2018 TAX GUIDELINE

Czech Republic
Contents

General information about the Czech Republic 3
Legal forms of business 4
  General rules on purchasing of real estate 4
  Asset deal 4
  Share deal 4
  Legal forms of business 5
Social security and labor law aspects 6
  General social and health security 6
  General comments on labour law 7
Taxes on corporate income 8
  Corporate income tax ("CIT") – rates 8
  Corporate income tax – general information 8
  Incentives 9
  Withholding tax 10
  Anti-avoidance rules 10
  International aspects 11
Taxes on individual income 12
  Personal income tax - rates 12
  Personal income tax – general information 12
  Allowances 14
Value added tax 15
  Value added tax - rates 15
  Value added tax – general information 15
  VAT registration 16
Other taxes 18
  Taxes on capital 18
  Other business related taxes 18
ABOUT ACCACE 19
Location: The Czech Republic is located in Central Europe, bordered by Germany, Austria, Slovakia and Poland.

Capital: Prague

Area: 78,864 sqkm

Population: 10.5 million

Official language: Czech

Official currency: CZK

The head of state: President

GDP growth: 4.5% in 2017 (preliminary data, www.cnb.cz)

Membership:

- EU Schengen Agreement (2007)
- OECD (1995)
- UN (1993)
- GATT (1993)
- WTO (1995)
- NATO (1993) and some other international organizations.
General rules on purchasing of real estate

The real estate investor can acquire Czech real estate by way of an asset deal (e.g. direct acquisition of real estate) or a share deal (e.g. acquisition of a corporation owning real estate).

Asset deal

Foreign entities (natural or legal) may directly acquire real estate in the Czech Republic.

Share deal

As an option, the investment can be done through a resident corporation which directly owns the real estate.
## Legal forms of business

<table>
<thead>
<tr>
<th>The form of business</th>
<th>The minimum capital (approx. in EUR)</th>
<th>Corporate Income Tax treatment</th>
<th>Tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>English</td>
<td>Czech</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlimited Partnership</td>
<td>Veřejná obchodní společnost (v.o.s.)</td>
<td>Income tax base is calculated at the level of the partnership and then transferred to partners; tax is levied at the level of the partners. No need to file a tax return.</td>
<td>15%&lt;sup&gt;1)&lt;/sup&gt; or 19%&lt;sup&gt;2)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Limited Partnership</td>
<td>Komanditní společnost (k.s.)</td>
<td>Income tax base attributable to general partners is transferred to general partners and tax is taxed at the level of general partners. The remaining part of the income tax base is taxed at the level of the entity.</td>
<td>15%&lt;sup&gt;1)&lt;/sup&gt; or 19%&lt;sup&gt;2)&lt;/sup&gt; 19%&lt;sup&gt;3)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>Společnost s ručením omezeným (s.r.o.)</td>
<td>Non-transparent, fully liable to tax.</td>
<td>19%</td>
</tr>
<tr>
<td>Joint Stock Company</td>
<td>Akciová společnost (a.s.)</td>
<td>Non-transparent, fully liable to tax.</td>
<td>19%</td>
</tr>
<tr>
<td>Branch</td>
<td>Organizační složka</td>
<td>Income tax base attributable to the Czech branch is taxable.</td>
<td>19%</td>
</tr>
<tr>
<td>Cooperative</td>
<td>Družstvo</td>
<td>Non-transparent, fully liable to tax.</td>
<td>19%</td>
</tr>
<tr>
<td>Sole entrepreneur</td>
<td>Živnost</td>
<td>Taxed as part of the overall liability of the individual.</td>
<td>15%</td>
</tr>
</tbody>
</table>

1) **In the case that the general partners are individuals, personal income tax rate of 15% applies.**
2) **In the case that the general partners are corporations, the corporate income tax rate of 19% applies.**
3) **Tax base attributable to limited partners is taxed at the level of the partnership at 19% corporate income tax rate.**
4) **Exchange rate used – 25.54 CZK/EUR, rounded to the nearest 10.**
## General social and health security

<table>
<thead>
<tr>
<th>Contribution for</th>
<th>Maximum base per year</th>
<th>Employee</th>
<th>Employer</th>
<th>Sole entrepreneur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension insurance</td>
<td></td>
<td>6.5%</td>
<td>21.5%</td>
<td>28%</td>
</tr>
<tr>
<td>Sickness insurance</td>
<td>CZK 1,438,992 (approx. EUR 56,343)</td>
<td>N/A</td>
<td>2.3%</td>
<td>1.4%¹</td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td></td>
<td>N/A</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Health insurance</td>
<td></td>
<td>N/A</td>
<td>4.5%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>11%</strong></td>
<td><strong>34%</strong></td>
<td><strong>44.1%</strong></td>
</tr>
</tbody>
</table>

¹ The contribution is voluntary.
Social security and health insurance assessment base of an employee is derived from salary income. In case of sole entrepreneur, the assessment base is calculated as the half of the personal income tax base.

The maximum base for social security contributions amounts to CZK 1,438,992 (approx. EUR 56,343) per year. If the assessment base exceeds the limit, the amount of income that is above the limit is not subject to social security. When an employee has more than one employer during the year, the limit is applicable for social security contributions (25%) for each employer separately.

Residents of the EU are covered by the provisions of EC Regulation 883/2004 regulating social security and health insurance rules in case of cross-border activities. If non-EU residents work in the Czech Republic or Czech nationals work in a third country a bilateral social security agreement may provide for the applicable social security legislation.

### General comments on labour law

<table>
<thead>
<tr>
<th>Main features of employment relationship</th>
<th>Applicable law on labor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract type</strong></td>
<td></td>
</tr>
<tr>
<td>Labor contract (either for definite or indefinite period)</td>
<td></td>
</tr>
<tr>
<td>Agreement on work performance</td>
<td>Act No. 262/2006 Coll. Labor Code</td>
</tr>
<tr>
<td>Agreement on working activity</td>
<td>Act No. 589/1992 Coll. on social insurance</td>
</tr>
<tr>
<td><strong>Contract must include</strong></td>
<td></td>
</tr>
<tr>
<td>Type of work</td>
<td>Act No. 48/1997 Coll. on health insurance</td>
</tr>
<tr>
<td>Place of work</td>
<td>Government regulation No. 567/2006 Coll. on minimum salary</td>
</tr>
<tr>
<td>The day the employee shall start his / her work</td>
<td>Act No. 251/2005 Coll. on labor inspection</td>
</tr>
<tr>
<td><em>(The contract must be concluded in writing)</em></td>
<td></td>
</tr>
<tr>
<td><strong>Working time</strong></td>
<td></td>
</tr>
<tr>
<td>40 hours per week</td>
<td></td>
</tr>
<tr>
<td><strong>Holiday entitlement per year</strong></td>
<td></td>
</tr>
<tr>
<td>20 days</td>
<td></td>
</tr>
<tr>
<td><strong>Other comments</strong></td>
<td></td>
</tr>
<tr>
<td>Trial period (max. 3 or 6 months), statutory rules in case of employment termination, notice period (minimum of 2 months)</td>
<td></td>
</tr>
</tbody>
</table>
Corporate income tax (“CIT”) – rates

Corporate income tax is levied at a general rate of 19%.

Corporate income tax rate of 5% applies to basic investment funds. Pension funds are subject to tax rate of 0%.

Corporate income tax – general information

Residence - A company is treated as resident if it has its legal seat or place of effective management in the Czech Republic.

Taxable income - Resident companies are taxable on their worldwide income. The taxable income is calculated on the basis of the accounting profits according to Czech accounting regulations and is adjusted for several items for tax purposes as described in the tax law. Non-resident companies are taxed only from Czech source income.

Tax period – The calendar year or the fiscal year.

Tax returns and assessment - The taxpayer has the obligation to calculate the tax due in the corporate income tax return (self-assessment). The time-limit for filing the tax return is generally three months. If the CIT return is filed by a tax advisor or the taxpayer is subject to a statutory audit, the time-limit for the submission of the CIT return is six months.

Tax advancement – Advance payments have to be paid semi-annually, if the last known tax liability is between CZK 30,000 – 150,000 (approx. EUR 1,180 – 5,880). Then the advance payment is
40% of the tax liability. If the last known tax liability is higher than CZK 150,000 (approx. EUR 5,880), the advance payment is ¼ of the previous tax liability and is paid quarterly.

**Deductions** - As a general rule, expenses incurred in obtaining, ensuring and maintaining taxable income are fully tax deductible, unless they are listed as non-deductible items or items which are deductible only up to a limit set by the law.

**Deductions on research and development** – Expenses on research and development projects can be deducted from tax base up to 100%, resp. 110% of the expense. In fact, research and development costs are claimed twice, because the cost of research and development project remains in the calculation of the tax base. Deduction can be made for up to 3 years.

**Education tax deduction** – Companies can obtain tax deductions in two forms. A deduction for assets acquired for professional education, can be made twice - first by the depreciation of asset which decreases the tax base, second by the deduction of up to 110% of value of asset in the year of acquisition. Companies providing professional education can deduct CZK 200 (approx. EUR 7.80) per hour of educational activity, which is the second form of deduction.

**Carryforward of losses** - Tax losses derived after 1993 may be carried forward for 5 tax years.

**Incentives**

Investment incentives are available to both Czech and foreign investors for the following supported areas:

- Industry
- Technology centers
- Business support services centers - shared-services centers, software-development centers and high-technology repair centers, call centers and data centers.

While meeting the conditions, investments incentives can be provided in the following forms:

- Income tax relief for up to 10 years
- Financial support for creation of new jobs
- Financial support for training and retraining new employees
- Financial support in the case of strategic investments in manufacturing or in technology centers
- Transfer of public land at a favorable price
- Real estate tax exemption for up to 5 years
Withholding tax

Dividends
Dividends paid to residents and non-residents are subject to 15% withholding tax. However, under the EU parent-subsidiary directive, dividends paid from subsidiary to parent company are exempted from taxation under the following conditions.

Dividends paid by a company to parent company are exempted from taxation, when the parent holds at least a 10% share in a subsidiary for at least 12 uninterrupted months.

Withholding tax of 35% applies when dividends are paid to other jurisdictions than EU/EAA states or states with which the Czech Republic concluded a double tax treaty.

Interest
Interest paid to non-residents is subject to a 15% withholding tax. Exemption can be applied when interest is paid by a Czech resident to a company with permanent residency in the EU, Switzerland, Norway, Iceland or Liechtenstein. Taxpayers from EU/EEA are permitted to file a tax return to deduct costs related to interest payment.

A 35% rate applies when interest is paid to other jurisdiction than EU/EAA states or states with which the Czech Republic concluded double tax treaty.

Royalties
Royalties paid to non-resident are subject to 15% withholding tax. Royalties can be exempted from taxation when paid from Czech tax resident to company from EU member state, Switzerland, Norway, Iceland or Liechtenstein. Taxpayers from EU/EEA are permitted to file a tax return to deduct costs related to royalties.

A 35% rate applies when royalties are paid to other jurisdiction than EU/EAA states or state with which the Czech Republic concluded double tax treaty.

Anti-avoidance rules

Thin capitalization
It is prohibited to deduct interest expenses from loans provided by related parties when the sum of loans during a tax period exceeds six times the equity if the recipient of a loan is a bank or insurance company or exceeds four times the equity for other recipients of loans.

Controlled foreign company
There is no CFC legislation.
Transfer pricing
The transfer pricing rules apply between related parties (both resident and foreign). Parties are related if one has direct or indirect participation of 25% in capital or voting rights of the other party. Parties can also be related when the same person participate in management or control of both parties.

When prices in transaction between related parties differ from market prices and the difference is not justified, tax base is adjusted by the difference.

International aspects

Double tax treaties
Elimination of double taxation (credit or exemption) is available under the relevant double tax treaty. The unused part of foreign tax may be deducted as a tax expense in the following period.
**Personal income tax - rates**

The tax rate applicable for income derived in 2018 is 15%.

Moreover, an additional tax of 7% is to be paid from the income from independent activity and employment, if the total income (in case of employment) or tax base (in case of self-employment) exceeds CZK 1,438,992 (approx. EUR 56,343). The tax is paid only from the surplus.

Certain types of income are not aggregated, but are subject to a final withholding tax of 15% or 35%.

**Personal income tax – general information**

**Residence** - Individuals who have their permanent residence or habitual abode in the Czech Republic are treated as Czech tax residents. An individual has his habitual abode in the Czech Republic if he/she is present in the Czech Republic for at least 183 days (in aggregate) in a calendar year (except individuals who stay there for the purposes of studying or receiving medical treatment). All other individuals are treated as Czech tax non-residents.

**Taxable income** - Individuals who are residents for tax purposes in the Czech Republic are taxed on their worldwide income. Czech tax non-residents are taxed only on Czech source income. Taxable income of an individual is usually calculated by aggregating the separate net results of the following income categories:

- employment income;
- income from the independent activity;
- capital income;
- rental income;
- other income.
Related expenses can be applied only for the income from the independent activity, rental and other income. Specific exemptions and deductions differ for each income category, for the income from the independent activity and rental income, expenses can be applied as a percentage of income or as actual expenses.

Tax base for the employment income is increased by social security contributions and health insurance paid by an employer. It is usually 34% of the income (the percentage rate can vary due to maximum base on social security).

**Exemption from the taxation** – income from a sale of house or flat is exempted from taxation, if the seller has a permanent residence for at least 2 years before the sale. Income from a sale of immovable asset is exempted from taxation, when the period of ownership of the asset exceed 5 years before the sale. Income from sale of movable property is also tax exempted (some exceptions apply).

Income from a sale of a share in a limited liability company entity is exempted from taxation if the share was held for at least 5 years before the sale. Income from sale of securities is exempted if they are held for at least 3 years before the sale or if the total income does not exceed CZK 100,000 (approx. EUR 3,920).

Social transfers are exempted from taxation. Pensions are exempted up to CZK 439,200 (approx. EUR 17,196).

**Tax period** - Calendar year.

**Tax assessment** – Tax return must be filed by April 1st of the following year. The deadline can be extended until 1st July if the tax return is prepared and filed by a tax advisor or by an attorney.

**Losses** - Tax losses generated from independent activities and rental activities may be set off against all types of income (except of employment income). Losses that cannot be set off may be carried forward. The standard carry-forward period is 5 years.

**Personal deductions** – The following deductions can be applied by an individual:

- Donations – minimum of 2% of personal income tax base or CZK 1,000 (approx. EUR 39), maximum of 15% of personal income tax base
- Interests from a loan from building society, paid during tax period – maximum of CZK 300,000 (approx. EUR 11,750)
- Private pension insurance – except for first CZK 12,000 (approx. EUR 470), maximum of CZK 24,000 (approx. EUR 940)
- Private life insurance – maximum of CZK 24,000 (approx. EUR 940)
Allowances

Basic personal allowances
In 2018, the annual basic personal allowance can be claimed in the amount of CZK 24,840 (approx. EUR 972).

Dependent–spouse allowance
Allowance of up to 24,840 CZK (approx. EUR 972) can be claimed by a resident taxpayer whose spouse does not have annual taxable income higher than CZK 68,000 (approx. EUR 2,662). The basic dependent-spouse allowance doubles in case of disability of the spouse.

Other allowance
Taxpayers with disability may apply an allowance from CZK 2,520 (approx. EUR 99) to CZK 16,140 (approx. EUR 632), depending on the extent of the disability.

An allowance for students is CZK 4,020 (approx. EUR 157) and can be applied up to 26 years of age.

Credits
Resident taxpayers are entitled to a tax credit for each child living in the same household with him. The amount depends on the number of children. Annual tax credit is CZK 15,204 (approx. EUR 595) for the first, CZK 19,404 (approx. EUR 760) for the second and CZK 24,204 (approx. EUR 948) for any other.

All the allowances and credits mentioned above are annual and can be applied for any resident of EU/EEC, if the income from the Czech Republic is at least 90% of overall taxpayer’s income.
Value added tax - rates

**Standard rate**: 21%. Reduced rate 15% applies on food, beverage, medical treatments etc. Reduced rate 10% applies on books, infant nutrition etc.

Value added tax – general information


**Taxable person**: Legal entities and individuals that carry on an economic activity.

**Taxable event**:  
- the supply of goods and services in relation with an economic activity within the territory of the Czech Republic;  
- the intra-Community acquisition of goods for consideration within the territory of the Czech Republic from another EU Member State; and  
- the importation of goods into the Czech Republic

**Taxable amount**: Total consideration charged for the supply, excluding VAT but including any excise duties or other taxes and fees.

**Tax period**: Month or quarter, based on turnover for 12 previous consecutive calendar months. Compulsory tax period for newly registered VAT payers is calendar month.

**Tax assessment**: Periodical VAT returns (monthly or quarterly, by the 25th day of the following month). The amount of VAT liability consists of the VAT due on supply of goods and services carried out by the entrepreneur less input VAT of the same period.
In addition, taxable person carrying out intra-Community supplies or supplying services according to the basic rule for “business to business” services has to file an EC Sales List (that shows the VAT identification numbers of his business partners and the total value of all the supplies of goods and services performed by the entrepreneur) on a monthly or quarterly basis depending on the situation.

**VAT control statement** - From 2016, VAT registered persons are also obliged to file a recapitulative statement that contains details of transactions subject to VAT in the Czech Republic as well as of transactions where input VAT deduction is claimed.

**Reverse charge** – Reverse charge applies for the intra-community acquisition. Local reverse charge is applicable in some cases between two Czech VAT payers.

If the total amount of the tax base for the taxable supply exceeds CZK 100,000 the local reverse charge mechanism applies to the following commodities:

- corn and industrial crops, including oilseeds and sugar beets,
- metals, including precious metals, except those covered by the special regime pursuant to § 90 of the VAT Act and those subject to a reverse charge mechanism pursuant to § 92c of the VAT Act,
- mobile phones,
- integrated circuits such as microprocessors and central processing units,
- portable automatic data processing devices (such as laptops, tablets etc.),
- video game consoles
- supply of intangible property when VAT is included in the price voluntary

Regardless of the amount of the tax base for the taxable supply, local reverse charge regime applies for example on supply of gold, supply of construction and installation services and provision of workers who provide construction and installation services.

**VAT registration**

The threshold for mandatory VAT registration for taxable person with registered office, place of business or fixed establishment in the Czech Republic is the turnover of CZK 1,000,000 (approx. EUR 39,160) for a period of 12 previous consecutive calendar months. Voluntary VAT registration is possible as well.

A foreign taxable person that makes long-distance sales (mail order business) in the Czech Republic to any person that is not registered for VAT in the Czech Republic has to register for VAT in the Czech Republic if the total value of the goods / supplies reaches CZK 1,140,000 (approx. EUR 44,640) in a calendar year.

**Person identified to tax** – Taxable person has to register as an identified person in the following situations:

- purchase of services from persons established outside the Czech Republic with place of supply in the Czech Republic
- supply of services with place of supply in another EU Member State
• intra-community acquisition of goods from another EU-Member state when the value of those transactions cumulative exceeds approx. CZK 326,000 (approx. EUR 12,770) per calendar year.

**VAT group registration** - Several taxable persons who have their seat, place of business or fixed establishment within the territory of the Czech Republic and are connected financially, economically and organizationally, may be deemed as a single taxable person.
OTHER TAXES

Taxes on capital

Net worth tax - There is no net worth tax in the Czech Republic.

Real estate tax - This tax consists of land tax and building and apartment tax. Amount of the real estate tax depends on the purpose of the land, building or apartment and location. The basic rates can be increased by decision of municipality.

Real estate transfer tax - The real estate transfer tax rate is 4%.

Other business-related taxes

Road tax - Levied on motor vehicles and trailers if registered in the Czech Republic and used for business purposes. Regardless of the purpose, vehicles exceeding 3.5 t are subject to tax always.

Excise duties - Excise duties are levied on mineral oil, beer, wine, spirits, electricity, coal, natural gas and tobacco products.

Customs duties - Goods imported from non-EU countries are subject to import customs clearance.

Disclaimer

Please note that our materials have been prepared for general guidance on the matter and it does not represent a customized professional advice. Furthermore, because the legislation is changing continuously, some of the information may have been modified after the material has been released and Accace does not take any responsibility and is not liable for any potential risks or damages caused by taking actions based on the information provided herein.
ABOUT ACCACE

With more than 550 professionals and branches in 13 countries, Accace counts as one of the leading outsourcing and advisory services providers in Central and Eastern Europe. During the past years, while having more than 2,000 international companies as customers, Accace set in motion its strategic expansion outside CEE to become a provider with truly global reach.

Accace offices are located in the Czech Republic, Hungary, Poland, Romania, Slovakia, Ukraine, Bosnia and Herzegovina, Croatia, Germany, Macedonia, Montenegro, Serbia and Slovenia. Locations in other European countries and globally are covered via Accace’s trusted network of partners.

More about us: [www.accace.com](http://www.accace.com) | [www.accace.cz](http://www.accace.cz)

Subscribe to our newsletter!

CONTACT US!

Tel.: +420 222 753 480 – 1
E-mail: [czechrepublic@accace.com](mailto:czechrepublic@accace.com)