



Doing Business in the Czech Republic 2023

BDO in the Czech Republic

January 2023

BDO



TABLE OF CONTENTS

1. THE CZECH REPUBLIC AT A GLANCE 6

Geographical location and population	6
Language & climate	6
History, politics & government	6
Currency, time zone, weights & measures	6
General economic outlook	6

2. DOING BUSINESS 7

Establishing a business presence	7
Labour relations & working conditions	8
Work permits, residence permits, visas, etc.	10
Intellectual property	10

3. FINANCE AND INVESTMENT 10

Banking & finance	10
Exchange controls	10
Incentives to investment	10

4. THE ACCOUNTING AND AUDIT ENVIRONMENT, PUBLICATION AND ARCHIVING 11

Accounting regulations	11
Audit requirements	11
Publication and archiving	12

5. OVERVIEW OF THE TAX SYSTEM 12

Taxes	12
Prospective changes	12
Appeals	12
Tax code	12
Changes to EU regulations	12

6. TAXES ON BUSINESS 12

Corporate income tax	12
Value added tax	17

TABLE OF CONTENTS

<u>7. PERSONAL TAXATION</u>	20	<u>9. SOCIAL SECURITY CONTRIBUTIONS</u>	26
Personal income tax	20	Employers and employees	26
Inheritance and gift taxes	24	Self-employed contributors	26
Wealth tax	24		
<u>8. OTHER TAXES</u>	24	<u>10. APPENDIX I: DOUBLE TAX TREATIES</u>	27
Real estate tax	24	Comprehensive double tax treaties	27
Real estate acquisition tax	25	Double tax treaties: air transport and shipping	28
Road tax	25	Double tax treaties: estates, gifts and inheritances	28
Customs duties	25	Agreements on mutual administrative assistance	28
Excise duties	25	Social security agreements	28
Environmental tax	25		
Expected changes	25		

BDO IN THE CZECH REPUBLIC

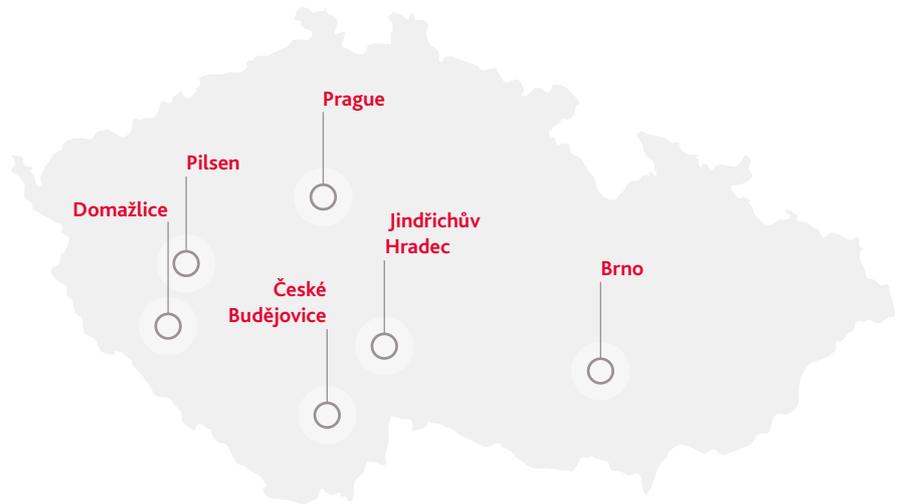
YOUR PARTNER ON THE ROAD TO SUCCESS FOR 30 YEARS

We are a consulting company providing auditing, tax, legal, accounting and consulting services. We have been operating on the Czech market for 30 years. With more than 500 professionals and many years of experience, we are one of the leading consulting companies in the Czech Republic.

We will help you so that you can focus on the core of your business. We provide services in the areas of audit, accounting, tax, law, information technology, digitalisation, financial and transactional advisory and valuation.

Our uniqueness lies in the combination of a strong international network and individual approach to clients from offices across the Czech Republic.

WE'RE RIGHT WHERE YOU NEED US



OUR SERVICES



FROM HISTORY TO THE PRESENT...

We have been operating on the Czech market for more than 30 years. Since the company's inception we have lived by values centred on people and relationships. This applies both inside the company as well as towards our clients and the market.

We have grown into what we are today from a solid foundation and by bringing together a number of exceptional Czech companies, with diverse expertise, experience and skills. We are constantly working on our further development, changing and growing together with the needs of our clients and adapting to the demands and opportunities of the times.

OUR FOCUS SECTORS



REAL ESTATE AND CONSTRUCTION



HEALTHCARE



PUBLIC SECTOR



FAMILY BUSINESS



D+A+CH

AUDIT



Our auditors always focus on your company as a whole. Using our methodologies, knowledge and experience, we strive to provide independent audits and reviews of financial statements in addition to constructive ideas for improving internal controls and business systems.

- ▶ Audit and review of financial statements
- ▶ Internal audit and internal control consulting
- ▶ IT audit and third-party assurance
- ▶ Forensic audit
- ▶ Subsidy and grant verification
- ▶ Corporate combinations
- ▶ IFRS consulting

TAX



We can help you achieve the optimal tax burden in accordance with the rules and regulations. Our goal is to deal with the complexities of the tax code while obtaining the maximum benefit for you under the applicable regulations.

- ▶ Corporate tax advice
- ▶ Business support – research and development, investment incentives
- ▶ Subsidies
- ▶ Real estate consultancy
- ▶ International taxation and tax structures
- ▶ Transfer pricing
- ▶ Tax advice for individuals and business owners
- ▶ Secondment of workers
- ▶ Indirect taxes (VAT, customs and excise)
- ▶ Representation, tax administration, tax litigation

ACCOUNTING & PAYROLL



We provide accounting, payroll and compliance services, that take into account your growth and changing regulations as well as local and global market requirements.

- ▶ Outsourced bookkeeping
- ▶ Preparation of financial statements in accordance with Czech or international standards
- ▶ One-off or long-term supervision of accounting
- ▶ Preparation of reporting and data analysis
- ▶ Payroll services

ADVISORY



We can advise you on strategic, financial or operational management of your company, help you with business transformation, set up risk management processes including cyber security, or assist you with the implementation of digital technologies to improve the efficiency of internal or production functions.

Our consultants are experts in business management, economics and finance, processes, information technology, marketing and sales. We can help with complex strategy and implementation, or with more targeted operational and project requirements.

- ▶ Financial, strategic and operational business management
- ▶ People, organisation and change
- ▶ Transaction advisory (M&A, due diligence)
- ▶ Expertise and valuation
- ▶ Risk management, internal audit and compliance
- ▶ Cybersecurity
- ▶ Technology consulting, automation and digitalisation
- ▶ IT compliance
- ▶ Forensic services
- ▶ Training – BDO Academy

LEGAL



We can support you in all important business decisions. Our range of services is designed to cover all areas of law and the corporate life cycle. We strive to support our clients in an interdisciplinary manner with the aim of preparing individual and tailor-made solutions for you.

- ▶ Corporate law
- ▶ M&A
- ▶ Real estate and construction law
- ▶ Tax law
- ▶ Financing
- ▶ Contract law
- ▶ Employment law
- ▶ Insolvency and restructuring
- ▶ Representation in court and arbitration proceedings



AUTOMOTIVE



ENERGY



FINANCIAL
INSTITUTIONS



MANUFACTURING



TECHNOLOGY, MEDIA,
TELECOMMUNICATION

1. THE CZECH REPUBLIC AT A GLANCE

GEOGRAPHICAL LOCATION AND POPULATION

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

The population of the Czech Republic is 10.76 million (as of 13 January 2023). Prague, the capital and largest city, has 1.3 million inhabitants. Other major urban centres are Brno, Ostrava, Plzen, Liberec and Olomouc.

LANGUAGE & CLIMATE

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

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

HISTORY, POLITICS & GOVERNMENT

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

Pact forces in August 1968. In the Velvet Revolution of 1989, the Communist regime collapsed and democratic rule was restored. On 1 January 1993, Czechoslovakia was peacefully divided into two constituent states – the Czech Republic and Slovakia. The Czech Republic became a member of NATO in 1999 and of the European Union in 2004.

The Czech Republic is a parliamentary republic, in which the president as head of state has certain reserved powers. The president may serve no more than two consecutive terms. Until 2013, the president was elected by a joint session of the two houses of parliament, but in 2013 the first direct elections were held, in which Miloš Zeman of the centre-left Party of Civic Rights (SPOZ) was the winner. Presidential elections were held in January 2023, resulting in the election of Petr Pavel. The head of government is the prime minister, a post currently held by Petr Fiala, the leader of the ODS Party. He was appointed by the president on 28 November 2021.

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

CURRENCY, TIME ZONE, WEIGHTS & MEASURES

The currency of the Czech Republic is the Czech crown, the koruna, ISO symbol CZK. At the time of writing (February 2023), the koruna was quoted at EUR 1 = CZK 23.77 and at USD 1 = CZK 22.25. The Czech Republic uses Central European Time (UTC+1) and in "summer" UTC+2 CEST (Central European Summer Time). The metric system and the Celsius temperature scale are in use.

GENERAL ECONOMIC OUTLOOK

The Czech Republic has been a member of the European Union since 1 May 2004. Since that day, the Czech market has been entirely open for both existing and new EU Member States. The Czech Republic does not apply any restrictions on businesses based in the EU area.

Foreign investors especially appreciate the Czech Republic's unique location in Central Europe, its infrastructure, economic stability, expert knowledge and flexible labour force.



2. DOING BUSINESS

ESTABLISHING A BUSINESS PRESENCE

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

	Limited liability company
	Joint-stock company
	Limited partnership
	Unlimited partnership
	Branch
	Cooperative
	Sole proprietorship

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

Establishing a company in the Czech Republic is neither financially demanding nor time-consuming. For example, a limited liability company whose business is not subject to specific regulatory requirements can be established and can start operating within one month. In the case of a sole shareholder, the minimum mandatory registered capital is only CZK 1.

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

Besides the listed national legal forms, business in the Czech Republic may of course be carried out through businesses incorporated via one of the European legal forms, simplifying the execution of any future M&A prospects, notably relocation of seat between two Member States. Interestingly, the Czech Republic is home to by far the most Societates Europaeae (SE) among all EU/EEA Member States.

Limited liability company (s.r.o.)

A limited liability company is one whose registered capital is created by shareholders' contributions. The shareholders are liable for the company's obligations only up to the amount of their unpaid contributions as registered in the Commercial Register. Articles of association are the main corporate document.

- ▶ **Registered capital:** Registered capital must be at least CZK 1 (approximately 3 euro cents), whereas one member's contribution must be at least CZK 1. Contributions in kind (non-monetary) are possible. The law also allows the creation of different kinds of shares (with specific rights). Shares may also be incorporated into certificated registered securities.
- ▶ **Transfer of shares:** Shares in a limited liability company are transferable by written share purchase agreements (the transfer is effective as of the date set in the agreement) with notarised signatures. Specific limitations for transfer of shares could be introduced in the company's articles of association. Shares may be subject to encumbrances, such as pledge or negative pledge.
- ▶ **Shareholders:** A limited liability company can be established by a sole founder and there is no limit to the number of shareholders. Shareholders are registered in the Commercial Register.
- ▶ **Company bodies:** Shareholders form a general meeting, which is the supreme body of the company and takes place at least once a year, no later than within six months of the end of the financial year. The company is managed by one or more executive officers as the company's statutory body. Executive officers may act individually or jointly, with the possibility of introducing very specific conditions that are binding towards third parties. Establishment of a supervisory board is mostly optional. Executive officers or other members of the company's bodies must be registered in the Commercial Register. Both individuals and companies may become executive officers.

Joint-stock company (a.s.)

- ▶ A joint-stock company is a company whose registered capital is created by contributions from shareholders, who are generally not held liable for the company's obligations. The registered capital is divided into a certain number of shares. Articles of association are the main corporate document.
- ▶ **Shareholders:** A joint-stock company can also be established by a sole founder and there is no limit on the number of shareholders. Save for the case of a sole shareholder, shareholders are not registered in the Commercial Register.
- ▶ **Registered capital:** The registered capital of a joint-stock company must be at least CZK 2 million (approximately EUR 78,800). Contributions in kind (non-monetary) are possible.
- ▶ **Shares:** A joint-stock company can issue either registered shares (as certificates or as book-entry securities) or bearer (which are always book-entry or immobilised) shares. The law allows different kinds of shares (with

specific rights) to be created. Shares may be subject to encumbrances, such as pledge or negative pledge.

- ▶ **Transfer of shares:** Registered shares are transferable by contract, upon endorsement and delivery. For the transfer of book-entry shares, registration in the Central Securities Depository or one of the EU-licensed central depositories is required (notably Euroclear and ClearStream, a subsidiary of the Deutsche Börse). Specific limitations for transfer of shares could be introduced in the company's articles of association for registered securities (shares with restricted transferability). Bearer securities are transferable without the possibility of limitation.
- ▶ **Company bodies:** Shareholders form a general meeting, which is the supreme body of the company and takes place at least once a year, no later than within six months of the end of the financial year. A joint-stock company can have a monistic or dualistic structure as regards statutory and supervisory bodies. Under the monistic structure, the company constitutes a managing board which ordinarily has three members, although a single-member board is possible. Under the dualistic structure, the company constitutes a board of directors and a supervisory board. Members of the company's statutory or supervisory bodies are registered in the Commercial Register.

Under the more common dualistic structure, the board of directors is the statutory body of the company while the supervisory board has a controlling role. Unless stipulated otherwise in the articles of association, each board has three members. Members of the company's statutory or supervisory bodies are registered in the Commercial Register. Both individuals and companies may become members of the elected bodies.

Unlimited partnership (v.o.s.)

An unlimited partnership is a company in which at least two individuals or legal entities carry on the business under the same corporate name. Partners guarantee the company's obligations jointly with all their assets. The company does not have to create registered capital. All partners become officers of the company, by default.

Limited partnership (k.s.)

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

Registered branch

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

Registration of a branch is mandatory in certain cases, notably when applying for a business licence or employing a work-permit holder.

European Company (SE)

A European Company, known formally by its Latin name *Societas Europaea* ("SE") is able to operate on a European-wide basis. An SE may be set up in one of four ways: (i) by the merger of two or more existing joint-stock companies from at least two different EU Member States; (ii) by the formation of a holding company by companies fulfilling specific conditions; (iii) by the formation of a subsidiary of companies fulfilling specific conditions; or (iv) by the transformation of a joint-stock company that has had a subsidiary in another Member State for at least two years. An SE is a legal entity and its subscribed capital is at least EUR 120,000.

Sole proprietorship

Individuals, including foreigners, can carry out business activities in the Czech Republic in their own name based on a valid trade licence or other relevant business permit. Non-EU nationals must adhere to further visa obligations.

Business permits

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

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

Legal entities in the Czech Republic must register their ultimate beneficial owners in the Register of Beneficial Owners. A beneficial owner is an individual who is able to directly or indirectly exercise decisive influence in the company or is the ultimate beneficiary of company distributions.

Non-compliance may lead to potentially severe consequences, including bans on distribution of profit or holding general meetings and even involuntary wind-up.

LABOUR RELATIONS & WORKING CONDITIONS

Labour relations are governed by Act No. 262/2006 Coll., Labour Code, as amended. Employment arises most frequently based on written employment contracts. The employment contracts must include at least:

- ▶ the type of work;
- ▶ the place or places of work;
- ▶ the commencement of employment;

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

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

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

Less formal employment alternatives include agreements to perform work and agreements to complete a job. These can be concluded for seasonal or part-time work.

Employment can be terminated as follows:

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

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

Vacation

The minimum vacation entitlement is four weeks (20 days at a 40-hour workweek).

Remuneration

The Czech Republic has a mandatory minimum wage. As of 1 January 2023, the minimum wage is CZK 17,300 (approximately EUR 730) per month or CZK 96.40 per hour.

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

Statutory working hours are 40 hours per week. This may be less under specific circumstances (e.g. two- or three-shift operation).

Trade unions

The formation of trade unions is regulated by law. A collective bargaining agreement may only be entered into with a trade union organisation, either for a fixed term or for an indefinite period, in which case it can be terminated with six months' notice. Collective bargaining agreements are rarely effectuated for a whole industry; instead, they usually apply to the respective employer only.

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

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

WORK PERMITS, RESIDENCE PERMITS, VISAS, ETC.

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

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

The law regulating long-term residency of foreign nationals seeking work in the Czech Republic was simplified in line with EU law. The Green Card has been replaced by the Employee Card, which is issued by the Ministry of the Interior in relation to specific working positions as determined by the Ministry.

An employee who receives such a card no longer needs to apply individually for a residence permit.

Large groups of foreign nationals may enjoy free access to the Czech labour market, notably family members of EU nationals, Czech-based university graduates, etc., although further conditions apply.

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

INTELLECTUAL PROPERTY

The Czech Republic is a member of the World Intellectual Property Organization (WIPO-Madrid System), European Patent Organisation (EPO), European Union Intellectual Property Office (EUIPO) and a contracting party of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

The system of legal protection of intellectual/industrial property in the Czech Republic is consistent with the principles of a market economy and is harmonised with EU law. The designated public body with authority over intellectual property claims in the Czech Republic is the Industrial Property Office (ÚPV). Just like in other EU Member States, many IP protection instruments may be registered both nationally and at the EU level.

Trademark registration is a fairly simple process that can be done over the internet.

Intellectual property, trademarks and copyrights are protected in the Czech Republic by law, notably by the Copyright Act, Trademark Act and others.



3. FINANCE AND INVESTMENT

BANKING & FINANCE

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

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

EXCHANGE CONTROLS

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

INCENTIVES TO INVESTMENT

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



Income tax relief ([see Chapter 6](#));



Exemption from real estate tax



Employment subsidies for job creation



Training and retraining of employees



Financial support for the acquisition of assets

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



4. THE ACCOUNTING AND AUDIT ENVIRONMENT, PUBLICATION AND ARCHIVING

ACCOUNTING REGULATIONS

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

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

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

The Accounting Act defines four categories of accounting units (AU):

Table 1

	Micro	Small	Medium	Big
 Net assets	≤ 9,000	>9,000 ≤ 100,000	>100,000 ≤ 500,000	>500,000
 Annual turnover	≤ 18,000	>18,000 ≤ 200,000	>200,000 ≤ 1,000,000	>1,000,000
 Average number of employees	≤ 10	>10 ≤ 50	>50 ≤ 250	>250

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

Micro, Small, Medium and Big accounting units are those that meet at least two of the above-stated criteria. A public entity or a selected entity is always considered to be a Big entity.

Under the Czech Accounting Directives and the Accounting Act (Zákon o účetnictví), the controlling entity is obliged to prepare consolidated financial statements when the group of companies on a consolidated basis exceeds two of the three following criteria:

- ▶ net assets of CZK 100 million;
- ▶ turnover of CZK 200 million;
- ▶ 50 employees.

The Small group is not obliged to prepare consolidated financial statements (only in case of public interest).

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

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

Entities are required to keep accounts in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled. Entities are required to keep accounts in Czech crowns. In the case of foreign currency receivables and liabilities, it is necessary to use the foreign currency at the same time.

AUDIT REQUIREMENTS

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

- ▶ Big and Medium accounting units
 - ▶ Small accounting units – joint-stock companies that in the current and previous accounting period meet at least one of the following criteria:
 - total net assets of CZK 40 million;
 - net turnover of CZK 80 million per annum;
 - average number of employees 50.
 - ▶ Other Small accounting units that in the current and previous accounting period meet two of the above criteria.
- Micro accounting units are not obliged to have their financial statements audited.

A newly established company can even be audited for the first year depending on the likelihood that it becomes a Big or Medium company.

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

Financial statements are audited under International Auditing Standards.

PUBLICATION AND ARCHIVING

Companies must publish annual financial statements in the Collection of Deeds of the Commercial Register. Audited companies publish an annual report containing financial statements, a report on relations and an auditor's report. Accounting documents must be archived for a minimum period of five years up to 30 years depending on the type of document. Regardless of the archival period, documents related to taxes must be available for the taxable periods where the statute of limitations has not expired yet.

5. OVERVIEW OF THE TAX SYSTEM

TAXES



Corporate income tax
(daň z příjmů
právnických osob)



Personal income tax
(daň z příjmů
fyzických osob)



Value added
tax (VAT) (daň z
přidané hodnoty)



Customs duties
(cla)



Excise duties
(spotřební daně)



Immovable
property tax (daň
z nemovitých věcí)



Road tax
(silniční daň)



Environmental tax
(ekologická daň)

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

The locally authorised tax office is determined by the company's headquarters or by the residence of the taxpayer. A Specialised Tax Office (STO) has nationwide jurisdiction for large taxpayers making

a significant contribution to tax revenue (turnover exceeding CZK 2 billion).

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

PROSPECTIVE CHANGES

The most important prospective changes applicable to 2023 will be discussed in the various chapters of this guide.

APPEALS

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

TAX CODE

No major amendments to the Tax Code occurred apart from the windfall tax.

CHANGES TO EU REGULATIONS

In March 2021 the Council of the European Union adopted new amendment of transparency rules in the field of taxation under the Directive on administrative cooperation (DAC 7). In essence, DAC 7 is European Union directive on international cooperation that will affect all operators of online platform that allow the sale of goods and selected services (e.g., the provision of real estate, means of transport or some form of personal service) through their web interface. The aim is to identify entities generating profits through digital platforms and ensure proper taxation in terms of all taxes. Furthermore, data collection starts on 1 January 2023, with the first report due in January 2024.

6. TAXES ON BUSINESS

CORPORATE INCOME TAX

Nature and scope

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

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

Definition of residence

A company is considered a resident in the Czech Republic if it has its legal registered office or its place of effective management in the territory of the Czech Republic.

Taxable persons

Legal entities and other corporate bodies (government branches, mutual and investments funds, funds of pension companies, trust funds, etc.) are subject to corporate income tax. The treatment of partnerships is mixed. In a general partnership, only income subject to a final withholding tax is taxed at the partnership level; other income is taxed in the hands of the individual partners. In a limited partnership, the limited partner's or partners' shares are subject to corporate income tax, while the general partners' shares are taxed at the level of those partners.

Taxable period

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

Filing of tax return

The income tax return is filed no later than three months after the expiration of the taxable period. If the taxpayer is obliged based on a special Act to have the Financial Statement certified by an auditor, or if its tax return is being filed by a tax advisor (based on the Power of Attorney), then the tax return must be filed no later than six months after the expiration of the taxable period.

Taxable income

Income subject to tax is income from all activities and from handling all assets unless hereinafter stipulated otherwise.

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

Exempt income

A tax exemption will apply to dividends or capital gains, for example, based on the parent-subsidiary directive, although this was incorporated more broadly in local law, so certain exemptions are also available for EEA and non-EEA companies.

Capital gains

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

Deductions

All expenses (costs) incurred to reach, secure and maintain taxable income will be deducted for tax purposes.

Depreciation

The depreciation of tangible assets will be set out under the conditions of Czech GAAP. Tangible assets will mean separate tangible movable assets or sets of tangible movable assets with a separate technical-economic purpose, the entry price

of which is higher than CZK 80,000, buildings, houses and units and others.

According to Czech GAAP, asset depreciation must correspond to the expected useful life of the asset.

Fixed assets are divided into six depreciation groups, each with its own depreciation period, and tax depreciation is independent of the date of acquisition and the age of the asset. Companies may also choose not to take depreciation in any accounting period. Tax depreciation can thus considerably diverge from accounting depreciation, especially if accelerated depreciation is available for tax purposes.

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

[Table 2](#) shows six groups of tangible assets and the corresponding (straight-line) rates of depreciation under the default method.

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

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

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

Table 2

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

Extraordinary tax depreciation was enacted for a limited period as a tool for tax planning related to assets included in the first and second depreciation groups, which were acquired between 1 January 2020 and 31 December 2021. With effect from 1 January 2023, the amendment to the Income Tax Act extends the possibility of extraordinary depreciation for these assets also acquired in 2022 and 2023. Extraordinary depreciation can only be used by the first owner of the asset, cannot be interrupted and is calculated to the nearest month (group 1 – over 12 months; group 2 – over 24 months – 60% of the acquisition price is applied for the first 12 months and the remaining 40% of the acquisition price for the second 12 months).

It remains the case that the category of intangible assets do not exist in the ITA. Definitions and specific depreciation rules have been completely deleted as of 1 January 2021. However, intangible fixed assets still exist in accounting as a category of long-term usable and thus depreciated assets. At the same time, each entity still exclusively decides about setting a threshold for the acquisition price for long-term intangible assets, as well as the length of their depreciation in accordance with accounting methods.

Bad and doubtful receivables

Provisions against receivables and doubtful receivables are deductible if they can be created according to the Act on Provision for the Determination of the Income Tax Base. There are rules for creating provisions against receivables (i) from debtors in insolvency, (ii) of small value (up to CZK 30,000), (iii) that are not barred, or (iv) acquired by assignment (up to CZK 200,000).

For example, for not barred receivables due starting 1 January 2015 – if the receivable is more than 18 months overdue, a provision of 50% of the receivable can be created; if the receivable is more than 30 months overdue, a provision of 100% of the receivable can be created.



Non-deductible expenses

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

	Expenditures incurred in generating non-taxable income
	Entertainment expenses (including meals with customers)
	Gifts
	Shortages and damages (exceeding of the compensation)
	Expenditures paid for other taxpayers
	Fines, penalties, interests on late payments

Dividends

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

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

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

The holding-period requirement may also be satisfied afterwards.

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

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

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

- ▶ the recipient company has held at least 10% of the distributing company's share capital for an uninterrupted period of at least 12 months immediately before the distribution; and

- ▶ the distributing company must have a legal form comparable to a Czech a.s., s.r.o. or cooperative, is resident in a jurisdiction with which the Czech Republic has concluded a double tax treaty (see [Appendix 1](#)) and is subject to corporate income tax at an effective rate of at least 12%.

Group taxation

Czech corporate tax law does not provide any special regime for groups of companies.

Losses

A legally determined tax loss or its part may be deducted from the tax base:

- ▶ in two tax periods immediately preceding the tax period (tax loss carry back); or
- ▶ in five periods of taxation immediately following the period for which the tax loss is determined.

Losses may be set off against capital gains as well as ordinary income. A change of ownership affecting more than 25% of the registered share capital or voting rights will result in a forfeiture of unrelieved losses unless the company derives at least 80% of its income in the relevant period from activities identical to those performed in the period in which the loss was incurred.

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

Thin capitalisation

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

In accordance with the ATAD, the next tool relating to borrowing expenses (e.g. interest from loans and credits, exchange difference relating to financial expense) is the restriction of their tax deductibility if they are higher than the limit – 30% of EBITDA or CZK 80 million (so-called excessive borrowing expenses).

Windfall tax

As of 1 January 2023, a windfall tax was implemented to the Income Tax Act, which affects only a selected group of entities - large companies from the banking, energy and mining industries. This is a temporary tax valid from 2023 to 2025. The windfall tax is a separate corporate income tax and the Specialised Tax Office is the administrator. The tax rate on windfall profits reaches 60% (surcharge to 19% corporate income tax). Windfall profits are determined as the positive difference between the tax base (of the current period) to be compared and the arithmetic average of the adjusted comparative historical tax bases for 2018 – 2021, this average being increased by 20%.

Transfer pricing

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

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

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

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

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

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

- ▶ assets in excess of CZK 40 million; or
- ▶ net turnover exceeding CZK 80 million; or
- ▶ an average number of employees exceeding 50.

And assuming that the company:

- ▶ conducted a transaction with a related party located abroad; or
- ▶ showed a loss in the tax return and, at the same time, made a transaction with a related party (in the Czech Republic or abroad); or
- ▶ holds the promise of investment incentives in the form of tax relief and, at the same time, made
- ▶ a transaction with a related party.

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

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

Controlled foreign company (CFC) rules

The CFC rules target entities considered "empty shells" that do not engage in any other economic activities and are used solely to generate passive income in a specific jurisdiction with favourable tax treatment. The Czech Income Tax Act treats the activities of a CFC (a Czech non-resident company in which the Czech company participates in more than 50% of voting rights or profits) in dealing with its assets that generate passive income as if they were the activities of the controlling entity in the Czech Republic. The goal is to prevent an intentional relocation of assets that generate passive income, to be held by foreign entities based in jurisdictions with low or zero taxation.

Notification of cross-border transactions

The amendment to the Act on International Cooperation in Tax Administration seeking to implement the DAC Directive 6 is effective as of 25 September 2020.

Selected cross-border transactions, in which the main benefit is obtaining a tax advantage, must be electronically reported to the tax administrator.

The tax optimisation schemes that have been made available for implementation, that are ready for implementation or for which the first step has been taken by 1 January 2021, must be reported within 30 days of such decisive fact.

Withholding taxes on outbound payments

Dividends

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

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



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

These rates may be reduced under a double tax treaty.

Interest

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

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



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

Royalties

The same rules apply to royalties as for interest payments.



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

Other income

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



Notification of income going abroad

A taxpayer who is a payer of income from sources in the Czech Republic to a non-resident taxpayer, from whom a tax is withheld according to a special tax rate is obliged to notify the tax administrator of this fact, even if that tax is exempt or if an international treaty stipulates that it is not subject to taxation in the Czech Republic. The notice of income paid to a foreign country must be filed once for the year, by 31 January of the following calendar year.

The taxpayer is not obliged to file this notification for exempted income and income that is not subject to taxation in the Czech Republic if the aggregate value of the income of a given type does not exceed CZK 300,000 in the calendar month in which the taxpayer would be obliged to make a tax withholding from the income to a tax non-resident.

Double taxation relief

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

Tax incentives

Major investment

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

manufacturing industry, technological centres or strategic service centres.

Manufacturing industry: Minimum investment in long-term tangible and intangible assets in the amount of CZK 50 million in regions with high unemployment, of which at least CZK 25 million must be invested in new machinery; in "other" regions CZK 100 million, of which at least CZK 50 million must be invested in machinery. Additional conditions related to higher value added (min. salary, min. percentage of employees with university education, or partial investment in research and development) must be met in developed regions.

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

Strategic services: The number of new jobs which must be created depends on the type of industry in strategic services. Software development and data centres must create 20 new jobs, shared services centres 70 new jobs, and repair centres 50 new jobs. Lower thresholds apply for SMEs.

The application for investment incentives is subject to the approval of the government. Where the criteria are satisfied, the company should receive full relief from any resulting additional liability for corporate income tax, by comparison with the average CIT liability of the three years preceding the investment. If the investing company is new, it should qualify for a full exemption from corporate income tax for its first 10 years.

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

The territory of the city of Prague is excluded from the possibility to receive investment incentives.

The recipient of investment incentives involved in the company transformation and not in breach of the requirements of the Act on Investment Incentives will no longer have to return the funds received in the form of a tax credit.

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

Research and development

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

As of 2020 an R&D project no longer has to be approved before the actual work commences. If

a company wants to deduct the costs of an R&D project, it must first notify the tax administrator indicating its precise identification and a project name reflecting its general focus.

Vocational training

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

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

Tax abatement

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

Rate of corporate income tax

The rate of corporate income tax in 2021 amounts to 19%. For a basic investment fund, the tax rate is 5%.

Returns, assessment and payment

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

A self-assessment system operates in the Czech Republic.

Payment of tax

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

For delayed payment of tax, the Tax Authority prescribes interest on the late payment for each day of the delay, starting with the fourth calendar day following the tax due date in the amount of the annual repo rate stated by the Czech National Bank valid for the first day of the relevant calendar half-year plus 8%. Overpayments of tax will be refunded within 30 days of the taxpayer's application.

Tax prepayments

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

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

VALUE ADDED TAX

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

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to VAT deduction) or outside the scope. Exempt supplies with the right to deduct are sometimes referred to as "zero-rated". Businesses

making exclusively taxable or zero-rated supplies generally qualify for a full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies without the right to deduct do not qualify for a deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

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

With effect from 1 January 2023, the VAT registration threshold for resident businesses was increased from CZK 1 million to CZK 2 million. The threshold is described in more detail in the "Registration thresholds" chapter.

As of 1 January 2022, there were significant changes in the application of VAT to travel services. Travel service providers can no longer determine the taxable amount (margin) for the entire tax period in aggregate but must do so individually for each tour. Advances received are now taxed (if the tax rate and place of supply of the travel service are known). The so-called surcharge for the received advance is determined as the product of the amount of the received advance and the coefficient for calculating the surcharge. The coefficient can be calculated in two ways: either based on the costs actually paid or based on the costs expected to be incurred in connection with the travel service. Furthermore, the exemption for air passenger transport to third countries has been narrowed. It is no longer entirely exempt from VAT. From 2022 only part of air transport over third countries can be exempted from VAT, but part of the transport within the EU is subject to a surcharge.

Taxable entities

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

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

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

VAT rates and exemptions

The standard rate of VAT in the Czech Republic is 21%. There is also a first reduced rate of 15% and a second reduced rate of 10% since 2015.

The first reduced rate applies, inter alia, to:

- ▶ most foodstuffs;
- ▶ medical and dental care (where not exempt).

The second reduced rate applies, inter alia, to:

- ▶ initial and continuing baby food;
- ▶ selected pharmaceutical products;
- ▶ printed books, books for children, sheet-music;
- ▶ newspapers and magazines;
- ▶ ground and water mass regular transport of passengers and their luggage and the passenger transport by ski lifts;
- ▶ hotel accommodation;
- ▶ catering services without alcohol with special rule for beer consumed in a restaurant;
- ▶ admission to cultural or sport events

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

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

Registration

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

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

Foreign taxable persons without a fixed establishment in the Czech Republic carrying out taxable transactions in the Czech Republic for which they are liable to pay Czech VAT (i.e. where there is no application of the reverse charge, which makes the customer liable for payment of the tax due) should only register for Czech VAT purposes.

This can for example be the case where the taxable person:

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

Registration thresholds

With effect from 1 January 2023, the small-business registration threshold in the Czech Republic is CZK 2 million (by reference to VAT-exclusive turnover in the consecutive 12 months).

The threshold of CZK 2 million applies only for Czech-based taxable persons. Taxable persons not established in the Czech Republic who carry-out taxable supplies with place of supply in the Czech Republic must register regardless of the value of their transaction(s). But there is also a threshold for Czech taxable persons making intra-EU acquisitions in the Czech Republic. The threshold is CZK 326,000 (approx. EUR 13,500).

The distance-selling threshold is on the same level for all countries in the European Union from 1 October 2021. The threshold for taxable persons selling into the Czech Republic is also EUR 10,000 (approx. CZK 240,000). This threshold includes intra-community transactions and e-commerce (telecommunications, broadcasting & electronic services). This threshold is described in more detail in chapter One Stop Shop, e-commerce and other changes.

VAT returns and other statements

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

Returns must be filed no later than the 25th day of the month following the end of the return period, which is when payment is also due. VAT returns must be filed electronically. If there is an excess of input tax over output tax for a period, the excess is normally refunded within 30 days.

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

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

From 1 January 2023, there are changes concerning the deadline for responding to a tax authority's request to amend, supplement or confirm data originally claimed in the VAT control statement. The amendment extends the deadline to 17 days from the date of delivery of the request from the tax office to the payer's data box. VAT payers must now also submit a VAT control statement at the request of the tax authority even if they are not obliged to submit it under the VAT Act; in these cases, payers will use the quick response "I am not obliged to submit a control report". The changes also concern reduction of fines for individuals, limited liability companies with a sole shareholder, and quarterly VAT payers for late submission or failure to submit a control report.

INTRASTAT reporting is compulsory for VAT payers performing intra-community transactions related to the supply or acquisition of goods. Such transactions must be electronically reported to customs authorities on a special form and the reporting period is a calendar month. Transactions under the CZK 12 million threshold are exempt from the reporting duty. From 1 January 2022, taxpayers

with transactions between CZK 12 million and CZK 20 million can use simplified reporting if certain conditions are met.. This allows them to send one report per year without providing detailed data. VAT payers whose intra-community transactions exceed the CZK 20 million threshold, have stricter duties to evidence information about these transactions.

VAT grouping

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

Blacklist of VAT payers

The VAT Act contains measures in the fight against tax evasion, including the introduction of an unreliable taxpayers' register. If a supplier is identified as an unreliable payer and does not pay tax on its outputs, the tax administrator may enforce a claim for tax on its customers. It can be anticipated that customers will endeavour not to deal with VAT payers on the blacklist, which will reduce the risk of tax evasion. According to information from the General Financial Directorate, as of December 2017 the following situations are considered serious breaches of the VAT obligation, triggering a possible entry in the register:

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

An application for revocation of an unreliable taxpayer's status may be filed at the earliest one year after the date of entry into the blacklist.

Electronic record of sales

The legal obligation to electronically record sales, which was suspended for almost two years as a result of the Covid pandemic, was abolished.

One Stop Shop, e-commerce and other changes

On 1 January 2015, an adjustment of the common system in the rules for determining the place of performance of VAT on electronically supplied services, telecommunication services and radio and television broadcasting services provided to non-taxable persons came into effect within the European Union. For this reason, a particular regime called Mini One Stop Shop (MOSS) was introduced. But a new Amendment to VAT, which was implemented on 1 October 2021, renamed MOSS to One Stop Shop (OSS) and changed the rules of this special regime. OSS is not applied only on electronically supplied services, telecommunication services and radio and television broadcasting services, but also on the sale of goods by mail order. It means that under the new Amendment, sales exceeding EUR 10,000 are taxed in the recipient's country. Because of the harmonisation purposes, the VAT exemption for the import of low-value shipments was also cancelled. Moreover, new VAT duties arose for internet platforms.

An Amendment to the Czech VAT Act concerning cross-



border e-commerce derives from a tax package adopted by the Council of the EU entered into effect throughout the EU on 1 January 2021 and aimed to harmonise rules, fight tax fraud and restore fair competition between suppliers from the EU and third countries. New terms such as distance sales of goods and distance sales of imported goods were introduced for sales of goods by mail order. Generally, according to the Amendment, distance sales of goods to customers (not performing any business activity) are taxed in the country of consumption. The turnover for each individual state is no longer monitored. It is also possible for small businesses registered in only one EU Member State and not exceeding the annual threshold of EUR 10,000 for distance intra-EU sales of goods and provision of services to apply an exception. Up to this threshold, suppliers may tax the sales in the country from which goods are supplied.

The amendment introduces new rules for operators of electronic interfaces and platforms facilitating distance sales of imported goods lower than EUR 150. There is a new legal fiction according to which distance sales of goods will involve the sale of goods to a platform, and the subsequent sale of the goods by the platform to the end customer. This means it is possible to divide a single supply into two supplies, while the transport is assigned to the delivery of goods to the end customer. Because of the new rule, internet platform operators can use the new special One Stop Shop regime.

In addition, the VAT exemption for low-value shipments (of up to EUR 22) was cancelled in order to stop discrimination towards the European market.

For imported goods of EUR 150 or less, it is possible to apply two regimes: the special One Stop Shop regime or a new regime for the import of low-value goods (Import One Stop Shop). The Import One Stop Shop allows holders of a special permit, such as post offices, to declare customs and assess VAT on an aggregate basis per calendar month within a supplementary customs declaration.

In the Czech Republic, the locally competent tax office for OSS is located in Brno.



7. PERSONAL TAXATION

PERSONAL INCOME TAX

Territoriality and residence

Individuals are subject to personal income tax. The extent of their tax liability depends on their residence status. If individuals are considered Czech tax residents, they are taxed on their worldwide income, whereas non-residents have a tax liability limited to their Czech-sourced income only.

An individual is considered a Czech tax resident if (i) their place of residence is in the Czech Republic or (ii) their habitual abode is in the Czech Republic.

For an individual, a place of residence is a place where the individual has a permanent home under circumstances from which the intention can be inferred to permanently stay at this address.

To establish a habitual abode, the individual must reside on the territory of the Czech Republic for more than 183 days in a calendar year.

An individual is considered a Czech tax non-resident if they do not fulfil either of the above criteria or they are deemed so according to a double tax treaty.

The family unit

There is no joint taxation of married couples or other types of households. Each taxpayer is a separate taxable person.

Taxable income

Personal income tax applies for the following types of income:

- ▶ employment income;
- ▶ business income;
- ▶ investment income;
- ▶ rental income;
- ▶ other income.

The tax base is calculated separately for each type of income and the result is then aggregated into one tax base ("Aggregated Tax Base").

Certain types of income may, however, be considered exempt, a separate tax base or be subject to a final withholding tax, thus not being part of the Aggregated Tax Base.



Taxable period

The taxable period is a calendar year.

Exempt income

Generally exempt income includes inheritance, state pension, scholarships, alimony payable under law or prizes not exceeding CZK 10,000. In certain cases, free income such as gifts between relatives is also exempt from tax.

State pensions paid regularly are exempt up to CZK 622,800 in 2023.

Further exemptions are specified for various types of income.

Types of income



Income from employment

Income from employment includes all forms of remuneration (cash or non-cash) arising from or in connection with a present, future or past employment relationship.

Remuneration paid to shareholders and directors of certain types of companies for their work for the company is also classified as employment income.

Under the Income Tax Act, employee social security contributions are not deductible when calculating taxable income.

- ▶ possible exemptions of benefits in kind, travel
- ▶ reimbursements and allowances

Although all types of remuneration and benefits provided by an employer to an employee are in general taxable, a wide range of exemptions is available. These include the following, subject to their specific conditions and limits:

- ▶ reimbursement of business travel (within the limits per Czech Labour Laws);
- ▶ employer's contributions to employee's supplementary pension funds and private life insurance not exceeding CZK 50,000 per year;
- ▶ vocational training fees paid directly to a provider of the training;
- ▶ meals in work canteens for free, meal tickets, or a cash meal allowance up to CZK 99.40 per work shift (the limit may increase during the year);
- ▶ temporary accommodation not exceeding CZK 3,500 per month;
- ▶ benefit issuing from an interest-free loan up to the principal of CZK 300,000.

A further range of benefits is exempt if provided from a special fund for employee welfare financed by the employer, from profit after taxation, or as a non-deductible expense for the employer. These include recreational and healthcare facilities, employer's contributions for printed books, workplace nurseries, etc., where such an exemption is only applied to non-cash benefits (paid directly to a provider).

Providing a company car to an employee constitutes taxable income if the employee also uses the car for private purposes free of charge. Taxable income of the employee is either 1% of the purchase price of the vehicle (0.5% if it is a low-emission vehicle) including VAT or CZK 1,000 per month, whichever is higher. The cost of fuel for private use borne by the employer is also taxable income.

There are no applicable expense deductions for employment income.

Salary tax

Employers are in most cases required to deduct income tax, social security and health insurance contributions from salary payments.

Since 2021, the super-gross salary tax base for employees has been abolished. This means that to arrive at the tax base, the employer's part of mandatory social security and health contributions is no longer being added to the gross salary. The tax is therefore calculated from gross taxable salary.

Business and professional income of individuals

This category of income includes income from farming, trade or business, independent occupations, profit shares of partners in a general commercial partnership (v.o.s.) and of general partners in a limited partnership (k.s.).

Aside from individuals utilising a flat tax method under special conditions, self-employed persons calculate their taxable income using two different approaches. For individuals registered in the Commercial Register or having annual turnover exceeding CZK 25 million, double-entry bookkeeping on the accrual basis is compulsory. In other cases, income and expenditures are determined on a cash basis.

In principle, all costs/expenditures incurred in deriving taxable income are deductible.

However, there are certain non-deductible items such as refreshment, social security and health contributions, etc.

For tax depreciations as a type of deductible item, please [see Chapter 6 \(Depreciation\)](#).

Lump-sum expenditures

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

Table 3

Type of business activity	Deduction as % of turnover
Agriculture or industry	80 (max. CZK 1,600,000)
Other activities requiring a licence from the Trade Licencing Office	60 (max. CZK 1,200,000)
Non-licensable business or profession (licence other than from the Trade Licencing Office)	40 (max. CZK 800,000)
Letting of business assets	30 (max. CZK 600,000)

Losses may be incurred from business and professional income for individuals applying actual allowable expenditures. A taxpayer can deduct these losses also from rental income, investment income or other income. Any excess may be carried backwards for up to two years with a limit of CZK 30 million or carried forward for up to five years without limit.

Flat tax

Since 2021, individuals may opt for a flat tax which aims to simplify tax administration and related obligations. Flat tax can be utilised by taxpayers under the following conditions:

- ▶ Income from the business does not exceed CZK 2 million
- ▶ The taxpayer does not have income from employment
- ▶ Remaining income does not exceed CZK 50,000 unless
 - it is not subject to taxation;
 - it is exempt;
 - it is subject to Czech withholding tax
- ▶ The taxpayer is not a VAT payer or does not have an obligation to register as a VAT payer
- ▶ The taxpayer is not a partner in a general commercial partnership or limited partnership

Under this regime, taxpayers pay a certain flat monthly amount. This amount includes prepayments for personal income tax, social security and health insurance. The whole prepayment is paid only to the tax authority and taxpayers do not have to file personal income tax return or social security and health insurance overviews if all conditions of the regime are fulfilled throughout the year. The monthly payment increases each year. As of 2023, three different ranges were introduced determining the monthly amount payable to the tax authority depending on the type of business activity in terms of lump-sum expenditure (described above) and the amount of annual income. The conditions and monthly amounts are shown in detail in the following table.

Table 4

Range one (CZK 6,208 per month)	Range two (CZK 16,000 per month)	Range three (CZK 26,000 per month)
Used for income up to CZK 1,000,000, irrespective of the type of business activity from which the income is derived	Used for income up to CZK 1,500,000, irrespective of the type of business activity from which the income is derived	Used for income up to CZK 2,000,000, irrespective of the type of business activity from which the income is derived
Or up to CZK 1,500,000 if at least 75% of the self-employment income would fall into lump-sum expenditures of 80% or of 60%	Or up to CZK 2,000,000, if at least 75% of the self-employment income would fall into lump-sum expenditures of 80% or of 60%	-
Or up to CZK 2,000,000 if at least 75% of the self-employment income would fall into lump-sum expenditures of 80%	-	-



Investment income

Dividends and interest

Dividends and interest paid out by Czech companies are subject to a 35% withholding tax, a 15% withholding tax or to a withholding tax with a tax rate applicable per the relevant double tax treaty. In some cases, such taxation is final. For further information, please see [Chapter 6 \(Withholding taxes on outbound payments\)](#).

Dividends and interest received by Czech tax residents from foreign companies are subject to a 15% tax rate as a separate tax base or may be made part of the Aggregated Tax Base depending on the taxpayer's decision.

Royalties

Royalties paid out by Czech companies to Czech tax non-residents are subject to a 35% withholding tax, a 15% withholding tax or a withholding tax with a tax rate applicable per the relevant double tax treaty. In some cases, such taxation is final. For further information, please see [Chapter 6 \(Withholding taxes on outbound payments\)](#).

For Czech tax residents, royalties are taxable as business and professional income and are part of the Aggregated Tax Base.

Rental income

Taxable income from the letting of movable or immovable property may be reduced by actual expenses incurred plus tax depreciations or by lump-sum expenses of 30% of income (max. CZK 600,000 per year).

If incurred, a loss may be deducted from business and professional income, investment income or other income. Any excess may be carried backwards for up to two years with a limit of CZK 30 million or carried forward for up to five years without limit.

Other income – capital gains, sale of immovable property

Realised capital gains are in principle taxable as income with some exceptions, as shown below.

Gains on the sale of immovable property are exempt if the taxpayer:

- ▶ has had their main residence in the property for at least two years preceding its sale; or
- ▶ has held the property for at least ten years (five years for properties acquired before 1 January 2021);
- ▶ does not fulfil the above time tests but uses the funds to purchase property for their main residence within a specific period.

Gains from the sale of shares in the form of securities are exempt:

- ▶ if the taxpayer holds the shares for an uninterrupted period exceeding three years; or
- ▶ if the income from the sale of shares does not exceed CZK 100,000 per year.

Only one of these exemptions may be used for a tax period.

Gains from the sale of shares in limited liability companies are exempt if the taxpayer holds the shares for an uninterrupted period exceeding five years.

Other income – the remaining types of income

This includes all other taxable income, such as occasional income, non-exempt donations, pensions, etc.

Income of an individual up to CZK 30,000 in a calendar year

from occasional (one-off, non-entrepreneurial) activities is exempt from taxation.

There was a significant change in tax law in case of gambling winnings which, from 2020, are subject to taxation if a certain limit is exceeded. Depending on the type of winning, withholding tax is applied or the winner is obliged to file a tax return.

Deductions and allowances

Several types of private expenditure qualify as a deduction from the Aggregated Tax Base.

Mortgage interest

Up to CZK 150,000 is deductible per year as interest paid on a loan to purchase the taxpayer's main residence. This limit applies to loans taken out for property acquired after 1 January 2021. For loans taken out for property acquired before 2021, an annual limit of CZK 300,000 applies.

Pension contributions

Contributions paid to the state supplementary pension fund or to private pension funds are deductible up to a maximum of CZK 24,000 per year. The same applies to life insurance premiums. To apply such a deduction, specific conditions are to be fulfilled.

Mandatory social security contributions are not deductible (see Chapter 9).

Charitable and other donations

Donations to charitable, cultural, educational, and scientific bodies are deductible, provided the total value of donations is at least CZK 1,000 or 2% of the Aggregated Tax Base, whichever is lower. The maximum deduction that may be claimed is 15% of the Aggregated Tax Base.

Personal tax credits

The taxpayer's personal circumstances are recognised through

Table 5

Type of credit	Annual amount (CZK) in 2023
Personal	30,840
Spouse with own income lower than CZK 68,000	24,840
Various types of disability	from 2,520 up to 16,140
Student until 26 years of age	4,020
Children	15,204 (1 st child), 22,320 (2 nd child), 27,840 (3 rd and every other child)
Placement of a child in a preschool	Actual fee for preschool, up to CZK 17,300 per child

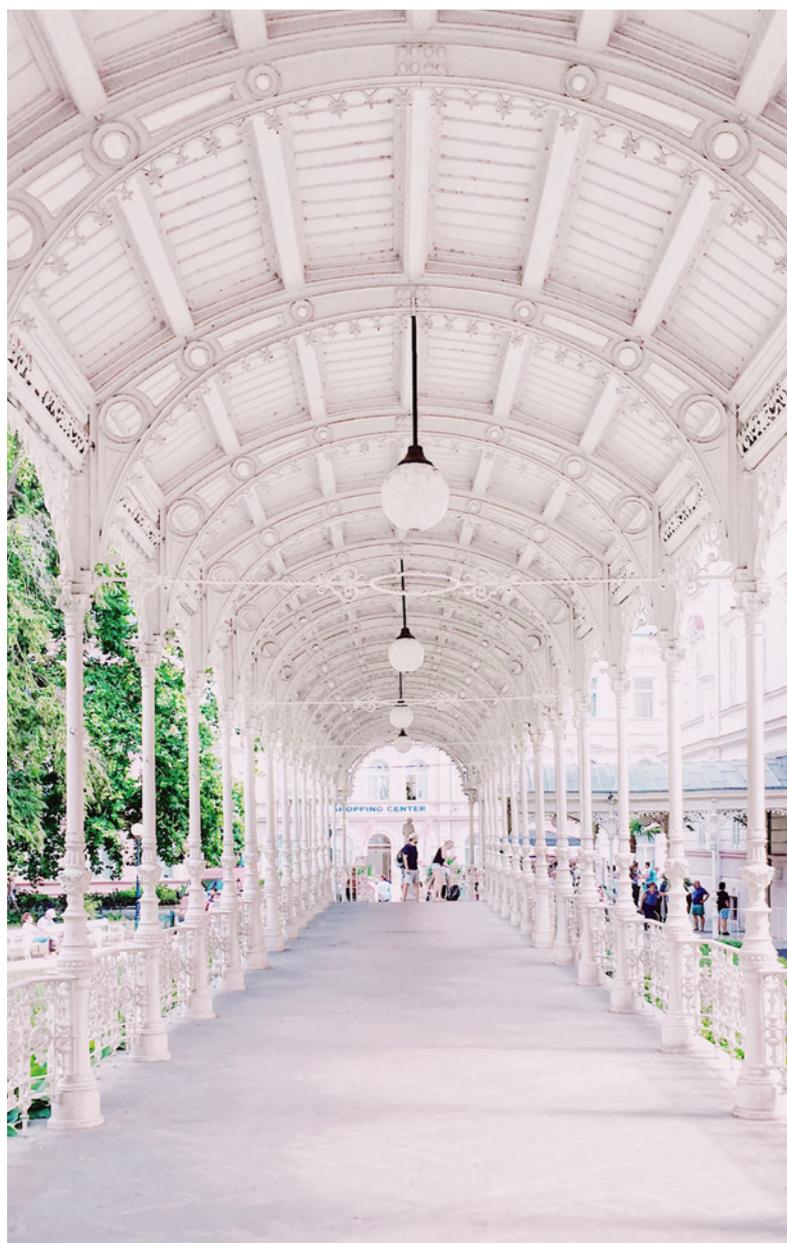
a system of tax credits. The main items are shown in Table 5. The entitlement needs to be assessed individually.

Tax rates

Progressive tax rates were introduced as of 2021. The tax rates applicable to the Aggregated Tax Base are 15% and 23%. 15% is applied up to the limit of CZK 1,935,552 (2023) and 23% is applied for the Aggregated Tax Base exceeding this amount.

Outside of the Aggregated Tax Base, there is a separate tax base taxed at 15% for foreign investment income such as dividends. It is up to the taxpayer to decide whether to declare such income as a separate tax base or as part of the Aggregated Tax Base.

Also outside of the Aggregated Tax Base, income is taxed that is subject to withholding tax. This is, for example, income in the form of dividends and interest paid to non-residents from Czech companies. The withholding tax rate may vary; please see Chapter 6 (Withholding taxes on outbound payments) for further information.



Tax return and administration



Annual reconciliation

Taxpayers may request that their employer process an annual reconciliation on their behalf if they do not receive income from multiple employers simultaneously during a tax period and do not have other income exceeding CZK 20,000. If an annual reconciliation is processed by the employer, taxpayers do not have to file a tax return.



Tax return

In other cases, taxpayers are usually obliged to file a tax return to declare their taxable income. The tax return must normally be filed by 1 April of the following year or by 1 May if filed electronically. Where the tax return is filed by a tax advisor on the taxpayer's behalf, the deadline may be extended to 1 July.



Assessment and payment

The taxpayer makes a self-assessment through the tax return and pays the balance of any tax due at the same time as the tax return filing is due. The tax authorities refund overpayments upon request within 30 days from the filing deadline, provided the filing deadline is met.

The tax authorities usually have three years to challenge the taxpayer's self-assessment. The statutory period is prolonged to five years if tax losses are incurred and declared by the taxpayer.



Notification of exempt income

In general, exempt income is not declared in a tax return. However, if the exempt income is higher than CZK 5,000,000, the taxpayer must notify the tax authorities about such income. This notification is due within the usual filing deadline as described in the "Tax return" section above. Not meeting this obligation is subject to high penalties.

INHERITANCE AND GIFT TAXES

As of 1 January 2014, inheritance and gift taxes have been abolished and the relevant types of income are subject to income tax.

Inheritance is generally tax exempt.

Gifts are exempt if donated between certain family members and between persons living in the same household for a period of at least one year prior to the donation. Moreover, gifts up to the annual value of CZK 15,000 from one person are generally exempt from income tax. Gifts provided abroad are generally subject to 15% withholding tax unless the relevant double tax treaty provides otherwise.

WEALTH TAX

There is no wealth tax in the Czech Republic.



8. OTHER TAXES

REAL ESTATE TAX

Owners of land evidenced in the Czech Land Register, buildings, flats and other structures are liable for an annual real estate tax.

Real estate tax rates are assessed according to the type of real estate. Except for agricultural and forestry land, which is valued at the average price of the land, the tax is based on the area, potential for development and location of the land (more precisely, the local authority in whose territory it is located). The tax base of buildings and flats is the built-up area in square metres.

In the case of houses, flats, non-residential apartments and buildings, a special municipality coefficient (between 2 and 5) and sometimes also municipal tax rules must be applied.

The figure of the coefficient depends on the municipality where the real estate is located and its population. The real estate tax must be paid in advance for upcoming years. The taxpayer is obliged to submit the tax return only if there are any changes in ownership of the real estate, which means in the year following the year when the taxpayer was registered as a new owner in the Czech Land Register. Tax returns must be filed by 31 January of the calendar year following the year of the change of ownership.

REAL ESTATE ACQUISITION TAX

With effect from 26 September 2020, the real estate acquisition tax was abolished in the Czech Republic. According to the transitional provisions, the abolition of real estate tax also applies to the acquisition of real estate registered in the Land Register between 1 December 2019 and 25 September 2020. The date of registration in the Land Register is therefore decisive (and not, for example, the date of signature of the purchase agreement). In the case of real estate not registered in the Land Register, the decisive factor is the acquisition of ownership. Taxpayers affected by the abolition of the tax have no obligations towards the financial administration. Therefore, they do not have to file a tax return or pay tax.

ROAD TAX

With retroactive effect from 1 January 2022, cars, motorcycles, buses and trailers are not subject to the road tax. Only trucks (categories N2, N3) over 3.5 tonnes and their trailers (categories O3, O4) are subject to road tax; the amount of tax for taxable vehicles will be set only for defined trucks with a maximum permissible weight of 12 tonnes or more and their trailers with a maximum permissible weight of 12 tonnes or more. In practice, this means that road tax is only payable on selected vehicles with a maximum authorised weight of 12 tonnes or more and their trailers with a maximum authorised weight of 12 tonnes or more. The annual tax rate is based on the number of axles and maximum permitted weight in tonnes.

Road tax is charged on the above-mentioned taxable vehicles registered in the Register of Motor Vehicles in the Czech Republic.

From 2022, the obligation to pay advance payments of road tax was also abolished, as well as the obligation to register.

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

CUSTOMS DUTIES

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

EXCISE DUTIES

The Czech Republic levies excise duties on alcoholic beverages, tobacco and tobacco products and energy products (hydrocarbon oils, natural gas, coal and coke, and electricity). From 1 January 2023, tax rates on tobacco products were increased by 5% compared to 2022. The excise tax on diesel is temporarily reduced by CZK 1.50 per litre until the end of 2023 as a result of the significant price increase in fuels in the past year.

ENVIRONMENTAL TAX

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

EXPECTED CHANGES

The Ministry of Finance has prepared a bill on the tax on selected digital services (targeted advertising campaign, using a versatile digital interface or selling user data) to be taxed probably at a rate of 7%. The crucial factor for the taxation should be the place of registration of the IP address of the computer or mobile phone.

However, its ratification is questionable in view of the negative reactions of some states to this intended step.



9. SOCIAL SECURITY CONTRIBUTIONS

EMPLOYERS AND EMPLOYEES

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



Pension fund



Sickness fund



Unemployment fund



Public health insurance system

The contributions are charged by applying the relevant rates to the employee's gross taxable income. The ceiling for contributions for all the funds except public health insurance is 48 times the average annual salary (CZK 1,935,552 in 2023).

As noted in Chapter 7, employees' contributions are not deductible from their taxable income. Employer's contributions are borne by the employer on top of the gross salary and deductible for the employer for corporate income tax purposes.

Rates for social security contributions are shown in [Table 6](#).

Table 6

Fund	Employer (%)	Employee (%)	Total (%)
Pension insurance fund	21.5	6.5	28.0
Sickness insurance fund	2.1	0	2.1
Unemployment insurance fund	1.2	0	1.2
Public health insurance	9.0*	4.5*	13.5*
Total	33.8	11.0	44.8

* No ceiling for the public health contributions base

SELF-EMPLOYED CONTRIBUTORS

The rules governing the contributions of self-employed persons are quite complex. Below is a basic overview for an individual who carries out his activity for the whole year and does not have income from employment.

Self-employed persons pay social contributions at rates shown in the "total" column in [Table 6](#) for pension insurance, unemployment insurance and public health insurance. These rates are applied to 50% of their professional or business personal income tax base.

If the contributions calculated from the 50% of the actual tax base for 2023 are lower than CZK 35,328 for pension insurance and unemployment insurance and CZK 32,664 for public health insurance, these minimum contributions must be paid instead.

Contributions to the sickness insurance fund are not compulsory for self-employed persons.

The ceiling for the social security contributions base for self-employed persons is CZK 1,935,552 in 2023. There is no ceiling for the public health insurance contributions.





10. APPENDIX I: DOUBLE TAX TREATIES

COMPREHENSIVE DOUBLE TAX TREATIES

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

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

DOUBLE TAX TREATIES: AIR TRANSPORT AND SHIPPING

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

 Algiers	 Iraq
---	--

DOUBLE TAX TREATIES: ESTATES, GIFTS AND INHERITANCES

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

 Austria	 Slovakia
---	--

AGREEMENTS ON MUTUAL ADMINISTRATIVE ASSISTANCE

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

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

Further, Memoranda of Understanding clarify the practical implementation of forms of international cooperation, both in the area of automatic exchange of tax information between competent tax administrations, which involves sending one-off large amounts of data for verification (automatic exchange of information) and the presence of tax officials on the territory of the other state, carrying out so-called simultaneous tax audits, or direct cooperation of tax officials of border tax authorities.

SOCIAL SECURITY AGREEMENTS

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

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

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

AUTHORS



Jiří Šmatlák

Partner, Head of Legal

+420 602 812 565

jiri.smatlak@bdolegal.cz



Petr Vondraš

Senior Manager, Tax

+420 604 127 115

petr.vondras@bdo.cz



Michaela Modrá

Partner, Head of TAX M&A

+420 607 023 594

michala.modra@bdo.cz



Lenka Froschová

Manager, Tax

+420 728 515 691

lenka.froschova@bdo.cz



Vít Krivánek

Partner, Lawyer, Head of Tax Litigation

+420 734 280 685

vit.krivanek@bdolegal.cz



Petr Linx

Senior Manager, Tax

+420 603 934 555

petr.linx@bdo.cz



Monika Lodrová

Senior Manager, Head of Personal Income Tax

+420 734 282 190

monika.lodrova@bdo.cz



Tomáš Klíma

Senior Manager, Tax

+420 607 012 066

tomas.klima2@bdo.cz

PRAGUE - ANDĚL

Nádražní 344/23
+420 255 708 311

PRAGUE - CHODOV

V Parku 2316/12
+420 241 046 111

BRNO

Tuřanka 1554/115b
+420 515 915 150

JINDŘICHŮV HRADEC

Pravdova 1113
+420 606 656 009

ČESKÉ BUDĚJOVICE

Pražská 1247/24
+420 385 102 520

DOMAŽLICE

Prokopa Velikého 572
+420 379 733 511

PILSEN - VNITŘNÍ MĚSTO

sady 5. května 303/46
+420 731 648 109

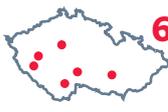
BDO CZECH REPUBLIC

revenue  14%
↑
CZK **717** million

 14,2%
↑
514 professionals

500+ professionals
58 tax Advisers
36 certified Auditors
7 expert witnesses
6 attorneys

2d place
Accounting Firm
of the Year 

 **6**
locations in the
Czech Republic



Overview of all services
and BDO contacts in the
Czech Republic



If you have any points on which you would like to get further clarification, please do not hesitate to contact us.



30 YEARS YOUR PARTNER ON THE ROAD TO SUCCESS

BDO Group s. r. o., a Czech limited liability company (registration Number 08639060, registered in Prague, No. C. 322425) is member of BDO International Limited, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO member firms.

Audit | Tax | Advisory
www.bdo.cz

