More information can be found at the National Agency for European Educational Programmes website at: <http://www.naep.cz/>.

### **Leisure activities**

The Czech Republic offers a wealth of sporting opportunities. The most popular sports are ice hockey, football (soccer), basketball, tennis, volleyball, swimming and table tennis, with many clubs and venues for all of these throughout the country. It has a high number of golf courses per capita and a long golfing history, dating back to the early twentieth century. More information can be found on the Czech Golf Federation website at: <http://www.cgf.cz>.

Prague and other places in the Czech Republic are famous for their architectural heritage (e.g. the UNESCO World Heritage List at: [www.unesco.org](http://www.unesco.org)). The country prides itself on numerous museums, theatres, cinemas, galleries and concert halls. There is a wide choice of cultural events, embracing all forms of music and a long theatrical tradition. Every May, Prague hosts the Prague Spring, a music festival that attracts top artists from all over the world and is a good showcase of the Czech Republic's musical tradition.

There are many international cultural institutes or clubs run by embassies in Prague and other cities, e.g.:

- British Council in Prague and Brno ([www.britishcouncil.org/czechrepublic.htm](http://www.britishcouncil.org/czechrepublic.htm))
- American Center at the US Embassy in Prague ([www.americkecentrum.cz](http://www.americkecentrum.cz))
- Goethe-Institut in Prague ([www.goethe.de/ins/cz/prag](http://www.goethe.de/ins/cz/prag))
- Österreichisches Kulturforum Prag ([www.oekfprag.at](http://www.oekfprag.at))
- Institut Français Prague ([www.ifp.cz](http://www.ifp.cz))
- Instituto Cervantes de Praga (<http://praga.cervantes.es/cz/default.shtm>)

- Istituto Italiano di Cultura di Praga ([www.iicpraga.esteri.it/IIC\\_Praga](http://www.iicpraga.esteri.it/IIC_Praga))
- Information and Culture Centre of the Japanese Embassy in the Czech Republic in Prague ([www.cz.emb-japan.go.jp/cz/icc\\_info\\_cz.html](http://www.cz.emb-japan.go.jp/cz/icc_info_cz.html)).

The Prague English speaking business and international community portal [www.expats.cz](http://www.expats.cz) provides extensive information essential to expatriates living in Prague. The International Women's Association of Prague ([www.iwa-prague.com](http://www.iwa-prague.com)) is a highly popular organisation which promotes friendship among women living in the Czech Republic by organising cultural and social activities and raises funds for selected charities.

### **Restaurants and shopping**

Restaurants of all types abound, from the most luxurious to authentic Czech pubs and a wide variety of fast food facilities. In larger cities, all kinds of international cuisine are available, alongside the country's famous pubs, which offer traditional Czech food and famous brands of Czech beer. More information can be found in on-line restaurant guides, e.g. [www.grand-restaurant.cz](http://www.grand-restaurant.cz).

Local concepts of shopping and customer service are comparable to those in Western European countries, and major international retail chains and boutiques are all present in the Czech market.

The Czech currency is the Czech crown (CZK or Kč) and is fully convertible. ATMs are widely available. Depending on the type of business and location, opening hours can vary: most offices and businesses, as well as smaller shops, are closed at weekends, while major stores are open and in larger cities an increasing number of hypermarkets are open around the clock.



# Investment incentives

The Czech Republic offers a variety of investment incentives. As of July 2012 new legislation has extended the range of projects eligible for investment incentives and included technology centres and business support services centres in addition to investments in the manufacturing industry. Subsidies from EU funds should also be made available for projects mainly in the area of research and development (R&D), training centres, shared services centres and the environment in 2013. As incentives are considered a form of state aid, they are granted in full compliance with EU state aid regulations.

## **Investment incentives for the manufacturing sector, technology centres and business support services centres**

### **Overview**

Incentives are provided under Act No. 72/2000 Coll., on Investment Incentives (the Act on Investment Incentives), and consist of:

- income tax relief for up to 10 years
- employment subsidies in the form of grants for job creation and training (available only in regions with high unemployment rates)
- purchase of land at a discounted price.

Under the new law investment incentives are now available for technology centres and business support services centres (mainly shared services centres, software development centres and high-tech repair centres). In addition, for large projects the concept of strategic investment in the manufacturing industry and in technology centres has been introduced.

The new law extends the period in which tax relief can be claimed from five to ten years.

Also, new cash subsidies of up to 7 percent of eligible costs are available for so-called Strategic Investments (certain large projects – see below).

## Current conditions

The conditions for granting investment incentives are as follows.

### Manufacturing industry

- The investor must establish a new manufacturing plant, or expand an existing plant. In other words, this also means that activities other than manufacturing (e.g. trading, logistics, mining) do not qualify for this type of incentive.
- The minimum amount that must be invested in tangible and intangible assets is CZK 100 million (approx. EUR 4 million or USD 5 million), of which at least CZK 50 million must be invested into machinery intended for manufacturing purposes, under Chapters 84, 85 and 90 of the Customs Tariff. The machinery must be new (not produced more than two years before acquisition and not yet subject to depreciation) and purchased at market price. The CZK 100 million minimum investment is, however, reduced to CZK 50 million if the investment is in a district with an unemployment rate at least 50 percent above the national average or in less-developed regions determined by the government, in which case the financing requirement (see below) is adjusted accordingly.
- The assets included in the investment project must be acquired through purchase: assets subject to finance leases, for example, cannot be included in the above investment amounts.
- The project must be financed through equity in an amount of at least CZK 50 million.
- In the case of a Strategic Investment in the manufacturing industry, the minimum amount invested in fixed assets is CZK 500 million, of which CZK 250 million must be invested into new machinery, and at least 500 jobs must be created.

### Technology centres

- The investor must establish a new technology centre, or expand an existing technology centre.
- The minimum investment amount in tangible and intangible assets is CZK 10 million (approx. EUR 400,000 or USD 500,000), of which at least CZK 5 million must be invested into machinery under Chapters 84, 85 and 90 of the Customs Tariff. The machinery must be new (not produced more than two years before acquisition and not yet subject to depreciation) and purchased at market price.
- The project must be financed through equity in an amount of at least CZK 5 million.
- At least 40 new jobs must be created.

- In the case of a Strategic Investment in the area of technology centres, the minimum amount invested in fixed assets is CZK 200 million, of which CZK 100 million must be invested in new machinery, and at least 120 jobs must be created.

#### Business support services centres

- The investor must establish a new business support services centre, or expand an existing business support services centre:
  - shared services centre
  - software development centre
  - high-tech repair centre.
- The main condition is the creation of at least 40 new jobs for software development centres or 100 new jobs for other business support services centres.

The following conditions apply for projects in the manufacturing industry, technology centres and business support services centres.

- The project must comply with Czech environmental standards.
- All the general conditions must be met within three years of the date on which the incentives are formally granted.
- Acquisition of assets for the project, including construction work, cannot start before the application for incentives (Statement of Intent) is submitted to CzechInvest and the applicant receives confirmation of project eligibility.
- If an investment has received state aid, that investment must be maintained (in the minimum amount and structure) either for at least five years from its finalisation, or for the actual period during which tax relief is claimed, whichever is longer. If wage costs of employees in newly created jobs are eligible costs, the number of new jobs created must be maintained for at least five years from when the position is first filled or the actual period during which the respective tax relief is claimed, whichever is longer.

### Income tax relief

#### Calculation

Calculation of the tax relief that can be claimed is the only significant area where the treatment of a new company (plant) differs from that of an expanded facility.

For a new company, the taxpayer is entitled to full tax relief, excluding tax on net interest income.

For an expanded plant, the amount eligible for tax relief is the difference between the tax relief that would be available for a new company and the higher

of the tax liabilities in the two years immediately preceding the first year in which relief can be claimed. The latter figure is adjusted with reference to industrial inflation and the current tax rate.

This formula can be seen as a rough attempt to restrict the amount eligible for tax relief to the additional profits resulting from the expansion.

In both cases, relief is available only in relation to the profits shown in the original tax return submitted. If a higher tax liability is subsequently assessed, the additional tax must be paid.

### Commencement and duration

The first period in which tax relief is available is that in which the incentive conditions are met, but no later than three years from the date when the incentives are granted. This is generally interpreted as meaning that the investor may choose to postpone claiming tax relief until the end of this three-year period.

The tax relief may be claimed for 10 consecutive tax periods, or until the maximum amount of state aid is reached, whichever occurs first.

### Conditions

To be able to claim tax relief, a taxpayer must meet both the general conditions set out above and the special conditions in the Income Taxes Act.

- The taxpayer must claim tax deductions as follows:
  - maximum possible tax depreciation
  - tax deductible adjustments to receivables must be created
  - tax losses carried forward must be claimed in the first taxable period in which a profit is realised.
- Except for immovable assets and certain assets acquired from bankrupt taxpayers, the taxpayer must be the “first owner” of tangible fixed assets acquired for a project in the Czech Republic.
- During the period when tax relief is claimed, the taxpayer entity must not be dissolved or subject to bankruptcy proceedings, nor may another entity be merged with the taxpayer.
- The taxpayer must not inflate profits through transactions on a non-arm’s length basis with related parties, or by transfers of the assets of such parties, which would result in their taxable income being reduced.
- The taxpayer must acquire and record in its fixed assets register tangible and intangible fixed assets in at least the amounts stated in the Income Taxes Act (see above).

## Sanctions

If the taxpayer fails to observe the general conditions in the Act on Investment Incentives or the special conditions in the Income Taxes Act (except for the requirement to claim all available deductions), the right to claim tax relief will cease to exist, and any relief already received must be refunded. Penalties for any late tax payments must also be paid. If a taxpayer fails to claim the deductions mentioned above, the tax relief is reduced, resulting in additional tax, depending on the amount of the deduction. This amount must then be paid to the relevant authorities, together with the appropriate penalties.

## Job creation

Cash grants will be provided to an employer creating new jobs in a region where unemployment was more than 50 percent above the national average in the last two six-month periods. Employees from both the Czech Republic and other EU member states can be taken into account in this calculation. The subsidy (financial support) amounts to CZK 50,000 per new job. If 1,000 or more new jobs are created, the unemployment rate in neighbouring regions will also be considered. Investments in regions not seriously affected by unemployment will not qualify for this type of financial support.

## Training and retraining of employees

Cash grants for training and retraining employees will be provided to an employer in the form of a partial reimbursement of the costs incurred. The subsidy covers 25 percent of the eligible costs of training and retraining of employees. Again, investments in regions not seriously affected by unemployment will not qualify for this type of financial support.

## Purchase of construction sites

The actual provision of this incentive depends on negotiation with the owner of the land (state, region or municipality). The difference between the market price and the actual purchase price is treated as an incentive.

## Permissible level of state aid

The combined total of tax relief, job creation grants, and benefits from a discounted purchase of land must not exceed the maximum permissible level of state aid.

The maximum permissible level of state aid will be calculated for individual investment projects by the Ministry of Industry and Trade. The amount is based on the rules set by the EU and varies according to the individual regions of the Czech Republic.

Generally, the maximum amount of state aid cannot exceed 40 percent of eligible costs.

Eligible costs comprise investment in land, buildings, machinery and equipment, and certain intangible assets. The investment into land, buildings and intangible assets can only be partially included in the eligible costs up to the amount of the value of machinery and equipment. In other words, the value of machinery and equipment must amount to at least 50 percent of the total eligible costs.

For technology centres and business support services centres, eligible costs may also comprise wage costs of employees in newly created jobs within 24 months of the month when a particular position was filled. For these purposes the investor may only count employees in new jobs which were created within three years of the date on which incentives are formally granted.

In accordance with the Regional Map for the 2007–2013 period, the permissible level of state aid is lower in certain regions (e.g. Southwest Region: 30 percent). In some cases (such as investments exceeding EUR 50 million, or production that does not fall into the category of preferred manufacturing industries) this maximum may be further reduced. On the other hand, for small and medium enterprises (SMEs) the maximum level of state aid can be increased by 10–20 percent.

The maximum permissible level of state aid for projects in the manufacturing industry which are not realised in regions with high unemployment or in preferred industries is further reduced to 75 percent of the standard maximum permissible level of state aid (e.g. Southwest Region: 22.5 percent, other regions: 30 percent).

In the case of tax relief, the percentage is applied on an annual basis with reference to the amount invested into eligible costs at the end of each taxable period. It is therefore possible that in some circumstances, e.g. if profits are realised before the full investment has been made, the tax liability in a given period will exceed the amount of state aid available for such a period.

## **Application for investment incentives**

The process of obtaining incentives entails the following.

### **Greenfield investment:**

- submission of an initial application by the person intending to make the investment – for a greenfield investment this would be the shareholder(s) of the Czech entity to be established
- consideration of the application by the relevant government bodies
- following approval, an offer of incentives is made
- a formal application for the incentives by the person actually claiming them; this may be a person other than the investor, e.g. a Czech subsidiary of a foreign investor set up after the incentives are offered
- final consideration and approval.

### **Expansion investment:**

- submission of an initial application by the person intending to make the investment
- consideration of the application by the relevant government bodies
- final consideration and approval.

Careful attention should be paid to a number of significant issues arising from this process. It is important to review all possible issues at the start of the project and also consider potential issues which can arise during realisation of the project. Therefore, professional advice is strongly recommended before filing an application.

From the timing perspective, one should bear in mind that incentives are available only for future investments, so it is imperative that the application is submitted before the project commences. This restriction has an impact not only on the actual construction work or purchase of machinery, but also some other steps, e.g. the issue of binding orders for machinery.

## EU Structural Funds

### The Czech Republic (excluding Prague)

Businesses set up in the Czech Republic can also obtain support from EU Structural Funds under several Operational Programmes. The most important programmes for businesses are:

- the Operational Programme Enterprise and Innovation
- the Operational Programme Human Resources and Employment
- the Operational Programme Environment.

Although the majority of the programmes are focused on small and medium enterprises, several programmes are aimed at large enterprises.

All operational programmes will run from 2007 to 2013. This, however, does not mean that they will offer similar conditions and subsidies over the whole period. A different set of subsidies is available under each programme, and conditions change periodically. In addition, new applications are accepted only in certain periods announced in advance. The availability of subsidies must be checked in the early stages of project preparation so that the timing of the application and detailed conditions can be considered.

Subsidies granted under EU Structural Funds are generally subject to the same state aid rules and limits as investment incentives.

From 2014 a new scheme will be introduced, although it is generally expected that part of the procedures and conditions will be similar to existing programmes.

Due to the transition from the current regime (2007–2013) to the new one (2014–2020), availability of subsidies is limited at present. Therefore, as many individual programmes are unavailable during 2013, details on them are not provided here. Upon request, KPMG in the Czech Republic would be pleased to discuss particular investment plans and consider what funding may be available.

# Commercial law

## General

The basic provisions governing business obligations and other specific aspects of doing business in the Czech Republic, e.g. property leases and liens or mortgages on property, are set out in the Civil Code and the Commercial Code.

The Commercial Code addresses the main aspects of Czech corporate law. It also contains detailed provisions governing contractual relationships in business transactions (e.g. purchase contracts, contracts for work, contracts for the sale of a business, lease contracts or credit contracts). Insolvency is governed by the Act on Insolvency.

## Types of business entity

The Commercial Code recognises the following types of business entity:

- joint-stock companies
- limited liability companies
- general partnerships
- limited partnerships
- co-operatives
- Societas Europaea (European companies)
- European Economic Interest Grouping (EEIG).

In addition, foreign persons may establish a branch in the Czech Republic. A branch is not a legal entity but must be recorded in the Commercial Register.

The Commercial Code regulates the status and activities of entrepreneurs and applies to both legal entities and individuals. An entrepreneur is:

- a person recorded in the Commercial Register, or
- a person engaged in business activity on the basis of a trade certificate (*živnostenský list* or *koncesní listina*), or
- a person engaged in business activity on the basis of an authorisation issued under a special legal regulation (e.g. attorneys, doctors, auditors or tax advisors), or
- a natural person engaged in agricultural activities and recorded in an appropriate register.

A Czech legal person is an entity that has its registered office in the Czech Republic.

Foreign persons are defined as persons (natural or legal) domiciled abroad or having their registered office outside the Czech Republic.

A foreign person's authorisation to carry out business in the Czech Republic takes effect on the date when it is recorded in the Commercial Register. The business activity must be specified in the entry. This rule does not apply to citizens of member states of the EU, the EEA or Switzerland, their family members who have Czech residence permits, citizens of other states with long-term residence in the EU and their family members with long-term residence permits.

A foreign person may participate in the establishment of a Czech legal entity or become a partner or member of an existing Czech legal entity. A foreign person may also be the sole founder of a Czech legal entity, provided that Czech law permits a company to have a sole founder or single shareholder.

The main characteristics of the various legal entities are described below.

### **Joint-stock company (*akciová společnost – a. s.*)**

- The company exists independently of its shareholders, who are not liable for the debts and obligations of the company.
- The amount of registered capital and the extent to which it is paid up, the number, class, type and nominal value of shares, any restrictions applying to the transferability of shares and the names and addresses of the members of the supervisory board must be recorded in the Commercial Register. For a single shareholder joint-stock company, the shareholder details must also be recorded.
- Share capital may not be less than CZK 2 million or, in the case of a public offering of shares, CZK 20 million.
- Share capital is divided into a fixed number of transferable shares of a fixed nominal value; they may be registered shares or bearer shares.
- A reserve fund must be created, amounting to 20 percent of the net profit for the first year of profit, up to a maximum of 10 percent of the share capital. In addition, 5 percent of the net profit after tax must be transferred to the reserve fund each year until it reaches 20 percent of the share capital.
- A joint-stock company requires an audit if one or more of the following criteria are met for both the year in question and the preceding year:
  - net turnover exceeds CZK 80 million per annum
  - total assets exceed CZK 40 million
  - the average number of employees exceeds 50.

- Annual financial statements must be published.
- The company must have a supervisory board and a board of directors. Each must have at least three members, appointed for terms not exceeding five years. Directors cannot be members of the supervisory board. In the case of a company with a single shareholder, the board of directors may have fewer than three members; however, the requirement to have at least three members of the supervisory board would still apply.
- Non-cash contributions to share capital must be valued by an independent, court-appointed expert proposed by the founders (when a company is being established) or the company (share capital increase). The valuation is binding on the company.
- Rights to receive dividends and other rights attached to the shares may be transferred separately from the shares to which the rights are attached.
- A share's issue price may not be lower than its nominal value.

### **Limited liability company (*společnost s ručením omezeným – spol. s r. o. or s. r. o.*)**

- The company exists independently of its shareholders (members), who are jointly and severally liable for the obligations of the company only up to the amount of total unpaid contributions recorded in the Commercial Register.
- The name must include *společnost s ručením omezeným* or the abbreviation *spol. s r. o. or s. r. o.*
- The list of members, the amount of each member's contribution and the names of the members of the supervisory board (if one is established) must be recorded in the Commercial Register.
- The company must have a registered capital of at least CZK 200,000.
- Each member must contribute at least CZK 20,000.
- The maximum number of members is 50.
- A reserve fund must be created, amounting to 10 percent of the net profit in the first year of profits, up to a maximum of 5 percent of the registered capital. Of the net profit after tax, 5 percent must be transferred to the reserve fund each year, until it reaches 10 percent of the registered capital.
- A supervisory board is only necessary if required by the memorandum of association.
- The general meeting appoints an executive (*jednatel*) or executives, who are legally responsible for the management of the company and whose details, including information on their authorisation to act on behalf of the entity, must be recorded in the Commercial Register.

- A limited liability company does not require an audit unless two or more of the following criteria are met, for both the year in question and the preceding year:
  - net turnover exceeds CZK 80 million per annum
  - total assets exceed CZK 40 million
  - the average number of employees exceeds 50.

### **General partnership (*veřejná obchodní společnost – veř. obch. spol. or v. o. s.*)**

- A general partnership is formed by two or more persons (natural persons or legal entities).
- The partners in a general partnership are liable for the debts of the company.
- The names and addresses or registered offices of the partners must be recorded in the Commercial Register.
- Each partner is entitled to act on behalf of the partnership and is jointly and severally liable for the partnership obligations to the extent of his or her entire property.
- The audit requirements are the same as for a limited liability company.

### **Limited partnership (*komanditní společnost – kom. spol. or k. s.*)**

- A limited partnership is formed by two or more persons (natural persons or legal entities). At least one of the partners must be a general partner, with unlimited liability for the debts of the partnership. At least one partner must be a limited partner, liable for the partnership's debts only up to the amount of unpaid contributions recorded in the Commercial Register.
- The names and addresses or registered offices of the partners, a statement on whether they are limited or unlimited partners, the amount contributed by each limited partner and the amount of their paid up contributions must be recorded in the Commercial Register.
- Only unlimited partners are permitted to manage the partnership.
- The audit requirements are the same as for a limited liability company.

### **Co-operative (*družstvo*)**

- Co-operatives are formed by at least five members (or by at least two legal entities) to undertake business activities for the economic or social benefit of their members.
- The amount of registered capital and the amount of the members' "basic investments" must be entered in the Commercial Register.
- Members are not liable for the obligations of the co-operative.
- A co-operative must have a registered capital of at least CZK 50,000.
- A fund of at least 10 percent of the registered capital must be created upon incorporation. At least 10 percent of the profits after tax must be transferred annually to the fund until it reaches at least 50 percent of the registered capital.

- The statutory representatives must either be Czech citizens or have Czech residence permits.
- The audit requirements are the same as for a limited liability company.

### **Branch of a foreign person (*organizační složka zahraniční osoby*)**

- Branches of foreign businesses can conduct business activities in the Czech Republic if they are recorded in the Commercial Register.
- The entry should include details of the foreign business and its office in the Czech Republic, the scope of business activities and the name and address of its director (general manager).
- A branch must obtain a trade licence from the regional Trade Licensing (Business Registration) Office.
- A branch does not have limited liability.
- The audit requirements are the same as for a limited liability company.

## **Company formation**

The legal documents required to form a company include:

- a draft of the company's memorandum of association and articles of association or deed of formation (for companies with a single founder)
- for joint-stock and limited liability companies, expert valuations of any non-monetary contributions
- the minutes of the first general meeting of the shareholders
- the licence for trading activities issued by the regional Trade Licensing (Business Registration) Office
- proof that capital contributions are paid up
- documentary evidence of the person authorised to sign documents in the name of the company or the members
- proof of identity of the shareholders (members)
- an extract from the Criminal Register in respect of executives or responsible persons
- a lease contract or a similar document confirming the right to use premises as the registered office
- evidence of a bank account and payment of the required minimum of contribution to the share capital (usually after formation but before registration in the Commercial Register).

## The Commercial Register

Commercial Registers are maintained by the courts. A company has legal status and is entitled to commence business activity in the Czech Republic only after it is recorded in the Commercial Register.

An entry in the Commercial Register includes the following information:

- the name of the entity and the address of its registered office
- identification number of the entity
- the scope of business activities
- the type of entity
- the names and addresses of the executives or directors, together with details of their authorisation to act on behalf of the entity
- details of any branches and the branch directors
- for a joint-stock company: the nominal capital, number and nominal value of the shares of each class, names and addresses of the supervisory board members; if a joint-stock company has a single shareholder, the shareholder's name
- in the case of a limited liability company: the names and addresses of the members, the proposed nominal capital, the amount of each individual member's contribution and the names and addresses of the supervisory board members (if relevant)
- for a general or limited partnership: the names and addresses of the partners
- in the case of a co-operative: the proposed registered capital, and the amount of each member's contribution
- in the case of a branch: its business name and address in the country of incorporation, the scope of its business activities, the legal form of the company in its country of origin, the business address in the Czech Republic, and the name and address of the branch director.

Access to the Commercial Register is freely available on the Internet ([www.justice.cz](http://www.justice.cz)).

## Statute of limitations

The Commercial Code generally sets the deadline for submission of business-related claims (i.e. the point at which they become time-barred) at four years, although claims against carriers or forwarding agents must be filed within one year.

The period for claiming compensation for damages expires 10 years after the breach of duty occurs. A party against whom the claim becomes time-barred may repeatedly extend the limitation period, for up to a maximum of 10 years, by providing a written statement to the other party.

## Liquidation

Voluntary liquidation is governed by the Commercial Code and decided on by a resolution of the shareholders (members) of the company. Executives or directors are responsible for appointing and setting the remuneration of liquidators, who then assume the powers of the executives or directors. The liquidator is obliged to publish a notice of liquidation to enable creditors to submit claims. Except for bankruptcy cases, employee claims have priority.

The liquidator's powers are restricted to acts necessary to complete the liquidation. If it is established that the company is insolvent, the liquidator must file for bankruptcy.

Upon settlement of all liabilities, the liquidator must produce a report indicating how any surplus assets are to be distributed, subject to approval by the shareholders.

The acts of the liquidator may be challenged in the courts by any interested party. Under certain circumstances, the courts may dismiss the liquidator and appoint a successor.

## Insolvency

The Act on Insolvency applies to both individuals and legal entities. A petition for insolvency can be submitted by either the debtor or any creditor. Proceedings are held at the regional or municipal court.

The debtor is obliged to submit a petition for insolvency where there is more than one creditor, liabilities are more than 30 days overdue, and the debtor either is not capable of paying these debts, or where the liabilities are greater than assets, taking into account any future profits and other factors influencing the debtor's solvency. If this obligation is not met, civil liabilities may ensue.

Insolvency can be resolved by the following.

- Bankruptcy proceedings (*konkurs*), involving a proportional rate settlement of debts. If the bankrupt's turnover does not exceed CZK 2 million and there are no more than 50 creditors, simplified proceedings can be used. The bankruptcy de facto leads to the liquidation of the bankrupt.

- Reorganisation, consisting of settlement of debts over time, and continuation of the bankrupt's business activities. Reorganisations are automatically available only for bankrupts with turnover exceeding CZK 100 million or at least 100 employees. Reorganisation for smaller enterprises requires the approval of more than 50 percent of the creditors.
- Debt forgiveness (*oddlužení*): similar to reorganisation, but only applying to persons not carrying on business activities.
- Special proceedings if certain conditions are met.

Once an insolvency order has been granted, the court appoints an administrator, who then has the authority to handle the assets. The court will also convene a meeting of creditors.

The Act on Insolvency allows a trustee in bankruptcy to contest acts that restrict its ability to recover funds from the debtor. This action has to be granted within one year of commencement of the insolvency proceedings. It is possible to override transactions that were carried out, up to three years before submission of the petition for insolvency, if the transaction was with related parties, or up to one year in other cases. In certain cases, transactions can be contested up to five years later.

# Accounting and audit

## Accounting requirements

Over the last few years, changes in Czech accounting rules have moved Czech accounting closer to International Financial Reporting Standards (IFRS), although there are still some significant differences.

The Act on Accounting serves as the main framework, and detailed guidance is provided in the Decrees on Double-Entry Accounting and the Czech National Accounting Standards. Different Decrees and Standards specify the rules and standards for different types of accounting unit, e.g. companies, entrepreneurs, banks, insurance companies and non-profit organisations, as well as municipalities and institutions financed by the state.

The main features of the accounting regulations are as follows.

- All accounting records must be in Czech.
- All accounting records must be kept and financial statements presented in Czech crowns (CZK).
- Standard rules and accounting principles must be observed.
- The general structure of the accounts must be in accordance with a standard chart of accounts, although the specific details may vary according to individual organisational needs.
- All businesses recorded in the Commercial Register are obliged to use double-entry bookkeeping. Accounting units that are not recorded in the Commercial Register and whose annual turnover does not exceed CZK 25 million are permitted to keep simplified accounting records (“tax evidence system”).
- The depreciation of fixed assets for accounting purposes is determined by the individual accounting unit, based on the estimated useful life of the assets.
- A physical count of inventory and fixed assets is required annually.
- Statutory financial statements consist of a balance sheet, an income statement (at a minimum classified by nature) and notes. They may also include a cash-flow statement and a statement of changes in equity. The layout and headings of the balance sheet and the income statement and minimum disclosures in notes are prescribed in the Decrees.
- A separate annual report must be prepared by all accounting units that are subject to a mandatory statutory audit.

- All accounting units with shares or bonds publicly listed in the EU must maintain books and prepare their financial statements in accordance with IFRS as adopted by the EU.
- The Act on Accounting requires that consolidated financial statements be prepared for an accounting unit that is a managing or controlling entity. Subsidiaries and accounting units over which significant influence (20 percent of the voting rights) is exercised are deemed consolidated accounting units. This applies to consolidating groups that meet at least two of the following criteria as at the balance sheet date:
  - the combined turnover (without elimination) exceeds CZK 700 million
  - the combined assets (without elimination) of the parent company and the subsidiaries exceed CZK 350 million
  - the average number of employees during the accounting period was more than 250.

The exemption from the duty to prepare consolidated financial statements does not apply to banks, insurers and reinsurers, and publicly listed share or bond issuers.

Consolidation is also not obligatory where the consolidating entity is a part of another consolidating entity that is governed by Czech law or the law of an EU member state, and where specific conditions prescribed by the relevant Decree have been met.

It is possible to specify a business year-end other than 31 December, provided there are valid reasons.

## **Accounting principles and policies**

The going concern, materiality, prudence, matching and consistency principles must all be observed during the preparation of Czech statutory financial statements. The true and fair view concept has been fully introduced in the Czech Republic. The fair value accounting concept has been implemented only in certain specific areas, and in the same scope as in IFRS. The legal form, however, frequently overrides substance.

Common accounting policies followed in the Czech Republic include the following.

- Fixed assets are stated at acquisition cost and are depreciated over their expected useful lives. Component accounting is allowed but not required.

- The option to value an investment at cost or at fair value. In this particular case, fair value is defined as the market price. An adjusted equity method (based on net asset amount) can be used if the market price is not available.
- Inventories may be accounted for using standard, average, or first-in, first-out (FIFO) principles. The last-in, first-out (LIFO) method is not permitted.
- Goodwill (intangible asset) or an adjustment to acquired fixed assets (tangible asset) arises on acquisitions and transformations of businesses: the classification depends on the precise nature of the transaction. Goodwill is most frequently amortised over 60 months from the date of acquisition. An adjustment to acquired fixed assets is most frequently amortised over 180 months.
- Both realised and unrealised exchange gains and losses arising from monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Under Czech accounting legislation, there is no concept of a finance lease (leased assets are generally treated as fixed assets by the owner, not by the lessee), unlike the finance lease concept under IFRS. Finance leases are treated similarly to operating leases.

Deferred income tax should be recognised for all timing differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which it can be utilised.

The extent of disclosures in the Czech accounting legislation is considerably less demanding compared to IFRS.

## **Auditing requirements**

Audits are compulsory for:

- all banks and mutual funds
- foundations and certain other non-profit organisations
- joint-stock companies that in both the current and the previous accounting period meet at least one of the following criteria:
  - net turnover exceeds CZK 80 million per annum
  - total assets exceed CZK 40 million
  - the average number of employees exceeds 50
- other accounting units that meet at least two of the above criteria.

The Act on Auditors defines the responsibility of the Chamber of Auditors, which is responsible for the authorisation of auditors and for setting the standards for audits. Audits are carried out in accordance with the International Standards on Auditing issued by the International Federation of Accountants (IFAC) and the relevant guidance (*aplikační doložky*) of the Chamber of Auditors of the Czech Republic.

A new Act on Auditors came into effect in April 2009, which implemented the provisions of the EU 8th Directive. There are detailed rules regarding the appointment of auditors in the Act: auditors must be appointed by the general meeting, a supervisory board is responsible for audit quality supervision, and public interest entities are defined. Responsibilities for both public interest entities and their auditors are stipulated in the Act, e.g. audit committee, lead partner rotation, and transparency report.

There are currently approximately 1,300 state-registered auditors in the Czech Republic.

# Direct taxes

### Taxation of legal entities

Corporate income tax is levied on the profits of legal entities, primarily limited liability companies (*s. r. o.*) and joint-stock companies (*a. s.*). Although partnerships are legal entities according to the Commercial Code, the profits of a general partnership (*v. o. s.*) are not subject to corporate tax; instead, the partners' share of the profits is taxed in their own hands. In the case of a limited partnership (*k. s.*), the limited partner's share of the profits is subject to corporate income tax at the level of the limited partnership, while the general partner's share is taxed in the same way as in the case of a general partnership.

A branch or permanent establishment of a foreign company is generally subject to tax on the same basis as a company. It is also possible to tax them on a deemed profit basis, which is usually a percentage of revenues generated in the Czech Republic, or a percentage of costs.

Since most of these legal entities by definition exist for the purpose of carrying on a business, virtually all the income and gains which they realise are included in the calculation of their business profits (see below). There are special rules for entities not established for the purpose of making profits. These enjoy certain restricted tax privileges.

The corporate income tax rate is 19 percent in 2013. A reduced rate of 5 percent applies to the income of qualifying investment, mutual and pension funds. Exemptions from corporate tax may be claimed for certain qualifying investments (see Chapter 2 – Investment incentives).

Electricity produced from solar power from 1 January 2011 to 31 December 2013 in a facility which was put into operation between 1 January 2009 and 31 December 2010 is subject to mandatory payments by the operators of transmission networks or operators of regional distribution networks. The mandatory payment is based on the amount earned by the producer (excluding VAT) in the form of an agreed tariff or a green bonus. The rates are 26 percent of the agreed tariff and 28 percent of the green bonus.

Capital gains are generally included in income and taxed at the same rate. However, if at least 10 percent of the shares of a company is held by a parent company for 12 months, income from the sale of the shares is tax exempt if the parent is a Czech tax resident company and the subsidiary is resident in an EU member state or a non-EU member state with which the Czech Republic has concluded a double taxation treaty (subject to certain conditions). Income derived by non-residents from the sale of shares in a Czech company is taxable, unless the seller is a company resident in the EU, Norway or Iceland, and at least 10 percent of the shares has been held for 12 months.

There is no tax consolidation in the Czech Republic. Each company within a group is taxed individually, with no set-off of losses against profits of a different company. However, virtual tax consolidation can be achieved through a partnership structure.

Dividends received by Czech resident companies are taxed at a rate of 15 percent. They are exempt from tax if the payer is a company resident in an EU member state, provided that at least 10 percent of the shares has been held for 12 months.

The exemption also applies if all of the following criteria are met:

- the payer is a tax resident of a state with which the Czech Republic has concluded a double taxation treaty
- the payer has a similar legal form to a limited liability company (*s. r. o.*), joint-stock company (*a. s.*) or co-operative (*družstvo*)
- the recipient has held at least 10 percent of the shares for 12 months, and
- the payer is subject to a tax similar to Czech corporate tax, and the rate is at least 12 percent.

The exemption only applies where the recipient is the beneficial owner of the income.

Mergers and divisions of companies can generally be carried out on a tax neutral basis, although any pre-2004 tax losses of a company which no longer exists are forfeit. The EU Mergers Directive and the EU Cross-Border Merger Directive have been broadly assimilated into Czech law. In general, domestic legislation maintains the tax neutrality of mergers and allows the transfer of unused tax losses for transactions satisfying certain legal conditions (transfers of business and mergers), provided that tax avoidance is not the main purpose of the transaction. Additionally, there is a "same activity" rule, under which tax losses can only be offset against income earned from the economic activity that generated the tax loss.

## Taxation of business income

The starting point for computing the taxable profit is the profit before tax in the Czech statutory financial statements. This is then subject to adjustments under the Income Taxes Act. Unless this Act contains a provision to the contrary, income and expenses booked for accounting purposes are taxable/deductible. Where capital gains form part of business profits, they are taxable as normal income or are exempt under the participation exemption rules.

For companies, the tax year is generally the same as the financial year. It is possible to adopt a financial year ending on a date other than 31 December provided that it is the last day of a calendar month. If the financial year-end changes, there are provisions in the Income Taxes Act for dealing with the resultant long or short period. However, these are not perfectly drafted and numerous issues can arise in such cases. Individuals are always taxed on a calendar year basis.

The Income Taxes Act attempts to define in some detail which expenses are deductible and which are not. The general rule is that expenses incurred for the purpose of generating, assuring or maintaining taxable income are tax deductible.

Disallowable expenses include:

- capital expenditure
- most reserves (including adjustments to the realisable value of inventory)
- most valuation differences intended to show assets at fair value rather than cost
- accounting depreciation of tangible and intangible assets
- gifts and entertainment
- expenses incurred to generate non-taxable income
- profit distribution
- expenses limited by the thin capitalisation rules (see below)
- expenses of a parent company relating to holding shares in a subsidiary; interest on credits and loans taken less than six months before acquisition of the shares is considered to be an expense directly attributable to the shareholding in a subsidiary unless the payer can prove otherwise.

Indirect expenses relating to the holding of shares in a subsidiary are restricted to 5 percent of income from dividends and other profit shares paid out by the subsidiary unless the taxpayer can show that the actual indirect expenses are lower.

Deductible items include:

- tax depreciation of tangible and intangible assets
- lease payments, subject to certain restrictions
- certain reserves, as set out in the Act on Reserves
- expenses on the liquidation of raw material, goods, work-in-progress and products; the reason for liquidation, means, time, place and the nature of the items should be documented
- remuneration for directors and members of supervisory boards incurred after 1 January 2012.

A special deduction equal to deductible expenditure on research and development (R&D) can be claimed which effectively means that such expenditure is deducted twice; this deduction, if not used in the period in which it arises, may be carried forward to the next three tax periods.

Lease rentals are generally deductible on an accruals basis, except for finance leases (“finance lease with subsequent purchase of the leased asset”). Payments under finance leases are only deductible if the following conditions are met:

- the lease term is at least equal to the minimum tax depreciation period in the Income Taxes Act (i.e. 36 months for assets in the first depreciation category, 60 months for assets in the second depreciation category, 120 months for the assets in the third depreciation category) except for assets in the second or third category where the lease term can be shorter by six months; the lease term for real estate must be at least 30 years, and
- the sales price does not exceed the tax residual value calculated using straight-line depreciation.

If the lease term is shorter than the minimum tax depreciation period, the lease rentals are still tax deductible (provided that other relevant conditions are met) if the sales price is at least equal to the deemed tax residual value.

The Act on Reserves allows restricted deductions for bad debt reserves and write-offs. It also allows taxpayers to create tax deductible reserves for future repairs, subject to the existence of supporting evidence in the form of project plans, etc. However, reserves created from 2009 are only tax deductible if funds are transferred to a separate bank account by the due date for filing the annual tax return.

The Act on Reserves contains special rules for loan provisions for banks and reserves for insurance companies.

Tax depreciation can be claimed on fixed assets. Tangible fixed assets are divided into six categories broadly reflecting the expected useful life, as follows.

Depreciation category	Depreciation period
1: IT equipment, certain machinery, etc.	3 years
2: Personal cars, office equipment, certain machinery, etc.	5 years
3: Heavy machinery, etc.	10 years
4: Pipelines, etc.	20 years
5: Buildings other than those in category 6	30 years
6: Administrative and commercial buildings, hotels, department stores	50 years

For assets in groups 1 and 2 acquired between 1 January 2009 and 30 June 2010, the depreciation period is reduced. For assets in depreciation group 1, the depreciation period is reduced to one year; for assets in depreciation group 2, the period is reduced to two years. To ensure equal conditions, a similar adjustment is made to the lease term for assets acquired under finance leases.

Special provisions apply for fixed assets used in solar power plants. These assets are depreciated over 240 months and the tax depreciation must be claimed (unlike depreciation on other tangible assets). To ensure equal conditions, a similar adjustment is made to the lease term for such assets acquired under finance leases.

Depreciation may be claimed on either a straight-line or an accelerated basis. The accelerated depreciation method applies a series of coefficients to the input price of the asset. For example, the coefficients for industrial buildings (category 5) are:

- year 1: 30
- subsequent years: 31.

In other words, the coefficient for the first year is the depreciation life, and for the subsequent years it is the depreciation life plus 1.

The depreciation is calculated as follows.

- In the first year the amount of tax depreciation is the input price divided by the coefficient.
- In subsequent years the depreciation is twice the residual value, divided by the appropriate coefficient less the number of years for which depreciation has been claimed.

A special accelerated rate may be used in the first year of depreciation (provided that other relevant conditions are met) which reduces the depreciation base.

The tax depreciation periods for intangible assets are:

- audiovisual products: 18 months
- software and R&D: 36 months
- incorporation expenses: 60 months
- other intangibles: 72 months.

Goodwill is not an intangible asset for tax purposes. For tax purposes, goodwill is defined as the difference between the value of an enterprise or a part of an enterprise, acquired by purchase, and the aggregate of the market value of its individual assets, reduced by liabilities taken over. The tax depreciation period for goodwill is 180 months, while the accounting depreciation period is five years. Goodwill that does not arise on a purchase, e.g. on a merger, is not depreciable for tax purposes. Instead of accounting for goodwill, the difference between the aggregate of accounting residual values of an enterprise (decreased by liabilities) and the market value of the enterprise can be accounted for as a single revaluation difference without revaluation of the individual assets and liabilities. The accounting and tax depreciation period for this is 180 months.

Tax losses may be carried forward for five years. Losses may not be carried forward following a substantial change in the ownership of a company unless it can be shown that at least 80 percent of the company's revenues are derived from the same activities as those carried on in the period when the loss arose. A change of at least 25 percent in the ownership of the registered capital or the voting rights, or a change resulting in a person obtaining a controlling influence in the company, is always a substantial change.

A taxpayer can apply to the authorities to confirm the availability of the carried forward losses after the end of the taxable period in which the losses are to be used.

## **Transfer pricing/thin capitalisation**

The Income Taxes Act contains two basic provisions relating to transfer pricing and thin capitalisation.

Transfer pricing is dealt with in a short provision that states that if prices agreed in transactions between related parties are not at arm's length and the difference is not properly justified, the tax authorities will adjust the tax base. It is possible to request an advance pricing agreement from the tax authorities on the method

of setting the transfer price between related parties. No retroactive agreements are possible. An administration fee of CZK 10,000 is charged per transaction.

In addition to the provisions of the Income Taxes Act, the Ministry of Finance has issued the following Guidelines.

- D-332 confirms that the OECD Transfer Pricing Guidelines are applicable.
- D-333 provides detailed information about the procedure of advance pricing agreements.
- D-334 recommends transfer pricing documentation; it is based on the Code of Conduct issued by the EU Joint Transfer Pricing Forum in November 2005.

D-10 contains simplified transfer pricing documentation requirements for “low value added transactions” to reduce the administrative burden for both the tax authorities and taxpayers. These are transactions which do not constitute the main business activity of a company and represent routine functions. Such transactions should not constitute more than 10 percent of the supplier’s turnover or 20 percent of the purchaser’s operating profit and their value should not exceed CZK 50 million.

The Guidelines are not legally binding measures, but given that the tax authorities should follow them, they represent useful guidance for taxpayers.

The thin capitalisation provisions act to restrict the deductibility of interest and other loan expenses where the borrower has insufficient equity. The rules can be summarised as follows.

- Financial expenses arising from loans and credits received from related parties in excess of four times (six times for banks and insurance companies) the borrower’s equity are not tax deductible.
- Interest on loans and credits received from unrelated parties, or those secured by a related party, is fully deductible on general principles, except for interest on “back-to-back” loans (i.e. where a related party provides a loan, credit or deposit to an unrelated party, which then provides the funds to the borrower) which is treated as interest on related party debt.
- Where the interest or other revenue is derived from the borrower’s profit, all financial expenses on the loans on credits received are tax non-deductible.

Notwithstanding the thin capitalisation provisions, financial expenses incurred which directly relate to taxable income (e.g. interest income) can be deducted up to the amount of that income.

Any upward adjustment of profit resulting from a transfer pricing or thin capitalisation adjustment relating to a non-EU or EEA resident counterparty may be treated as a dividend, i.e. is subject to dividend withholding tax, as reduced by the provisions of any applicable double taxation treaty.

## Taxation of individuals

Individuals are subject to income tax, social security, health insurance, inheritance and gift taxes, and taxes on land and buildings. The taxation of individuals depends primarily on their residence status. Residents of the Czech Republic are subject to tax on worldwide income, whereas non-residents are subject to tax on Czech source income only.

Residence is defined as:

- having a permanent home in the Czech Republic, or
- spending 183 days or more in the Czech Republic during the tax year (the year to 31 December).

Personal income tax is charged on:

- employment income
- business income
- investment income
- rental income
- capital gains
- any other income not within the above categories.

There are numerous exemptions, of which the most important are the exemptions from tax on gains from the sale of securities. Gains on the sale of securities acquired on or before 31 December 2007 held for more than six months are exempt. For securities acquired on or after 1 January 2008, however, the exemption only applies if the securities are held for more than six months and do not represent more than 5 percent of registered capital and voting rights for 24 months preceding the sale. If these conditions are not met, the gains are exempt after exceeding a holding period of five years. Gains on holding shares in a limited liability company are exempt if held for five years.

Gains from the sale of non-business real estate are exempt if the property has been held by the taxpayer for at least five years prior to the sale. Gains from the sale of a dwelling are also exempt if the dwelling was used as the taxpayer's main residence for at least two years. If the dwelling was used for less than two years, the exemption applies if the gains are used for the taxpayer's housing in the future.

The income of individuals is subject to a flat rate tax of 15 percent plus 7 percent (the “solidarity tax increase”) for income (gross salary) in excess of the maximum annual assessment base for social security contributions (CZK 1,242,432 in 2013). The solidarity tax increase should only apply in 2013–2015. The tax on employment income is calculated on the “super-gross salary”, which is the gross salary increased by social security and health insurance contributions payable by the employer. Foreign employment income that is taxable in the Czech Republic is increased by deemed contributions of 34 percent regardless of the amount of social security and health insurance contributions actually paid. Thus, the effective tax rate is not 15 percent (or 22 percent for persons subject to the solidarity tax) but a higher rate depending on the income level.

Dividends and other income are taxed separately and are subject to 15 percent withholding tax at source.

Foreign source investment income should be included in the tax base and is subject to a flat tax rate of 15 percent.

Business income or other income of the self-employed may be reduced by actual expenses or by an optional lump-sum deduction ranging from 30 to 80 percent of gross income. The annual lump-sum deduction is limited to a maximum of CZK 600,000 for rental income and CZK 800,000 for non-business income.

Employees are subject to tax on income in all forms, whether in cash or in kind. In particular, benefits, such as the provision of a car which is available for private use, are taxable.

It is not possible to deduct an employee’s social security and health insurance contributions from the tax base. However, items such as mortgage interest, payments for supplementary pension insurance with state support, private life insurance premiums, and donations can be deducted if certain conditions are met.

The annual exemption limit for an employer’s contributions to an employee’s life and private pension insurance (the third pillar of the pension system) is CZK 30,000.

Before 2013, the Czech pension system comprised two pillars – a mandatory pay-as-you-go pension system run by the government (the first pillar) and a voluntary additional pension system administered by commercial insurance companies (the third pillar). From 1 January 2013 a second pillar has been added.

Employees who opt for the second pillar will pay 5 percent of their salary to an account at a private pension fund and the obligatory payments to the first pillar will be reduced by 3 percent.

There are no special provisions dealing with employee share option schemes, so that gains realised on the exercise of an option are regarded as taxable income. It is generally accepted, however, that no gain arises on the grant of an option.

The salaries of employees of Czech persons or registered branches of foreign persons are subject to deduction of tax at source on a monthly basis, with annual reconciliations. It is also possible to second expatriate staff through a permanent establishment of a foreign employer that, although taxable, is not registered in the Commercial Register. In such a case, there is no liability to withhold tax. Instead, the employees themselves are liable to make tax returns and pay the tax, normally in quarterly instalments.

There is a further possible tax treatment of employees of foreign companies, the “deemed employer” rule, which is essentially an anti-avoidance provision. The rule may apply where employees of a foreign employer work in the Czech Republic under the control of a Czech person which pays a fee to the foreign employer for their services. In such a case, the Czech person is regarded as the employer for tax purposes and has to account for the employees’ income tax. In practice, this rule is rarely applied to employees of bona fide foreign investors, unless they choose to use it as an alternative to the permanent establishment described above.

Resident and non-resident individuals may claim a basic personal tax allowance of CZK 24,840 unless they receive a state pension. Various other credits are granted to a resident, such as a tax credit of CZK 24,840 for a spouse living in the taxpayer’s household if the spouse’s annual income does not exceed CZK 68,000 and CZK 13,404 for a dependent child. These are also granted to non-residents if at least 90 percent of their income comes from sources in the Czech Republic. Limitations apply for individuals with business or rental income who claim a lump-sum deduction.

Social security contributions, where payable, amount to 45 percent of an employee’s salary. This consists of an employee’s contribution of 11 percent and an employer’s contribution of 34 percent, made up as follows.

	Employer (%)	Employee (%)
Pension	21.5	6.5/8.5*
Sickness insurance	2.3	0.0
Unemployment insurance	1.2	0.0
Health insurance	9.0	4.5
Total	34.0	11.0/13.0*

\* for employees participating in the second pillar of the pension system

The maximum annual assessment base for social security premiums for 2013 is CZK 1,242,432. There is no cap on health insurance premiums. Social security and health insurance contributions must be paid on a monthly basis. Social security contributions must be paid until the aggregate of the monthly assessment base exceeds the maximum annual assessment base. Upon achieving this limit, the employer should stop paying social security contributions. The assessment base is very similar to the tax base.

If an employee changes employer during the calendar year, new “cap” will apply to the employee’s new salary, but if the aggregate of the assessment bases exceeds the maximum, the social security authorities will return to the employee, upon request, any excess employee contributions.

Foreign persons under local employment contracts are subject to Czech social security. Foreign persons employed by a non-Czech employer, where there is a social security treaty between the Czech Republic and the country of the employer, are subject to Czech social security unless under the terms of the treaty they can remain in the social security system of the home state. The authorities take the view that expatriate employees of EU employers are subject to Czech social security based on the EU social security rules. In practice this means that expatriates are liable to Czech contributions, unless they remain in their home state system under the EU rules.

## Future developments

Legislation introducing a wide range of changes as of 1 January 2015 has been passed. The most significant are:

- all tax, customs duty, social security and health insurance will be paid to a single collection point
- dividends received by individuals and legal entities will be exempt if received from companies based in the EU, Norway, Iceland or Switzerland which are not collective investment funds

- dividends paid by Czech companies to shareholders in the EU, Norway, Iceland or Switzerland will be exempt from withholding tax except for those paid by collective investment funds; such dividends will be subject to 19 percent if paid to legal entities and 15 percent if paid to individuals, subject to double taxation treaties
- gains on the sale of securities will be exempt for individuals if a three-year holding period is met
- income from the sale of securities earned by individuals up to CZK 100,000 per year will be tax exempt
- abolition of the “super-gross salary” concept
- increase of the personal tax rate to 19 percent
- tax exemption for collective investment funds.

A new Act on Taxation of Real Estate Transfers is also currently under discussion. This could result in significant changes such as the tax being payable on a transfer of shares in a company owning Czech real estate, the tax being payable by the buyer. The proposed effective date is 1 January 2014.

## **International tax issues**

Companies having their “seat” in the Czech Republic are subject to Czech tax on their worldwide income. The company’s seat is defined as the registered office or where the place of the effective management of the company is. Such companies are referred to as Czech residents.

Other companies (non-residents) are only subject to tax on their Czech source income, subject to the provisions of any double taxation treaties.

Foreign source income of Czech resident companies is generally taxable in the Czech Republic, subject to the provisions of any double taxation treaties. The income of foreign branches or permanent establishments of Czech residents is included in taxable profit. Dividends from foreign companies are a separate source of income which is taxable at a special rate, currently 15 percent, unless the Parent-Subsidiary Directive applies.

Under certain double taxation treaties, however, the foreign income of Czech residents is exempt from Czech tax. In such cases, expenses related to that income are not tax deductible. Credit for foreign taxes on income that is also subject to Czech tax is only available if there is a double taxation agreement with the other state. Otherwise, the foreign tax can only be treated as an expense.

The main types of Czech source income for non-residents are:

- income of a permanent establishment in the Czech Republic
- income from dependent activity (employment) performed in the Czech Republic
- income from services performed in the Czech Republic
- income from the sale or use of real estate situated in the Czech Republic
- income from performance and sporting activities in the Czech Republic
- royalties, dividends and other profit distributions, interest, and lease rentals
- lottery and gambling winnings in the Czech Republic
- alimony and pensions arising in the Czech Republic
- income arising from a reduction of share capital
- income from payment of a receivable acquired by assignment
- penalties from contractual relationships
- income from transfer of shares in Czech resident companies, which is not tax exempt under domestic legislation.

These tax liabilities are to some extent mitigated by tax treaties, where applicable. In particular, where there is a treaty:

- income from services can usually be taxed only if the service provider has a permanent establishment in the Czech Republic
- income from employment can usually be taxed only if the employee is employed by a Czech company or a Czech permanent establishment of a foreign company, or if he or she spends more than 183 days in the Czech Republic.

Income liable to tax is generally subject to withholding taxes, for example:

- dividends: 15 percent
- royalties (normally including lease rentals): 15 percent
- services provided in the Czech Republic: 15 percent
- activities of entertainers and sportspersons: 15 percent.

The rate is increased to 35 percent if the income is paid to residents of countries which have not signed a double taxation treaty with the Czech Republic when no arrangement is in place for the exchange of information on tax matters.

Withholding tax is a final tax that is generally reduced by double taxation treaties. Residents of other EU and EEA countries can file a tax return in respect of other types of income (e.g. interest, royalties, freelance work) subject to withholding tax and claim a deduction for any related expenses (this does not apply for withholding tax from dividends). In such a case, the withholding tax is considered an advance payment. This may result in a reduction in the tax burden as withholding tax is calculated on a gross basis.

The EU Parent-Subsidiary Directive has been implemented in the Czech Republic which means that dividends paid by a Czech subsidiary to a parent company that is tax resident in an EU member state may be exempt from withholding tax. These provisions also apply to dividends paid between Czech companies and dividends paid to Swiss, Norwegian and Icelandic corporate shareholders.

The EU Interest and Royalties Directive has also been implemented in the Czech Republic. As a result, interest and royalties paid to associated companies resident in the EU, Switzerland, Norway and Iceland are generally exempt from withholding tax (subject to advance clearance procedures).

The Czech Republic has implemented the EU Savings Directive, which allows the provision of information about interest paid by Czech financial institutions to non-residents.

Other types of income paid to non-EU or EEA residents, notably from permanent establishments, real estate and sales of securities, etc., are subject to withholding tax which is not the final tax, but is a prepayment in respect of the ultimate tax liability. This tax is generally levied at the rate of 10 percent (1 percent for sales of securities or payments for receivables purchased from third parties), but may be reduced by prior negotiation with the tax authorities.

The Czech Republic's numerous double taxation treaties are listed below.

No.	Country of residence of recipient	Effective date	Dividends (%)	Lower rate on dividends (min. percent holding) (%)	Interest (%)	Royalties (%)
1.	Albania	1.1.1997	15	5 [25]	5/0 <sup>1</sup>	10
2.	Armenia	1.1.2010	10	-	10/5 <sup>2</sup> /0 <sup>1</sup>	10/5 <sup>3</sup>
3.	Australia	1.1.1996	15	5 [20]	10	10
4.	Austria	1.1.2008	10	0 [10]	0	5/0 <sup>3</sup>
5.	Azerbaijan	1.1.2007	8	-	5/10 <sup>1</sup>	10
6.	Bahrain	1.1.2013	5	-	0	10
7.	Barbados	1.1.2013	15	5 [25]	5/0 <sup>1</sup>	10/5 <sup>3</sup>
8.	Belgium	1.1.2001	15	5 [25]	10/0 <sup>1,2</sup>	5EQ/5 <sup>4</sup> /0 <sup>4</sup>
9.	Belarus	1.1.1999	10	5 [25]	5/0 <sup>1,2</sup>	5
10.	Bosnia and Herzegovina	1.1.2011	5	-	0	10/0 <sup>3</sup>

No.	Country of residence of recipient	Effective date	Dividends (%)	Lower rate on dividends (min. percent holding) (%)	Interest (%)	Royalties (%)
11.	Brazil	1.1.1991	15	-	15/10/0 <sup>1</sup>	25 <sup>TM</sup> /15
12.	Bulgaria	1.1.2000	10	-	10/0 <sup>1</sup>	10
13.	Canada	1.1.2003	15	5 [10]	10/0 <sup>1</sup>	10
14.	China	1.1.2012	10	5 [25]	7.5/0 <sup>1</sup>	10
15.	Croatia	1.1.2001	5	-	0	10
16.	Cyprus	1.1.2010	5	0 [10]	0	10/0 <sup>3</sup>
17.	Denmark	1.1.2013	15	0 [10]	0	10/0 <sup>3</sup>
18.	Egypt	1.1.1996	15	5 [25]	15/0 <sup>1</sup>	15
19.	Estonia	1.1.1996	15	5 [25]	10/0 <sup>1</sup>	10
20.	Ethiopia	1.1.2009 <sup>5</sup>	10	-	10/0 <sup>1</sup>	10
21.	Finland	1.1.1996	15	5 [25]	0	10/5 <sup>OL</sup> /1 <sup>FL</sup> /0 <sup>3</sup>
22.	France	1.1.2006	10	0 [25]	0	10/5 <sup>EO</sup> /0 <sup>3</sup>
23.	Georgia	1.1.2008	10	5 [25]	8/0 <sup>1</sup>	10/5 <sup>EO</sup> /0 <sup>3</sup>
24.	Germany	1.1.1984	15	5 [25]	0	5
25.	Greece	1.1.1990	15	-	10/0 <sup>1</sup>	10/0 <sup>3</sup>
26.	Hong Kong	1.1.2013 <sup>5</sup>	5	-	0	10
27.	Hungary	1.1.1995	15	5 [25]	0	10
28.	Iceland	1.1.2001	15	5 [25]	0	10
29.	India	1.1.2000	10	-	10/0 <sup>1</sup>	10
30.	Indonesia	1.1.1997	15	10 [20]	12.5/0 <sup>1</sup>	12.5
31.	Ireland	1.1.1997	15	5 [25]	0	10
32.	Israel	1.1.1995	15	5 [15]	10/0 <sup>1</sup>	5
33.	Italy	1.1.1985	15	-	0	5/0 <sup>3</sup>
34.	Japan	1.1.1979	15	10 [25]	10/0 <sup>1</sup>	10/0 <sup>3</sup>
35.	Jordan	1.1.2008	10	-	10/0 <sup>1</sup>	10
36.	Kazakhstan	1.1.2000	10	-	10/0 <sup>1</sup>	10
37.	Kuwait	1.1.2005	5	0 [25] <sup>6</sup>	0	10
38.	Latvia	1.1.1996	15	5 [25]	10/0 <sup>1</sup>	10
39.	Lebanon	1.1.2001	5	-	0	5 <sup>EO</sup> /10
40.	Lithuania	1.1.1996	15	5 [25]	10/0 <sup>1</sup>	10
41.	Luxembourg	1.1.1993	15	5 [25]	0	10/0 <sup>3</sup>

No.	Country of residence of recipient	Effective date	Dividends (%)	Lower rate on dividends (min. percent holding) (%)	Interest (%)	Royalties (%)
42.	Macedonia	1.1.2003	15	5 [25]	0	10
43.	Malaysia	1.1.1999	10	-	12/0 <sup>1</sup>	12
44.	Malta	1.1.1998	5	-	0	5
45.	Mexico	1.1.2003	10	-	10/0 <sup>1</sup>	10
46.	Moldova	1.1.2001	15	5 [25]	5	10
47.	Mongolia	1.1.1999	10	-	10/0 <sup>1</sup>	10
48.	Morocco	1.1.2007	10	-	10 <sup>1</sup>	10
49.	Netherlands	1.1.1975	10	0 [25]	0	5
50.	New Zealand	1.1.2009	15	-	10/0 <sup>1</sup>	10
51.	Nigeria	1.1.1991	15	12.5 [10]	15/0 <sup>1</sup>	15
52.	Norway	1.1.1980	15	0 [10]	0	10/5 <sup>EQ</sup> /0 <sup>3</sup>
53.	People's Republic of Korea	1.1.2006	10	-	10/0 <sup>1</sup>	10
54.	Philippines	1.1.2004	15	10 [10]	10/0 <sup>1</sup>	10/15 <sup>7</sup>
55.	Poland	1.1.2013	5	-	5/0 <sup>1,2</sup>	10
56.	Portugal	1.1.1998	15	10 [25]	10/0 <sup>1</sup>	10
57.	Romania	1.1.1995	10	-	7/0 <sup>1</sup>	10
58.	Russia	1.1.1998	10	-	0	10
59.	Serbia and Montenegro	1.1.2006	10	-	10/0 <sup>1</sup>	10/5 <sup>3</sup>
60.	Singapore	1.1.1999	5	-	0	10
61.	Slovakia	1.1.2004	15	5 [10]	0	10/0 <sup>3</sup>
62.	Slovenia	1.1.1999	15	5 [25]	5/0 <sup>1</sup>	10
63.	South Africa	1.3.1998	15	5 [25]	0	10
64.	South Korea	3.3.1995	10	5 [25]	10/0 <sup>1</sup>	10/0 <sup>3</sup>
65.	Spain	1.1.1982	15	5 [25]	0	5 <sup>7</sup> /0 <sup>3</sup>
66.	Sri Lanka	1.1.1979	15	-	10/0 <sup>1</sup>	10/0 <sup>3</sup>
67.	Sweden	1.1.1981	10	0 [25]	0	5/0 <sup>3</sup>
68.	Switzerland	1.12.1996	15	5 [25]	0	5 <sup>SPEC</sup>

No.	Country of residence of recipient	Effective date	Dividends (%)	Lower rate on dividends (min. percent holding) (%)	Interest (%)	Royalties (%)
69.	Syrian Arab Republic	1.1.2010	10	-	10/0 <sup>1</sup>	12
70.	Tajikistan	1.1.2008	5	-	7/0 <sup>1</sup>	10
71.	Thailand	1.1.1996	10	-	10 <sup>8</sup> /0 <sup>1</sup>	15 <sup>7</sup> /10 <sup>9</sup> /5 <sup>3</sup>
72.	Tunisia	1.1.1992	15	10 [25]	12/0 <sup>1</sup>	15/5 <sup>3</sup>
73.	Turkey	1.1.2004	10	-	10/0 <sup>1</sup>	10
74.	Ukraine	1.1.2000	15	5 [25]	5/0 <sup>1</sup>	10
75.	United Arab Emirates	1.1.1998	5	0 [25] <sup>6</sup>	0	10
76.	United Kingdom	1.1.1992	15	5 [25]	0	10/0 <sup>3</sup>
77.	United States	1.1.1994	15	5 [10]	0	10/0 <sup>3</sup>
78.	Uzbekistan	1.1.2001	10	5 [25]	5/0 <sup>1,2</sup>	10
79.	Venezuela	1.1.1998	10	5 [15]	10/0 <sup>1</sup>	12
80.	Vietnam	1.1.1999	10	-	10/0 <sup>1</sup>	10

Notes:

- 1 Exemption for certain government loans or investments
- 2 Exemption for interest on bank loans and credits
- 3 Cultural royalties
- 4 The 0-percent rate applies to cultural royalties (the rate of 10 percent is reduced to 0 percent from 1 January 2004 following the conclusion of the treaty between the Czech Republic and the Slovak Republic – most-favoured nation treatment); the 5-percent rate applies to industrial royalties and know-how (the treaty rate of 10 percent is reduced to 5 percent from 1 January 2008 following the conclusion of the treaty between the Czech Republic and Austria – most-favoured nation treatment)
- 5 For Ethiopia the effective date is 8 July 2008, for Hong Kong 1 April 2013
- 6 The recipient of dividends is a government or company which is at least 25 percent government-owned
- 7 Including royalties arising from any copyright of cinematographic films and films or tapes for television or radio broadcasting
- 8 The 10-percent rate only applies to interest received by financial institutions, including insurance companies; for other interest payments there is no limitation under the treaty and the domestic rate applies
- 9 Industrial royalties
- EQ Royalties for using equipment
- TM Trademark royalties only
- OL Operating lease
- FL Financial lease
- SPEC 5-percent withholding tax under Article 2 of the Protocol to the Czech-Swiss Double Taxation Treaty

## Beneficial ownership concept

A number of double taxation treaties concluded by the Czech Republic expressly limit their benefits to beneficial owners of income.

In situations where an investor in the Czech Republic is a foreign entity or a trust that is tax transparent under its own tax laws, the Czech Republic will generally honour its transparency for the application of the Income Taxes Act and double taxation treaties. The income paid from the Czech investment will normally be treated as the income of the ultimate beneficial owner of the investment via the transparent entity.

## Tax administration

Tax administration is mainly governed by the Tax Code with specific procedures provided by other Acts.

All Czech resident companies, limited partnerships, and permanent establishments of non-resident companies must file tax returns. This does not apply to general partnerships where the partners declare their share of the partnership profits.

All individuals with annual taxable income exceeding CZK 15,000 must file tax returns unless the income is tax exempt or subject to withholding tax. A return must also be filed by any individual who is liable to the solidarity tax. This means that, in general, low paid employees of Czech companies or branches of foreign entities are not required to file returns unless they have other taxable income. Anyone who claims a tax loss must also file a return.

The deadline for submission of a tax return is three months from the end of the taxable period. For all taxpayers, with the exception of legal entities that have adopted a non-calendar year-end, the taxable period is the calendar year, and the tax return deadline is therefore 1 April. This deadline is extended by a further three months if:

- the taxpayer is subject to a statutory audit, or
- the taxpayer engages a registered tax advisor to submit the tax return on its behalf.

Except for withholding tax, income tax is collected during the year by a system of prepayments based on the previous year's liability. The final deadline for settling the liability is the same as for the submission of the return. The tax is treated as paid when it is received by the tax authority.

The tax authority has the power to carry out tax inspections in order to establish or examine the tax base or other circumstances decisive for the correct determination of the tax liability.

Tax may not be assessed or additionally assessed after three years have elapsed from the deadline for filing the ordinary tax return. However, the deadline for assessment of additional tax may be extended to a maximum of 10 years under certain circumstances, such as filing an additional tax return or a tax audit taking place. In the event of some tax-related crimes, additional tax may be assessed regardless of the fact that the period for tax assessment has finished.

Where a taxpayer has declared a loss, the period in which a tax audit may be carried out is extended by the period during which the loss may be utilised. Since losses may be carried forward for up to five years, if the extended deadlines apply, an audit could be carried out up to 15 years after the tax return is due.

If an appeal is lodged against an assessment, the payment of any additional tax is deferred until the payment order is legally effective, but interest continues to be calculated on the outstanding amount.

Interest on overdue tax is assessed at the Czech National Bank repo rate plus 14 percent starting on the fifth working day following the due date for the first five years; no interest accrues after this date. Where additional tax is assessed by the tax authorities, a penalty of 20 percent of the additional tax is levied. If a VAT refund is reduced, the penalty is 20 percent of the reduction. If the tax loss is reduced, 1 percent of the reduction is payable as a penalty. If the taxpayer corrects the tax base in an additional tax return, only interest on overdue tax is payable.



# Indirect taxes

### Value added tax (VAT)

The Czech Value Added Tax Act is based on the general principles of EC Directive 2006/112.

VAT is generally due on any supply of goods or services made by taxable persons within the scope of their business activities for a consideration where the place of supply is in the Czech Republic. However, certain transactions carried out for no consideration, such as provision of certain business gifts or a private use of business assets, are also subject to VAT.

The following transactions are subject to Czech VAT:

- supply of goods and transfer of immovable assets whose place of supply is in the Czech Republic
- provision of services whose place of supply is in the Czech Republic
- intra-community acquisitions of goods whose place of supply is in the Czech Republic (includes also the movement of own goods from another EU member state to the Czech Republic)
- import of goods to the Czech Republic.

It is also considered a supply of goods where fixed assets of own production are put into condition ready for use if the VAT payer uses these assets for purposes with only partial entitlement to deduct VAT.

Generally, goods acquired from VAT payers in other EU member states by a person who is registered for Czech VAT are subject to Czech VAT. VAT should be self-assessed by the individual/entity acquiring the goods. Subject to the general principles for VAT deduction (see below), the individual/entity acquiring the goods can deduct the related input VAT in the same VAT return.

The import of goods from outside the EU is subject to Czech VAT, which is payable by the importer. If the importer is registered for Czech VAT, import VAT should be declared using the standard VAT return. Subject to the general principles for VAT deduction, the importer can deduct the import VAT in the same VAT return.

The following rules for determining the place of supply of services are applicable:

- the place where the service recipient has registered its office or place of business, if the recipient is a taxable person (B2B services); if the service is provided to a VAT establishment of a taxable person, the place of supply is where the VAT establishment is located
- if the recipient is from a third country (outside the EU) and is registered for VAT in the Czech Republic, the above rule applies only if the service is consumed outside the Czech Republic; for services consumed in the Czech Republic, the place of taxable supply is in the Czech Republic
- the place where the service provider has its registered office or VAT establishment, if the recipient is a non-taxable person (B2C services).

There are a number of exceptions to the above general rule, the most important of which are:

- services connected with immovable property: the place of supply is in the state where the property is located
- entrance fees for cultural, art, sports, science, educational and entertainment events: the place of supply is in the state where the event takes place
- transport of passengers: the place of supply is in the state where the transport is provided
- catering and restaurant services: the place of supply is in the state where the service is provided
- short-term lease of a means of transport: the place of supply is in the state where the vehicle is handed over
- special conditions are set for a number of services if they are provided to non-taxable persons.

## VAT payers

A taxable person established in the Czech Republic (usually the place where essential decisions concerning the general management of the business are taken) who exceeds the VAT registration threshold of CZK 1 million in 12 consecutive calendar months becomes a VAT payer (unless they perform only exempt supplies). They must then register for Czech VAT.

Even if the registration threshold is not exceeded, a taxable person established in the Czech Republic who performs or intends to perform supplies with the right to deduct VAT can voluntarily register for VAT. Voluntary registration is also possible for a person who has a VAT establishment in the Czech Republic and for persons who are not established in the Czech Republic (under some circumstances).

A taxable person who is not established in the Czech Republic becomes a Czech VAT payer if they make a zero-rated supply of goods to another EU member state or a taxable supply in the Czech Republic on which they have to account for VAT, provided that the reverse charge principle cannot be applied. This applies specifically to local supplies of goods, and the provision of certain services to individuals/entities not registered for VAT in the Czech Republic. There is no VAT registration threshold for such taxable person, which means that the taxable person becomes a VAT payer irrespective of the value of the supply. They must then register for VAT.

Registration is also obligatory in some other situations.

A taxable person who is not established in the Czech Republic can avoid registering for Czech VAT if the obligation to account for the VAT due can be transferred to a Czech customer, provided that the customer is registered for VAT (certain supply of services with place of supply in the Czech Republic), or if any simplification can be applied. Simplification procedures have been specifically implemented in the following areas:

- triangulation supplies
- call-off stock sales
- supply and installation of goods.

As these provisions and a number of other supply categories are subject to particular requirements, taxable persons not established in the Czech Republic should check carefully whether they comply with them.

A group of related parties established in the Czech Republic or who have a VAT establishment in the Czech Republic can register as a single VAT payer (group registration).

## **Persons identified for VAT**

A taxable person who is not a VAT payer and a non-taxable legal person become a person identified for VAT when they acquire goods from another EU member state which is subject to VAT.

A taxable person established in the Czech Republic or a taxable person who has a VAT establishment in the Czech Republic, and who is not a VAT payer, becomes a person identified for VAT from the day when they purchase the following taxable supplies:

- supply of service
- supply of goods with installation, or
- supply of goods through a system or network.

This applies when the place of supply is in the Czech Republic and supplier is a person who is not established in the Czech Republic and does not have a VAT establishment in the Czech Republic which would be involved in this taxable supply.

A taxable person established in the Czech Republic or a taxable person who has a VAT establishment in the Czech Republic which is not a VAT payer becomes a person identified for VAT from the day when they supply services with a place of supply in another EU member state, with the exception of services exempt in that EU member state where the service was supplied. This applies only for services under the general rule for the place of supply of services.

## **Format of VAT registration numbers**

The format of a Czech VAT registration number is as follows: CZ1234567890 (the number of digits may vary).

## **Reporting requirements**

### **VAT returns**

Under the general rule, VAT returns should be submitted on a monthly basis.

A VAT payer can opt to submit VAT returns on a quarterly basis only if they meet the following conditions:

- their turnover for the preceding calendar year did not exceed CZK 10 million
- they are not identified as unreliable VAT payer by the tax authority
- they are not a VAT group, and
- they announced their decision to submit on a quarterly basis to the tax authority by the end of January of the relevant calendar year; the announcement is not necessary if VAT returns in the previous calendar year were also submitted on a quarterly basis.

Based on the law, a quarterly VAT period is not possible for the first calendar year in which VAT payer becomes registered for VAT and in the calendar year immediately thereafter; unless this is authorised by the tax authority in some exceptional circumstances.

VAT returns must be submitted by the 25th day of the month following the tax period. VAT payers who are not established in the Czech Republic and who do not have a VAT establishment in the Czech Republic, and persons identified for VAT, are required to submit VAT returns only for VAT periods in which they performed taxable or zero-rated transactions.

VAT must be paid by the due date for submitting the VAT return. The date the liability is considered settled is the date when the payment is credited to the bank account of the tax authority.

If there is an excess of input VAT, the VAT credit is paid to the VAT payer within 30 days of the deadline for submitting the VAT return without any need to request the credit. If a tax audit is initiated before the VAT is refunded, the time limit is extended. In such cases, the VAT will be refunded within 30 days of the audit being finalised.

There is a penalty for no submission/delay in submission of a VAT return and penalty interest applies for late payment of VAT.

### **EC Sales Lists**

An EC Sales List (ESL) must be completed if a VAT payer or person identified for VAT (where applicable):

1. supplies goods from the Czech Republic to another EU member state to a person registered for VAT in another EU member state, or
2. moves its own goods from the Czech Republic to another EU member state, or
3. acts as the intermediary in a triangular transaction between VAT registered traders in other EU member states, or
4. provides a service to a customer established in another EU member state where the place of taxable supply is and where the customer is established, if the supply is not exempt from VAT (general rule).

The EC Sales List should be submitted electronically on a monthly basis within 25 days of the end of the month in which the supply takes place. Quarterly VAT payers, who provide only services as described in point 4 above, may submit EC Sales Lists on a quarterly basis.

### **Intrastat declarations**

Businesses that dispatch goods to or receive goods from other EU member states that exceed the relevant annual thresholds (CZK 8 million for dispatches or CZK 8 million for goods received) must complete and file an Intrastat declaration.

Intrastat declarations are submitted on a monthly basis by the 12th working day of the month following the month for which the declaration is filed. Intrastat declarations must be submitted electronically. A penalty of up to CZK 1 million may be imposed for failing to submit the Intrastat declaration.

## VAT rates

The standard rate of VAT, which applies to most taxable supplies, is 21 percent. In addition, there is a reduced rate of 15 percent, which applies to a number of goods and services including:

- construction services in respect of residential buildings and flats intended for social housing (a specific definition of flats and houses intended for social housing applies)
- reconstruction and repairs of residential buildings and flats
- sewerage services and water supplies
- health and social services
- public transport services
- food products
- books, brochures, newspapers and magazines, where advertisements do not exceed 50 percent of the contents, picture books, and books for children
- certain health products, services and aids for the disabled
- firewood.

The VAT payer can request the tax administrator for information about the correct VAT rate to be used in a specific case.

## Zero-rated supplies

The supplies mentioned below are generally zero-rated; i.e. they are exempt from VAT; nevertheless the supplier has the right to deduct any related input VAT.

### Intra-community supplies of goods

If goods are sold to a customer registered for VAT in another EU member state, and the sale involves the transfer of the goods from the Czech Republic (either by the supplier, by the customer or a third party authorised by them) to another EU member state, the supply is a zero-rated intra-community supply.

The supplier should obtain the customer's VAT number and include it on the invoice. Documentation verifying the removal of the goods from the Czech Republic should be obtained for tax audit purposes.

If goods are sold and delivered to a customer who is not registered for VAT in another EU member state, Czech VAT should be accounted for unless the "distance selling" threshold in the destination EU member state is exceeded. Once the limit is exceeded, the supplier may have to register for VAT in the other member state.

## Export of goods

The export of goods to customers outside the EU is zero-rated, provided that the following conditions are met:

- the goods are released under the customs procedures of export, outward processing or transit, or the goods are released under a customs-approved treatment of re-export of goods from the EU customs territory, or the goods are placed in a customs-free warehouse or zone in the Czech Republic
- transport is arranged either by the Czech exporter or by a third party authorised by the exporter, or
- transport is arranged by the customer or by a third party authorised by the customer (if the customer is not established in nor has a VAT establishment in the Czech Republic).

As proof of export of the goods, the VAT payer should be able to provide an official document from the customs authority confirming the export of goods to a third country or the placement of goods into a customs-free warehouse or zone in the Czech Republic.

Subject to certain conditions, zero rate also applies to other transactions stipulated by the Value Added Tax Act, including:

- supply of goods located in a free warehouse or free zone
- certain acquisition of goods from another EU member state
- international passenger transport
- transport of goods and services directly linked to import and export of goods.

## Exempt supplies

The items listed below are exempt from VAT:

- insurance services
- financial services
- postal services
- betting, gaming and lotteries
- education
- health and welfare services
- TV and radio broadcasting
- certain other supplies of goods and services specified by the Value Added Tax Act
- transfers of land (excluding land for development)
- transfers (including finance leases) of immovable property (buildings, flats and non-residential premises) five years after the first approval for use was issued by the building authorities or the first use of the property (whichever is earlier); a VAT payer may decide to treat the supply as taxable, even after the five-year period

- lease of land and buildings (apart from the short-term lease of buildings, the lease of parking spaces and the lease of safe deposit boxes); a VAT payer may opt to charge VAT on the rent of land and buildings to other VAT payers for the purpose of their economic activities.

## Recovery of input VAT

A Czech VAT payer is entitled to recover input VAT in respect of taxable supplies from another VAT payer or in respect of imported goods, if they are used for the Czech VAT payer's business activity.

The VAT applied by the supplier upon taxable supply can become deductible only if it was applied in accordance with the Value Added Tax Act.

## Full recovery of input VAT

A VAT payer is only entitled to recover input VAT on taxable supplies in respect of:

- taxable supplies liable to Czech output VAT
- zero-rated supplies, such as the dispatch of goods to other EU member states and the export of goods to third countries
- supplies with a place of supply outside the Czech Republic, as long as the input VAT would have been recoverable if they had been made within the Czech Republic
- certain financial and insurance services with the place of supply in a non-EU country, or if the supplies are directly linked to the export of goods
- certain non-VATable supplies specified in Czech Value Added Tax Act (e.g. sale of a business).

A VAT payer must prove their right to recover VAT through an invoice (VAT document). The Value Added Tax Act contains a detailed description of the required content of invoices.

The VAT payer can recover input VAT from local supplies in the VAT return for the taxable period in which the tax document (invoice) was received, at the soonest. However, input VAT cannot be recovered more than three years after the end of the tax period in which the taxable supply was made.

## No recovery of input VAT

A VAT payer is generally not entitled to recover input VAT on:

- taxable supplies used to make VAT exempt supplies, such as financial services, insurance, lease of real estate, education and health services, except where certain financial or insurance services are supplied with the place of supply in a non-EU country or directly linked to the export of goods

- taxable supplies used for representation (entertainment) to the extent that they are not tax deductible for Czech income tax purposes.

### **Partial recovery of input VAT**

A VAT payer is entitled to partial VAT recovery in respect of taxable inputs related to both types of supplies, i.e. those qualifying for recovery of input VAT and those not qualifying for recovery (e.g. non-business use or exempt supplies).

In the case of fixed assets (as defined by the Czech Income Taxes Act) used for both business and non-business purposes, a VAT payer shall deduct only a proportional amount of VAT related to the scope of use for business purposes.

Within business purposes, the recoverable amount of VAT is based on the ratio of VATable supplies to total supplies.

With regard to fixed assets, a VAT payer is obliged to amend the input VAT claim if the purpose for which the asset is used (business/non-business, full/partial/no deduction of input VAT) changes during 10 calendar years (in the case of plots of land, constructions, flats and non-residential spaces) or five calendar years (other fixed assets) following the year of acquisition. For the purposes of amending the input VAT deduction, technical improvement is considered a separate fixed asset. A VAT payer is also obliged to amend the input VAT claim if the asset is used for supply of goods, immovable property or provision of service within the above periods.

In the case of assets other than fixed assets where a VAT payer uses purchased taxable supply for both business and non-business purposes they can:

- claim partial deduction upon purchase, or
- claim full deduction upon purchase and then treat the use for non-business purposes as a taxable supply of goods or service.

Within business purposes where, upon the purchase of a taxable supply, the VAT payer claimed full or partial deduction of input VAT, the VAT payer is obliged to amend the input VAT claim if the purpose for which the asset is used within business purposes (full/partial/no deduction of input VAT) changes in future.

## **Other notes**

### **Local reverse charge for selected transactions**

The reverse charge mechanism applies for certain local taxable supplies. This concerns supplies of gold, scrap and waste, emission allowances and supplies of construction and assembly work as specified by the Value Added Tax Act.

Specific compliance obligations are linked to supplies subject to local reverse charge.

### **Bad debt relief**

A VAT payer is allowed to claim a VAT refund for uncollectible receivables (bad debts). A VAT refund should be possible from certain receivables after maturity where the debtor is under bankruptcy proceedings. The conditions stipulated by the Value Added Tax Act must be met.

### **Liability for payment of VAT**

If a supplier intentionally fails to pay the VAT and the customer knows or should know of this fact, the customer is liable for the VAT payment. In such cases, the tax authority may demand the VAT payment from the customer. This is applicable only to customers who are VAT payers.

Further, the customer's liability for payment of VAT by the supplier also applies in the following situations:

- where the price for the received taxable supply is clearly different from an arm's length price, without a business justification
- where consideration for a taxable supply is remitted to a foreign account
- where it is published by the tax authority that the supplier has the status of an unreliable VAT payer
- where the payment is made to a bank account which is not published by the tax authority
- where fuel is supplied by a fuel distributor which is not published as a registered distributor of fuel, at the moment of taxable supply.

Furthermore, liability for payment of VAT also applies to an authorised recipient (for excise tax purposes), unless he has taken all necessary steps which can be reasonably required, in order to verify that the person acquiring the goods has paid VAT from the next local supply upon acquisition of the goods from another EU country.

### **VAT refunds for foreign persons**

The Czech Republic has implemented the general provisions of the EU directives in respect of VAT refunds for entities registered for VAT purposes in other EU member states or non-EU businesses.

The conditions for a Czech VAT refund for an EU entity are as follows.

- The entity is established and registered for VAT in another EU member state.
- During the period for which the VAT claim is submitted, the claimant did not have a registered office, place of business or VAT establishment in the Czech Republic, and did not make any supplies in the Czech Republic, except for zero-rated or reverse charge supplies (e.g. imports of goods, exempt supplies to which the right to deduct VAT does not apply, provision of transport, services directly related to the export of goods, and supplies subject to the reverse charge).
- The goods or services were purchased in the Czech Republic for the purpose of the claimant's business.

A VAT refund can be claimed on the same conditions that apply to a Czech VAT payer. Therefore, a refund cannot be claimed on goods and services for which input VAT cannot normally be recovered.

The VAT refund should be claimed electronically in the state where the taxable person has a registered office or place of business. The application must be submitted by 30 September of the year following the year in which the VAT was incurred.

The application for the VAT refund must be:

- in Czech
- supported by electronic copies of tax documents issued by a Czech VAT payer, proving the supply of goods or services; this does not apply to supplies not exceeding EUR 250 in the case of hydrocarbon fuels, or EUR 1,000 in the case of other goods or services
- accompanied by a written declaration (in Czech) that the applicant has not supplied goods or provided services in the Czech Republic (apart from the exceptions referred to above), and
- accompanied by additional documentation, such as official confirmation of the claimant's bank accounts.

If the conditions are met and the application is submitted with the requisite documents, the VAT should be refunded within four months from submission of the application and resolution of any queries raised by the related tax authority. If the tax authority requests any additional data, it should issue the decision within six to eight months of submission of the application.

A VAT refund can normally be claimed only if the period covered by the refund is at least three months, but less than or equal to a calendar year, and the amount involved is at least EUR 400.

A refund of less than EUR 400 may be claimed if it relates to the entire calendar year, and the amount claimed is at least EUR 50.

Non-EU businesses can claim refunds of Czech VAT by submitting a written application to the Tax Authority for Prague 1. A refund cannot be claimed for VAT on telecommunication charges, fuel, taxi services, entertainment, travel or accommodation. However, as refunds are only made on the basis of reciprocity, they can only be claimed by businesses based in Macedonia, Norway and Switzerland.

The application must be:

- in Czech
- supported by original tax documents issued by a Czech VAT payer, proving the supply of goods or services for supplies (simplified tax documents are not accepted)
- accompanied by a confirmation that the applicant is registered for VAT in the third country, issued by the tax authority in the state where the registration is made
- accompanied by a declaration that the applicant has not supplied goods or provided services in the Czech Republic (apart from the exceptions referred to above)
- accompanied by additional documentation, such as an official confirmation of the claimant's bank accounts.

A refund of less than CZK 7,000 may be claimed if it relates to the entire calendar year and the amount claimed is at least CZK 1,000.

## Customs duties

The Czech Republic has been a member of the EU since 1 May 2004, and customs matters are therefore governed by EU law.

The Czech Republic has an Inward Processing Regime (IPR), which effectively allows a Czech manufacturer to import, process and export goods exempt of customs duty and VAT.

The IPR takes two forms:

- the “drawback system”, under which imported components are released for free circulation; this entails the payment of customs duty and VAT on import; the customs duty is subsequently repaid (and the VAT recovered in the same way as any Czech input VAT) if the imported goods are exported from the Czech Republic in the form of upgraded products, or
- the “suspension system”, under which imported components destined for export from the Czech Republic in the form of upgraded products are, from the beginning, exempt from customs duty and VAT.

In both cases, the importer of records is the manufacturer to whom the material is released. Ownership of the goods is irrelevant. Under the IPR, Czech materials can be added to processed foreign components. The application of the IPR must be negotiated with the local customs authority. Given the complexity of the regime, each case should be carefully analysed to ensure the optimum customs and VAT treatment.

## Excise duties

Excise duty is payable on hydrocarbon fuels and lubricants, wine, spirits, beer, and tobacco products. Excise duties are fixed at a set amount per unit for each group of products.

The Act on Excise Duty implements the EU rules governing the production of excise goods and their release into free circulation. They must generally be produced in a tax warehouse. Once removed from the tax warehouse, they must be released into free circulation and excise duty must be paid, or they can be transported under a suspension exemption to a licensed trader in another EU member state, or to another tax warehouse. They can also be exported outside the EU under the suspension system. Excise duty is paid upon termination of the suspension regime. A licensed trader cannot store or sell the products under the suspension system and is obliged to pay excise duty upon receipt of the goods.

Excise duty is administered by the customs authority.

## Energy taxes

Energy taxes include tax on natural gas and other gases, electricity and solid fuels. Only supplies of such products delivered within the Czech Republic are subject to tax. These taxes were introduced in order to implement EC Directives 2003/96/EC and 2004/74/EC.

The tax rates are the following.

Natural gas and other gases	for engines, from CZK 34.20 to CZK 264.80/MWh; for other purposes, CZK 30.60/MWh
Solid fuels	CZK 8.50 per gigajoule, gross calorific value
Electricity	CZK 28.30/MWh

An exemption from energy tax may be claimed for energy used in metallurgical or mineralogical processes. Metallurgical processes involve the heated processing of ores or concentrates, and the production of basic metals and metallurgical products classified under DJ 27 in the NACE nomenclature. Mineralogical processes involve the production of other non-metal mineral products classified

under DI 26 in the NACE nomenclature. As a result, numerous activities of metallurgical plants and metal processors, producers of mineral insulation materials, glassworks and producers of building materials are exempt.

In order to claim the exemption, approval must be obtained from the customs authority.

Traders in electricity, gas or solid fuels may also purchase these products excluding the tax, but prior approval of the customs authority is necessary.

Electricity or raw materials used in the production of energy are tax exempt as long as they are not used as motor or heating fuel. Examples of such purposes include:

- chemical reduction processes in blast furnaces (solid fuels)
- electrolytic processes (electricity)
- electricity production (natural gas, other gases, solid fuels)
- combined production of electricity and heat, using generators with a minimum efficiency level, provided that the heat is supplied to households (natural gas, other gases, solid fuels)
- coke production (solid fuels)
- technological purposes necessary for the production of electricity or for the combined production of heat and electricity (electricity)
- technological purposes necessary for maintaining the ability to produce electricity or combined heat and electricity production (electricity)
- cover of the losses of a transfer or distribution network (electricity)
- operation of railways, including transportation of persons and freight by tramways and trolleybuses
- fuel used for navigation within the Czech Republic, except by private recreational boats (natural gas, other gases and solid fuels)
- technological purposes in a business producing solid fuels (solid fuels).

In addition, supplies of natural gas and certain other gases are tax exempt if they are used for the production of heat for households and heating facilities.

Electricity is also tax exempt if it is generated from renewable sources.

No approval is required to claim the tax exemption in these cases.

## **Real estate tax**

Real estate tax is payable by the owners of immovable property situated in the Czech Republic. Different rates apply to undeveloped land, agricultural land and buildings.

The property tax on buildings used for business purposes is based on the area of the buildings, using the rates below.

	CZK/m <sup>2</sup>
Residential and agricultural	2
Improved land surface	5
Industrial	10
Other business	10

An additional charge of CZK 0.75 per square metre is levied for each storey (above the ground floor) of a building.

Real estate tax on agricultural land is 0.75 percent of the deemed value. Special rates apply for forests, lakes and ponds.

For other types of land, the tax is based on the area, and the rate is CZK 1 per square metre for building plots and CZK 0.20 per square metre in other cases.

The rates are multiplied by a coefficient ranging from 1 to 5 depending on the location of the property. In addition, the tax can be increased by another coefficient, varying from 2 to 5, based on the decision of the relevant municipality.

Real estate tax is deductible for corporate income tax purposes.

## Real estate transfer tax

A transfer tax of 4 percent of the higher of the purchase price or the appraised value is payable by the seller on all sales of land and buildings and other immovable assets. A special return must be submitted, and the tax must be paid within 30 days of registering the sale. Where the seller does not pay the tax, the liability is transferred to the buyer. The tax is deductible for corporate income tax purposes.

## Inheritance and gift tax

Inheritance tax is payable by deceased persons' heirs who are not spouses or close relations. Subject to certain exemptions, if the deceased person was a Czech citizen with permanent residence in the Czech Republic, the tax is charged on the net value of all assets (except real estate abroad). Otherwise, it is charged only on assets in the Czech Republic.

Gift tax is charged on the gratuitous acquisition of property by a company or a person who is not a qualifying spouse or close relation. The taxpayer is normally the donee, but if the donor is a Czech resident and the donee is not, the tax is payable by the donor.

The gift tax rates are the following.

Value (CZK)	Rate
up to 1 million	7%
1–2 million	9%
2–5 million	12%
5–7 million	15%
7–10 million	18%
10–20 million	21%
20–30 million	25%
30–40 million	30%
40–50 million	35%
over 50 million	40%

For inheritance tax, the rates are reduced by 50 percent.

# Banking and finance

### Local banking system

The Czech National Bank (CNB) is the central bank of the Czech Republic. Its function is to determine monetary policy, issue banknotes and coins, and to manage the circulation of currency, the payment system, and settlement between banks. More details can be found at: [www.cnb.cz](http://www.cnb.cz).

The CNB also coordinates supervision of the Czech financial market, which includes the banking sector, capital market, insurance and pension funds sector, credit institutions, the foreign exchange market and electronic money institutions.

To supervise the market effectively, the CNB lays down rules safeguarding the stability of the financial market. It systematically carries out regulation, examinations and assessments and, where appropriate, issues penalties for non-compliance with these rules.

The responsibility for preparing primary legislation for the financial market sector lies mainly with the Ministry of Finance, and the CNB assists in this process.

As an EU member, the Czech Republic has the obligation to adopt directives issued by the European Community. They are concerned with the stability of the European financial market and are thus focused on measuring risks more accurately, improving internal control systems, and on increased transparency and customer protection. On the other hand, introducing such changes may also mean increased costs or uncertainty for financial institutions (Basel III, MiFID, etc.).

The CNB also cooperates with other supervisory institutions; collaboration among EU supervisors is very tight, both bilaterally between home and host supervisors as well as at the EU-wide level of the European agencies (such as EBA, EIOPA, ESMA and ESRB). The process of integrating supervisory responsibilities, usually called “banking union”, is ongoing. This consists of three main parts:

- the integration of supervisors (single supervisory authority) that primarily covers eurozone countries, with an “opt-in” for other EU members; the Czech Republic will not likely use this “opt-in” in the first stage
- tighter cooperation in the area of recovery and resolution, which should contribute to smoother resolvability in case of disturbances in financial markets

- harmonisation of deposit guarantee schemes, aiming to make the EU guarantee scheme more robust.

The latter two points refer to all EU members and should be finalised during 2013.

The licensing of banks or branches of banks (from countries outside the EEA) and some matters connected with mergers, transfer of assets to partners, etc., are fully within the responsibilities of the CNB.

A foreign bank can enter the Czech banking sector in the following four ways:

- as a new company, with up to 100 percent foreign ownership
- by acquiring an equity stake in an existing commercial bank
- by establishing a financial institution of the parent bank based on the banking licence of the parent bank (applicable to banks with a registered office in the EU), the “single banking licence principle”
- by establishing a branch of the parent bank with a banking licence.

Before it grants a banking licence, the CNB requires:

- a minimum registered capital of CZK 500 million (not applicable to a branch), which is fully paid up (the CZK 500 million minimum must take the form of monetary investments)
- a detailed business plan based on a comprehensive economic analysis
- information about the founders, and the amount, structure and source of equity capital
- a detailed description of related parties of the bank
- details of the registered office of the bank in the Czech Republic
- information about the scope of the bank’s intended activities
- information regarding the organisation and management of the bank, and its internal control system.

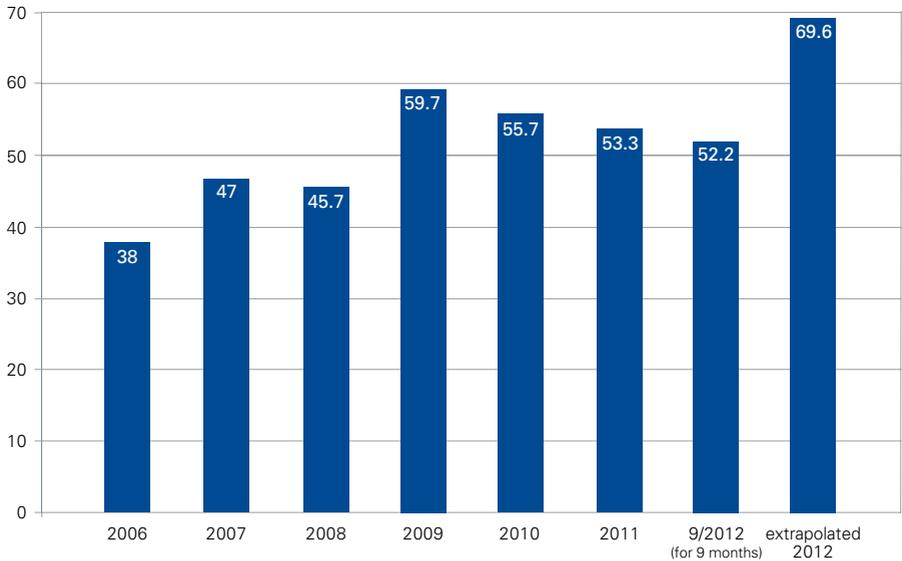
A financial institution operating under the single banking licence principle must fulfil the following requirements.

- The parent bank must hold at least 90 percent of the voting rights and registered capital of this subsidiary.
- The activities intended to be carried out in the local market must also be carried out in the domestic market of the parent bank.
- The local financial institution must be included within the scope of the consolidated supervision of the parent bank, for regulatory supervision purposes.
- The parent bank must jointly and severally guarantee the commitments entered into by this financial institution.
- The parent bank must satisfy the home supervisory authority requirements regarding the prudent management of this subsidiary.

A bank wishing to establish a branch in a host state must notify the supervisory authority of the home state and provide it with information regarding activities, organisational structure and addresses. Within three months of the receipt of such information, the home state supervisory authority will notify the host state supervisory authority of the bank's intention, unless the supervisory authority of the home state has reason to doubt the adequacy of the administrative structure or the financial situation of the bank.

As at 30 September 2012, there were 44 banks (foreign branches included) offering banking services to clients in the Czech Republic, of which 36 were controlled by foreign investors and eight by domestic owners. In addition, a group of four large banks (banks with total assets greater than CZK 200 billion) played a predominant role in the banking sector. As at 30 September 2012, their share of total assets equalled approximately 57 percent. The banking sector remained profitable in 2012. For the first nine months of 2012, net profit exceeded CZK 52 billion (for the whole of 2011 it was over CZK 53 billion).

**Figure 2:** Net profit of Czech banking sector, in billions of CZK<sup>28</sup>



<sup>28</sup> Czech National Bank, Základní ukazatele o bankovním sektoru; at: [http://www.cnb.cz/cs/dohled\\_financni\\_trh/souhrnne\\_informace\\_fin\\_trhy/zakladni\\_ukazatele\\_fin\\_trhu/banky/index.html](http://www.cnb.cz/cs/dohled_financni_trh/souhrnne_informace_fin_trhy/zakladni_ukazatele_fin_trhu/banky/index.html)

From December 2008, the Deposit Insurance Fund provided insurance protection for 100 percent of deposits, including interest accrued, up to a maximum balance of EUR 50,000 per client at a single bank. Since 31 December 2010 the deposit limit at a single bank covered with 100 percent protection has risen to EUR 100,000. Bank deposit claims, foreign banks, financial institutions, health insurance companies and state funds are not insured. All banks and branches of foreign banks (excluding branches of parent banks participating in the deposit insurance scheme in the parent country) are obliged to participate in the scheme and to contribute to the Fund, to the extent specified in the Act on Banking.

The quarterly contribution of a bank to the Fund is 0.04 percent of the average volume of insured deposit claims for the relevant quarter, including interest accrued.

In addition, a Central Credit Register has also been established to decrease the credit risk of the banks. The Register is an information system that pools information on the credit commitments of individual entrepreneurs and legal entities, and facilitates the efficient exchange of such information between those who provide details of debtors listed in the Register.

The CNB issued a decree on prudential rules for banks, credit unions and investment firms in 2007. It introduced the principles of Basel II into Czech banking regulations. Banks in the Czech Republic are required to maintain a capital adequacy ratio of 8 percent. The legislation on financial conglomerates has tightened prudential rules, mainly capital requirements for financially-related groups that meet the definition of financial conglomerates. Recent regulatory changes have been, and continue to be, primarily driven by measures agreed at the EU level. A major package of changes will come with the implementation of Basel III/CRD IV.

## **Prague Stock Exchange**

The Prague Stock Exchange (PSE) began trading in April 1993. Currently it is possible to trade on the regulated Main and Free markets, which are both regulated by the PSE and, from December 2008 onwards, the non-regulated Multilateral Trading Facility Market. The basic criteria for trading on each market are as follows.

- Only companies that offer at least 25 percent of their share capital to the public within the EU, have existed for at least three years and whose market capitalisation of issued shares is at least EUR 1 million for shares or EUR 200,000 for bonds are allowed to trade on the Main Market. The main obligation is,

however, the issuer's obligation to make its financial information publicly available on a regular basis. The issuer also must prepare its audited financial statements according to International Financial Reporting Standards (IFRS).

- Companies that apply for trading on the regulated Free Market do not have to fulfil criteria in terms of public trading of their shares, nor existence, nor market capitalisation. However, they are required to meet information requirements, such as preparation of IFRS financial statements. The PSE also organises trading on a special market for investment instruments other than securities (e.g. futures and emission rights).
- For companies that apply for trading on the non-regulated Multilateral Trading Facility Market, the basic information requirements are much less strict in comparison to the regulated markets, i.e. preparation of IFRS financial statements is not required, and financial information is submitted on an annual basis only.

Trading and exchange trading licences are issued by the CNB. In July 2010, the Central Securities Depository Prague took over the records of securities maintained originally by the Securities Centre. The securities kept in the Central Securities Depository Prague are maintained on the accounts of holders or customer accounts; such holders or owners continue to maintain the asset accounts of their clients. The activity of the Central Securities Depository Prague is regulated by the CNB.

In 2004 a complex regulatory framework was introduced by the Act on Capital Markets. This Act defines investment instruments and investment services, as well as the capital adequacy requirements for brokers, who are required to maintain a capital adequacy ratio of 8 percent. The calculation of the capital adequacy ratio is similar to the ratio calculation for banks.

The CNB issued a decree on prudential rules for providing investment services for securities traders in 2008. This decree introduced the principles of MiFID into Czech regulations.

The Act on Business Activities on the Capital Market allowed trading off-exchange, primarily for small shareholders, until 2008. The main off-exchange market in the Czech Republic was the RM System. It formerly matched buyers and sellers, either through on-line trading or through intermediaries located throughout the Czech Republic.

In compliance with the implementation of MiFID requirements in local legislation and the relevant amendment of the Act on Business Activities on the Capital

Market, the RM System was transformed into a stock exchange as of 1 December 2008. As a result, securities trading on the RM System is allowed for individual investors or shareholders, primarily through licensed intermediary brokers.

In the RM System both the security and the related cash consideration must be delivered on the trade date. The regulatory and reporting requirements for companies listed on the RM System are also less stringent than for companies listed on the PSE. More details can be found at: [www.rmsystem.cz](http://www.rmsystem.cz).

The main index of the Prague Stock Exchange – called the PX Index – closed on 28 December 2012 at 1038.7 points (30 December 2011: 911 points), having risen year-on-year by 14 percent. The overall trade volume of stocks for 2012 reached CZK 236,541 million (2011: CZK 370,986 million). Market capitalisation increased from CZK 1,060,768 million as at 31 December 2011 to CZK 1,142,090 million as at 31 December 2012, representing growth of 7.67 percent compared to the end of 2011.

**Figure 3:** Movement in the PX Index during 2012<sup>29</sup>



## Foreign exchange

The Act on Foreign Exchange, as amended in July 2009, fully implemented the obligations that the Czech Republic accepted under international agreements that have a substantial influence on the free movement of capital and payments. The Czech Republic has concluded many agreements with other countries on the promotion and reciprocal protection of investments.

<sup>29</sup> Prague Stock Exchange, Index PX, Historické údaje; at: <http://www.pse.cz/dokument.aspx?k=Burzovni-Indexy>

If granted a foreign exchange licence, a bank may trade freely in foreign currencies and is subject to foreign exchange regulations.

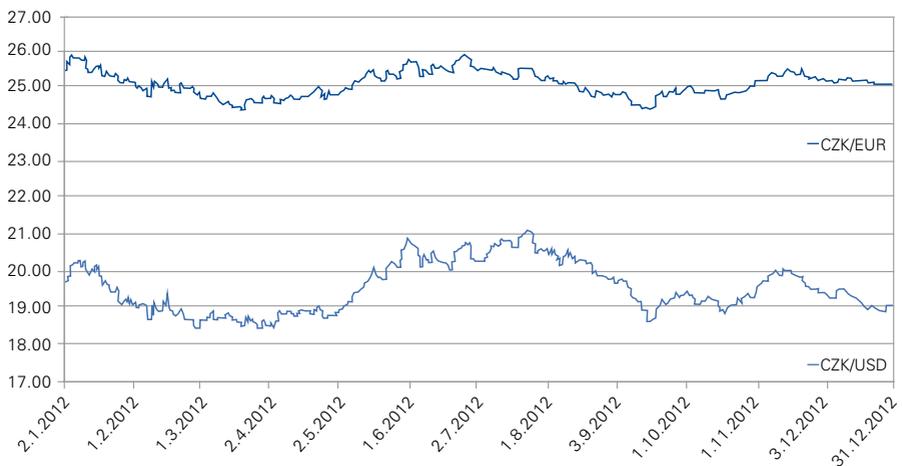
The Act on Foreign Exchange allows:

- a resident without a foreign exchange permit to undertake contractual obligations towards a non-resident and to fulfil the resulting commitments in either Czech or foreign currency
- a resident to acquire foreign currency or other rights denominated in foreign currency, to acquire property abroad and to export and import Czech and foreign currency
- a non-resident to purchase foreign currency or other rights denominated in foreign currency in exchange for Czech currency or vice versa, to acquire real estate (subject to restrictions) and to import and export Czech and foreign currency.

These general clauses are restricted by certain qualifications. Usually the exchanges are subject to a duty to notify the CNB. The role of foreign exchange regulation as an important means of preventing or detecting money laundering is constantly growing.

The Czech crown fluctuated against the US dollar in the range of 19–21 CZK/USD, and remained at around 25 CZK/EUR against the euro.

**Figure 4:** Value of the Czech crown during 2012 (CZK/EUR and CZK/USD)<sup>30</sup>



<sup>30</sup> Czech National Bank, Kurzy devizového trhu; at: [http://www.cnb.cz/cs/financni\\_trhy/devizovy\\_trh/kurzy\\_devizoveho\\_trhu/rok\\_form.jsp](http://www.cnb.cz/cs/financni_trhy/devizovy_trh/kurzy_devizoveho_trhu/rok_form.jsp)

## Repatriation of capital and profit

The Czech currency is allowed to float freely, and is convertible outside the Czech Republic. Czech companies may freely repatriate both current year profits and retained earnings in whatever currency they desire. However, they should follow the minimum capital requirements – if applicable – imposed by the CNB. Branches of foreign banks do not have such limitations, as the capital is raised and monitored centrally.

The following types of payments from a Czech company to its foreign parent may be transferred abroad freely, subject to the appropriate withholding taxes:

- dividends
- interest
- charges for intangible property (e.g. royalties and know-how fees)
- management fees
- liquidation balance.

# Employment policy

### General

The Czech Republic has a skilled and educated labour force, and the literacy rate is above 98 percent.

Employment law is governed by the Labour Code and numerous government decrees. Where an employee from another EU member state is sent by an employer to work in the Czech Republic as part of a transnational provision of services, the Czech Labour Code regulations shall apply to:

- maximum working hours and the minimum length of rest periods
- the minimum annual leave entitlement
- the minimum wage and overtime rates
- occupational health and safety
- working conditions for pregnant employees
- working conditions for female employees and adolescent employees
- equal treatment of male and female employees
- prohibition of discrimination, and
- conditions of work with regard to employment agencies.

The maximum working week is 40 hours. The standard working week is Monday to Friday.

The retirement age for individuals born before 1936 is 60 for men and 53–57 for women depending on the number of children raised. The retirement age for individuals born in 1936–68 will gradually be raised to 65 years for men and childless women, and 62–64 for mothers depending on the number of children raised. The retirement age for individuals born after 1968 shall be 65 for men, childless women and mothers with one child and 62–64 for mothers with two or more children.

### Employment contracts

Employers are required to conclude written employment contracts with their employees. Employers must inform employees about their rights and duties, and the salary resulting from the contract. The contract must describe the type of work, the date that the employee will commence work, and where the work will be performed. Trial periods cannot be longer than three months and must be agreed in writing. In fixed-term employment the trial period may, however, not be longer than

half of the agreed term. From 2012 the trial period of managers may be concluded for a period up to six months.

Employment contracts are valid for an indefinite period unless explicitly stated in a contract. A fixed-term employment contract may be concluded for up to three years, and may only be repeated twice. These rules do not apply to fixed-term employment contracts concluded between employment agencies and their employees concerning work to be carried out for another employer.

It is possible to temporarily assign an employee to work for another employer based on an agreement between the employee and his or her original employer. As a precondition, the employee must have worked for the original employer for at least six months. There is no need for the employer to obtain an agency licence, as was necessary in the past. Agency employment now differs from temporary assignment in that only an employment agency may profit from leasing employees.

An employee may have more than one employment contract concurrently. The rights and duties ensuing from each are unrelated. However, the employee must obtain a written consent from his or her employer if the business of the other employer is identical with activities of the first employer.

An employment contract concluded for an indefinite period or fixed term may be terminated as follows:

- by agreement
- by notice
- by immediate cancellation
- by cancellation during the trial period.

A fixed-term employment contract also terminates on the expiry of the agreed period. Cancellation by agreement must be made in writing.

The employer or the employee may cancel a contract by giving written notice. The notice period commences on the first day of the calendar month following the date on which the notice was delivered to the other party. The notice period for the employer and the employee is at least two months, and the employee can give notice without stating a reason.

When the employer terminates an employment contract, it must be for one of the following reasons:

1. the employer (or a department of the employer) is being liquidated or is ceasing to carry on business
2. the employer (or part of the company or organisation) is relocating
3. organisational changes
4. the employee is not able to work for long-term health reasons
5. the employee is not sufficiently qualified
6. serious disciplinary breaches by the employee
7. grave violation of the sick leave regime.

Where an employment contract is terminated for any of the reasons under points 1 to 3, the employer is obliged to pay the employee a minimum severance pay depending on the duration of the employment relationship:

- up to one year of employment: one month's severance pay
- up to two years of employment: two months' severance pay
- more than two years of employment: three months' severance pay.

Specific termination conditions apply in respect of disabled persons, pregnant women and employees caring for minors. Specific termination conditions, severance pay and other conditions may also be included in a collective agreement if in force.

During the trial period, the employment contract may be cancelled by either side for any reason or without any reason being given. Cancellation must be in writing and delivered at least three days before the termination date.

## **Mass layoffs**

If an employer terminates employment relationships with a certain number of employees as defined in the Labour Code, for the specific reasons set out above under points 1 to 3, within a period of 30 calendar days, this is considered a mass layoff. A two-month notice period applies for mass layoffs. However, the employment relationship of an employee who is affected by a mass layoff shall not be terminated earlier than 30 consecutive days after the day the employer sent a report on the final decision on the layoffs to the local Labour Office (see below), unless the employee does not insist on extension of the termination period.

At least 30 days before termination notices are issued, the employer must inform the trade union or work council in writing and hold negotiations with either of these bodies to mitigate the scope and effects of the redundancies. If there is no

union or work council, the employer must take the same steps in relation to all affected employees. At the same time, the employer must also inform the local Labour Office of the redundancies in writing.

The employer must submit a report on the final decision of the redundancies to the regional branch of the Labour Office. It must contain the results of negotiations with the union or work council and the final number and arrangement of the redundancies.

## Trade unions

Trade unions engage in collective bargaining at a national level. A Tripartite Council, including representatives from trade unions, employers and the government, meets annually to discuss labour issues.

## Employment confirmation

Employers have a duty to provide proof of employment (*potvrzení o zaměstnání*) to all employees, upon termination of an employment contract. It must contain information regarding the duration of employment, social security and health insurance contributions paid, the employee's obligations to the company, and details of the employee's annual salary for the employment period.

Where an employee requests the employer to provide him or her with a reference (*pracovní posudek*), the employer is obliged to provide it within a period of 15 days, but not earlier than two months before the end of the employee's employment.

## Holidays

An employee is entitled to holiday pay if the employment contract lasts for at least 60 consecutive days during a calendar year. Where the contract lasts for less than a year, one-twelfth of the annual holiday is accrued for each calendar month of continuous employment with the same employer.

The minimum holiday period is four weeks per annum, unless increased by a collective bargaining agreement or internal regulations. State employees are entitled to five weeks per annum. Holiday pay is calculated on the basis of an employee's average monthly salary.

## **Social security and health insurance**

There are two major schemes to which both the employee and the employer contribute: social security and health insurance.

Payments from the social security insurance system typically include:

- pensions
- cash benefits:
  - sick leave
  - benefit for a family member's health treatment
  - parental benefits
  - social benefits
  - death benefits
  - maternity benefits.

## **Concurrence of an employment relationship with execution of the office of director**

An amendment to the Commercial Code now permits the concurrence of an employment relationship with execution of the office of director.

The liability of such person would, however, not be limited by the concurrent employment, and any relevant remuneration or wage remains subject to approval by the general meeting.



# Corporate transactions

Over the last two decades, corporate transactions have become a feature of the Czech legal environment, making it possible for entrepreneurs and business persons to expand or restructure their business activities in the Czech Republic. This was a hugely important development, particularly in relation to its accession to the EU, as a result of which the Czech Republic is obliged to implement the legal regulations of the EU, including those allowing cross-border mergers. The process of mergers and acquisitions itself is primarily regulated by the Commercial Code, the Act on Takeover Bids, the Act on Transformations of Business Companies and Co-operatives, accounting and tax laws, anti-monopoly regulations, and a number of special regulations applicable to specific sectors, such as banking, insurance and other financial services.

## Privatisation

A number of enterprises in sectors such as electricity and transport may be the subject of potential privatisation by sale to strategic investors. The privatisation process is initiated by a government decision. All transactions are subsequently carried out by the relevant ministry, generally through a tender.

## Ownership of real estate

There are no restrictions on ownership of real estate in the Czech Republic.

## Acquisition and disposal of Czech legal entities

Foreign private and legal entities are permitted to own a business or hold shares in companies, and they can acquire and sell up to 100 percent of the share capital of a limited liability or joint-stock company. Likewise, they can also participate in companies with other legal forms, but the transfer of an ownership interest in a limited liability company must be recorded in the Commercial Register.

The acquisition of shares in a joint-stock company is not restricted, although the shares of certain joint-stock companies are registered with the Central Securities Depository Prague (i.e. shares that do not exist in paper form but whose details and ownership is recorded). The ownership of such shares changes when the acquisition is recorded in the Central Register. In respect of shares traded on the regulated securities market (Prague Stock Exchange and RM System) in the Czech Republic or another EU member state, the acquirer is obliged to notify the company (the issuer) and the Czech National Bank (CNB – the supervisory body of the capital market) if its share of the company's voting rights exceeds

a certain level. In addition, if a shareholder acquires a minimum of 30 percent of voting rights and actually controls the company, it is obliged to bid for the shares of the remaining shareholders.

## **Purchase of an enterprise**

An acquisition can also be made by purchasing an enterprise or part of it, in which the buyer acquires all rights, assets and liabilities connected with running the business. The sale and purchase agreement associated with the acquisition must be approved by the general meeting or shareholders of the company before the transaction is signed.

## **Contribution to a company**

Another way of securing a share in a business is by making a financial or a non-monetary contribution, where the general meeting of the company must decide on a new share issue. The increase is registered at the Commercial Court. In the case of a non-monetary contribution, an independent valuation of the investment must be submitted by an independent court-appointed expert, with some exceptions. If the company statutory body so decides, a valuation can also be submitted by an independent and generally accepted expert.

## **Transformation of a company (merger, transfer of assets to a shareholder, demerger, change of legal form and cross-border relocation)**

In Czech legislation, mergers come under the category of “transformation of a business”, which also includes the demerger of a company, transfer of assets to a shareholder, any change in a company’s legal form and cross-border relocation. Transformation of a business is possible even if the company is in liquidation or insolvency proceedings. The transformation can be undertaken as a national or cross-border transaction with legal entities registered in other EU or EEA countries, including European Company (Societas Europaea).

Probably the most frequent form of transformation is merger by acquisition: one of the companies carries on its activities and the other ceases to exist, and its assets and liabilities are transferred to the successor company. Another option is merger by the formation of a new company: all of the participating companies cease to exist, and their assets are transferred to a newly established successor company.

From a financial point of view, an important issue is the tax losses carried forward in respect of wound up companies.

Mergers are carried out on the basis of merger projects, which are prepared and signed by the participating companies and which must ultimately be approved by general meetings. If a company merges, with its sole shareholder as the legal successor, the merger will be subject to a simplified legal procedure. Share exchange ratios, the successor company's registered capital and other possible arrangements applicable after the merger are key factors in merger projects. The merger becomes legally effective on the date it is recorded in the Commercial Register. From a corporate income tax and accounting point of view, the companies are considered a single entity as of the merger date. The merger date can be determined retrospectively, i.e. as a day no earlier than 12 months before the day the application for registration of the merger in the Commercial Register is filed; or prospectively, i.e. at the latest as the day the merger is recorded in the Commercial Register. In some cases, subject to the agreement of all shareholders or members, the merger procedure can be simplified significantly. Concerning mergers of joint-stock companies, there is an option allowing the voluntary buyout of the new shares representing a minority share in the merging company if the successor company owns more than 90 percent of the merging company's voting rights. Should the legal status of shareholders of any participating company be worsened as a result of the merger, the successor company has an obligation to buy out these shareholders under certain circumstances.

Companies with a different legal status can also merge, and the merger may involve more than two entities.

A number of special regulations apply to cross-border mergers. An important condition is that the merger procedure must be regulated in the same way as in the legal systems of the countries in which the participating companies are registered. The preparatory phase of the cross-border merger is carried out in accordance with the laws to which each of the participating companies is subject, and the completion process is governed by the laws of the country where the successor company has its registered office.

The transfer of assets to a shareholder is a legal form of company transformation, where a shareholder owning more than 90 percent of the company's registered capital, also representing more than 90 percent of the company's voting rights, may transfer the company's assets to itself, provided it has obtained the consent of the general meeting; at the same time it has the duty to fairly compensate all other minority shareholders.

A company can be demerged (divided) through:

1. demerger by the formation of new companies
2. “demerger by acquisition”
3. spin-off connected with the formation of new companies
4. spin-off connected with acquisition, or
5. a combination of the options mentioned under either 1 or 2, or under 3 and 4.

Upon demerger of a company by the formation of new companies or by acquisition, the company being demerged ceases to exist, without liquidation, while it does not cease to exist upon demerger by spin-off.

Czech legislation allows a company to change its legal status, whereby the company does not cease to exist, but only changes its internal legal position and structure.

Under certain conditions stipulated by Czech legislation, a foreign company with its registered office in another EU or EEA country can relocate to the Czech Republic and a Czech company can relocate to another EU or EEA country.

## **Public bid for purchase or exchange of participating securities issued by a joint-stock company**

If someone (entity or individual) intends to make an offer to more than 100 shareholders or the volume of requested securities exceeds 1 percent of the issue out of the regulated market, the offer must be made in the form of a public bid. If a public bid is required by law, the offer must correspond to the value of the participating securities. If the securities are traded on the regulated market, the bidder must submit an offer and provide evidence to the CNB that the consideration is adequate.

## **Takeover bids**

### **Voluntary takeover bids**

For joint-stock companies traded on the regulated market, an investor can make a public offer to the shareholders if the bid allows it to gain control over the company. The bid is binding for no less than four weeks. If it is binding for more than 10 weeks, the investor shall notify the shareholders two weeks before the period expires. All shareholders must be treated equally; the statutory bodies of the target company shall maintain neutrality and are obliged to inform trade unions or other employee representatives. Under the “breakthrough rule”, the restriction regarding the transferability of listed securities stated in the target company’s articles of association or settlements between the shareholders

and/or the target company may be broken within the duration of the takeover bid by approval of the target's general meeting. During the bid's validity period the bidder can increase the consideration or prolong the validity. In addition, another person may make a counter bid during the validity period of the first bid. Takeover bids may be published only with the prior consent of the CNB.

The Act on Takeover Bids also deals with the situation where a target company is registered in the Czech Republic but its shares are traded on the foreign regulated market, and where the target company has its registered office in a foreign country but its shares are traded on the Czech regulated market.

### **Obligatory takeover bids**

An investor acquiring a minimum of 30 percent of the voting rights in the target company traded on the European regulated market and who actually controls the company must offer to buy out other shareholders within 30 days of the acquisition ("obligatory takeover bids"). The consideration can be provided in cash, shares or a combination of both. The minimum consideration must correspond to the highest price for which the investor acquired shares in the target company in the 12 months before the takeover bid obligation arose. If such a price cannot be determined, the minimum consideration must correspond to the weighted average of prices for which the shares were traded on the European regulated market during the six months before the obligation arose. An obligatory takeover bid may be published after its approval by the CNB.

Obligatory takeover bids are also required if a company decides to displace its shares from trading on the European or other foreign regulated market, or changes the nature of its shares or their transferability.

### **Right to buy out participation securities (squeeze out)**

A shareholder with participation securities representing more than a 90-percent share of the voting rights of a joint-stock company ("major" shareholder) is entitled to ask the board of directors to convene the general meeting to decide on the transfer of all the other participating securities owned by minority shareholders to it (a "squeeze out of minority shareholders"). The general meeting of the company approves the squeeze out by paying them adequate compensation on the basis of an expert valuation, or another reasonable consideration if a valuation is not required. If the shares are traded on the regulated market, prior consent of the CNB is required. An expert opinion is not required if the target company's shares are traded on the regulated market. In such a case, the justification of the consideration is subject to approval by the CNB.

## Regulation

With regard to mergers and acquisitions, the interests of minority shareholders are protected because companies are obliged to ensure early notification and, for the majority of transactions, the opinion of an independent expert is required to determine whether the parameters of the transaction, in particular the price, are fair and reasonable. In the Czech Republic, mergers and acquisitions are also regulated by special legal measures. For example, for a transaction to come into effect in the banking and insurance sector, the appropriate authorities (the CNB and the Ministry of Finance) must give their prior consent to a contract on the merger or acquisition of a bank or insurance company.

Mergers and acquisitions also fall within the jurisdiction of the Office for the Protection of Competition. Its permission is required if:

- the aggregate net turnover of the participants in a transaction in the Czech Republic for the prior accounting period exceeded CZK 1.5 billion and at least two of the merging companies each recorded a net turnover of more than CZK 250 million in the Czech Republic for the same period, or
- one or more of the participants in the transaction had net turnover in the Czech Republic of at least CZK 1.5 billion in the previous accounting period and for the same period, the worldwide net turnover recorded by the other participant exceeded CZK 1.5 billion.

# Useful addresses

## Czech government offices

### Ministry of Finance of the Czech Republic

Letenská 15  
118 10 Prague 1  
Tel.: +420 257 041 111  
www.mfcr.cz

### Ministry of Industry and Trade of the Czech Republic

Na Františku 32  
110 15 Prague 1  
Tel.: +420 224 851 111  
www.mpo.cz

### Ministry for Regional Development of the Czech Republic

Staroměstské náměstí 6  
110 15 Prague 1  
Tel.: +420 224 861 111  
www.mmr.cz

### CzechInvest (Investment and Business Development Agency)

Štěpánská 15  
120 00 Prague 2  
Tel.: +420 296 342 818  
www.czechinvest.org

### Czech National Bank (the central bank of the Czech Republic)

Na Příkopě 28  
115 03 Prague 1  
Tel.: +420 224 411 111  
www.cnb.cz

## Banks active in the Czech Republic

An up-to-date list of banks active in the Czech Republic can be found on the website of the Czech National Bank, at:  
[http://www.cnb.cz/en/supervision\\_financial\\_market/lists\\_registers/index.html](http://www.cnb.cz/en/supervision_financial_market/lists_registers/index.html).

## Business organisations

### Czech Chamber of Commerce

Freyova 27/82  
190 00 Prague 9

Tel.: +420 266 721 300  
[www.komora.cz](http://www.komora.cz)

### International Chamber of Commerce Czech Republic

Thunovská 12  
118 00 Prague 1

Tel.: +420 257 217 744  
[www.icc-cr.cz](http://www.icc-cr.cz)

### American Chamber of Commerce in the Czech Republic

Dušní 10  
110 00 Prague 1

Fax: +420 222 329 433  
[www.amcham.cz](http://www.amcham.cz)

### Canadian Chamber of Commerce in the Czech Republic

Národní 1009/3  
110 00 Prague 1

Tel.: +420 603 306 705  
[www.gocanada.cz](http://www.gocanada.cz)

### British Chamber of Commerce Czech Republic

Londýnská 506/41  
120 00 Prague 2

Tel.: +420 224 835 161  
<http://www.britishchamber.cz/>

### Enterprise Ireland

Tržiště 13  
118 00 Prague 1

Tel.: +420 257 199 621  
[www.enterprise-ireland.com](http://www.enterprise-ireland.com)

### German-Czech Chamber of Industry and Commerce

Václavské náměstí 40  
110 00 Prague 1

Tel.: +420 224 221 200  
[www.dtihk.cz](http://www.dtihk.cz)

### Netherlands-Czech Chamber of Commerce

Plzeňská 5  
150 00 Prague 5

Tel.: +420 257 474 740  
[www.nlchamber.cz](http://www.nlchamber.cz)

### Nordic Chamber of Commerce in the Czech Republic

Václavské náměstí 51  
110 00 Prague 1

Tel.: +420 774 123 370  
[www.nordicchamber.cz](http://www.nordicchamber.cz)

### Chamber of Commerce Switzerland – Czech Republic

Budova Lighthouse  
Jankovcova 1569/2c  
170 00 Prague 7

Tel.: +420 222 516 614  
www.hst.cz

### Italian-Czech Chamber of Commerce and Industry

Husova 159/25  
110 00 Prague 1

Tel.: +420 222 015 300  
www.camic.cz

### French-Czech Chamber of Commerce

IBC  
Pobřežní 3  
186 00 Prague 8

Tel.: +420 224 833 090  
www.ccft-fcok.cz

### Slovak-Czech Chamber of Commerce

Široká 5  
110 00 Prague 1

www.scok.cz

### Czech-Polish Chamber of Commerce

Janáčkova 10  
702 00 Ostrava

Tel.: +420 596 612 230  
www.opolsku.cz

### Chamber for Commercial Relations with the Confederation of Independent States

Freyova 27  
190 00 Prague 9

Tel.: +420 266 721 812  
www.komorasns.cz

### Japan External Trade Organization

Na Příkopě 1096/19  
117 19 Prague 1

Tel.: +420 222 312 978 (Japanese)  
Tel.: +420 224 814 971 (other languages)  
www.jetro.go.jp

An up-to-date list of business organisations active in the Czech Republic can be found on the BusinessInfo portal, at:

<http://www.businessinfo.cz/cs/clanky/prehled-zahranicnich-obchodnich-komor-4550.html>.

## Notes

## Export finance/Export advisory

### Are you seeking international business partners to help carry out your business plan?

- We have recommended Czech firms able to act as EPC contractors for the planned development project to a foreign investor.

### Do you need to assess the feasibility of a project you are planning to carry out with a Czech exporter?

- We have examined the individual assumptions in financial projections for an energy project for a Russian investor and have prepared a bankable document suitable for presentation to financial institutions, investors and all other stakeholders.

### Are you seeking cheap funding in the Czech Republic for your project planned in cooperation with a Czech exporter?

- We cooperate closely with the main financial institutions that provide buyer's credit financing, and with EGAP, the export insurance company.

## Market intelligence

### Are you considering entering the Czech market?

We have prepared:

- A detailed analysis of the Czech construction market for a major international financial group.
- An independent feasibility study for a large residential project on the outskirts of Prague for an Italian investor.
- A comprehensive overview and outlook of the Czech energy market for a major international energy group.

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