

Meet the Heart of Europe

Investment in the Czech Republic

Welcome to
the Czech Republic!

In today's highly competitive and dynamic economic environment, few decisions are as critical to success as selecting your business location. Most entrepreneurs at some point consider relocating to create fresh momentum and pursue new growth.

Compared to its regional peers, the Czech Republic is doing fairly well in terms of GDP per capita and in terms of competitiveness. It also clearly stands out as a regional champion in the inflow of foreign direct investment (FDI). The Czech Republic has been a popular destination for foreign capital and has attracted high volumes of FDI. FDI activities in the Czech Republic stand out with a very important factor: profitability.

While cost is a factor, it is only one of many considerations that influence the choice of destination: an education system that yields a highly skilled workforce; high living standards and a diverse culture; capacity for innovation; a modern infrastructure combined with a position in the heart of Europe.

The Czech Republic is home to many advantageous conditions – from its geographical location combined with a reliable infrastructure, availability of suppliers and specialized inputs needed by foreign investors, to quality of life and social stability, cost competitiveness, financial stability and availability of financing, investment incentives as well as a skilled workforce and a high educational level, making it an attractive location for all types of investors and companies.

This publication sets out insights and data relevant to planning investments or conducting business in the Czech Republic. Czech and EU legislation are frequently amended. Accordingly, the information should be viewed only as a general guide for preliminary planning purposes. We nevertheless hope it will be a helpful source of background information and a constructive tool in making your investment decisions.

Combining KPMG's insights and expertise in relocation issues, we can help you determine if the Czech Republic is the right base for your business in Europe. If you have any questions, remarks or suggestions, please feel free to contact the respective KPMG experts.

We look forward to assisting you with your investment in the Czech Republic.

The KPMG team in the Czech Republic

Investment Climate

Meet a Regional Champion

Where the Czech scores the best. The Czech Republic clearly stands out as a regional champion for the inflow of foreign direct investment. What are the main reasons to investment in the Czech Republic?

- Safe investment environment
- Skilled and well-educated workforce
- Favorable labour costs and price stability
- Central location in Europe
- Dense and high-quality infrastructure
- Transparent system of investment incentives
- Strong focus on R&D
- Stable social and political system
- EU membership
- High quality of life

Source:

Investment in the Czech Republic

In the overall Global Competitiveness Index 4.0 2019 ranking the Czech Republic ranks 32th in the competition of 141 economies in the world.

Source:

The Global Competitiveness Report

Meet your business destination in the geographical heart of Europe

The Czech Republic has an advantageous geographical location. Known as the heart of Europe, it is close to most major European business centres.



Meet a popular foreign capital destination

The Czech Republic is one of the most successful transition economies in terms of attracting foreign direct investment (FDI). A significant portion of FDI inflows into the Czech Republic has been concentrated in the automotive-components sector. The services sector, especially software, IT and financial services, has been the second-largest beneficiary. More investment is now being directed towards more high-technology sectors and research and development.

Source:

CzechInvest, Investment Climate in the Czech Republic

TOP investing countries

1. Netherlands
2. Luxembourg
3. Germany
4. Austria
5. France
6. Switzerland
7. Cyprus

Meet your investment opportunities

1. Aerospace

The Czech Republic has become an indispensable partner in global aerospace supply chains. The local industry's strength consists in the ability to develop and integrate structural components into a wide range of aircraft, engines and systems.

Investors: GE Aviation, Honeywell Aerospace, Latecoere, Textron, UGMK

2. Automotive

As a result of its long industrial tradition and ability to compete on the global level, the Czech Republic has achieved one of the highest concentrations of automotive manufacturing, design and R&D activity in the world.

Investors: Hyundai, Lear, Robert Bosch, Toyota/Groupe PSA, Volkswagen

3. Business Support Services

The most frequently shared services are financial, accounting and IT services and customer support. Nearly 80% of shared-services centres are captive, while BPO companies comprise about 20% of the market.

Investors: Accenture, DHL, IBM, Infosys, SAP

4. Electrical Engineering and Electronics

Electrical engineering and electronics is a fast-growing sector due to digitization and miniaturization. More than anything else, the success of the electronics sector in the Czech Republic is based on its long tradition here and the extensive skills of its employees.

Investors: ABB, Tymphany, Foxconn, On Semiconductor, Panasonic

Source: *Czechinvest, Investment climate in the Czech Republic*

5. High-Tech Mechanical Engineering

The combination of increasing investment in further technological development and easy access to both domestic and foreign markets, creates excellent conditions for expanding the scope of companies' operations.

Investors: Bombardier, Daikin, Edwards, Ingersoll Rand, Siemens

6. Information and Communication Technologies

The Czech Republic is one of Europe's top locations for ICT investments. This fact is confirmed by the strong inflow of high-value-added projects of the world's top ICT companies and is fuelled by the country's tradition of excellence in technical fields.

Investors: Skype, DHL, Tieto, Red Hat, solarwinds, Oracle, IBM, CA Technologies

7. Life Sciences

Development of the sector is supported by effective patent protection, adoption of GMP, GLP and GCP standards, relatively nonrestrictive genetic engineering and the government's policy goals comprising continuation of support for R&D and acceleration of the transfer of knowledge between the science and business communities.

Investors: Lonza, Nanotherapeutics, Otsuka Pharmaceutical, Sanofi

8. Nanotechnologies and Advanced Materials

The Czech Republic has established respectable position thanks to its industrial tradition, well-developed research infrastructure with institutions cooperating on the most prestigious projects, education offering high-quality phd programmes, clusters and a number of companies with fully developed products and innovative applications.

Investors: AGC, Thermofisher Scientific (FEI), Fibertex Nonwovens A/S, Saint-Gobain

Meet the financial support for your investment

Covering up to 25% of costs associated with investment projects. That's what the Czech Republic offers to both new and existing investors. Aid is provided mainly from the national investment-incentives scheme. Certain activities can be also supported from EU Structural Funds.

Source: [CzechInvest](#), *Investment climate in the Czech Republic*

Training and retraining grants**Job-creation grants**

Financial support for creation of new jobs in selected regions

Tax incentive

Full corporate tax relief for up to ten years for new companies
Partial corporate tax relief for up to ten years for existing companies.

Property-tax incentive

Property-tax exemption in Special Industrial Zones.

Cash grants for capital investments

Financial support available for large strategic investment projects in the areas of manufacturing and technology centres only (up to 10% of the investment amount); subject to special eligibility criteria.

The Czech Republic in numbers

The Czech Republic is an advanced democracy with a free-market economy. It is well known for its skilled workforce, reliable infrastructure, cost competitiveness and high educational level. Favourable labour costs are also among the main attractions of the Czech economy.

A parliamentary republic
with multi-party democratic
political system

Overall population of 10.6
Million

A working population of
about 5.3 Million

Three distinct regions:
Bohemia, Moravia and
Silesia

Since 2004, a member of the
EU; since 1999, a member of
NATO, since 2007, a member
of Schengen

1348 - one of the oldest
continuously existing
universities in the world
(Charles University) was
founded

Population of Capital city
Prague 1.3 Million

Ratings

The Czech Republic is very positively rated by all three major rating agencies, Moody's, Standard and Poor's and Fitch.

Aa3

Moody's

A+

Fitch

AA-

Standard and Poor's

Source: *Czech National Bank, Rating agencies*

Living in the Czech Republic

Foreign nationals coming to the Czech Republic are subject to the so-called Foreigners Act, which establishes two categories of foreigners: citizens of the EU, the EEA and Switzerland and nationals of third countries.

Residency and visas

To stay in the Czech Republic for more than three months, citizens of non-EU countries require a long-term visa or a long-term or permanent residence permit.

Natural persons with permanent residence outside the Czech Republic or legal entities with a registered office outside the Czech Republic may run a business in the Czech Republic under the same conditions and under the same limitations as a Czech person/entity.

Cost of living in Prague

Average prices of goods and services (including rent) are 63.4, compared to the New York benchmark of 100. Earning levels are 26.7, compared to New York's 100.

Source: [*UBS, Data Explorer*](#)

Investment Incentives and State Aid

Over the past few years, the Czech Republic has significantly increased its focus on both green field investments and the expansion of existing investments. Due to historically low unemployment and the focus on high-tech sectors the priorities for attracting new investors were redefined in 2019.

Investors can obtain the following financial benefits:

- investment incentives – tax holiday + cash grants;
- subsidies from EU funds – cash grants;
- R&D tax allowances;
- education tax allowances.

All benefits are provided according to the law and transparency rules, which are in compliance with EU regulations. In 2019 there was a structural change in the process of awarding the most significant form of state aid, investment incentives.

The amended law increases the focus on projects with a higher added value. Moreover, it will be the Government who will ultimately decide on the granting of investment incentives, rather than the administrative approval process managed by the Ministry of Industry and Trade. This makes the approval process more complex and will significantly reduce the number of projects receiving the incentives.

On the other hand, the law is written in a flexible way which allows the Government to modify the criteria at any time when the economic situation changes. It can be expected that e.g. in the case of an economic slow-down the conditions will become more favourable again.

Investment Incentives

Forms of Support

Incentives are provided in the following forms:

- corporate income tax relief for up to 10 years (tax holiday);
- employment subsidies in the form of cash grants for job creation and training (only available in regions with high unemployment rates);
- cash grants for strategic projects;
- availability of land at discounted prices;
- exemption from real estate tax in selected industrial zones.

Main Conditions

The main conditions for granting investment incentives differ depending on the supported activity.

Manufacturing Industry:

- establishment of a new manufacturing plant, or expansion of an existing plant, including its modernization and diversification of product portfolio;
- minimum investment in tangible and intangible assets of CZK 100 million (approx. EUR 4 million or USD 5 million):
 - minimum investment in machinery of CZK 50 million
 - in selected regions the above amounts are reduced to half;
 - machinery must be new;
- only projects proving a higher added value can be supported (this condition does not apply in selected regions).

The following projects will qualify as higher added value:

- At least 80% of the employees performing work at the place of the investment project's implementation earns at least the average monthly wage in the region, and, at the same time
- the recipient actively cooperates with a research organisation or university/college in the research and development area (in the amount of 1% of total eligible costs of the project), and the share of employees with a university degree at the place of the investment project implementation is at least 10%, or
- the share of research and development staff is at least 2% of the total number of employees, or
- the recipient acquired machinery and equipment for research and development purposes in the amount of at least 10% of the expected eligible costs of the project.

Moreover, applicants will have to quantify and support an investment project's expected benefits for the region and the state.

Technology Centres:

- establishment of a new technology centre, or expansion of an existing technology centre;
- minimum investment in tangible and intangible assets of CZK 10 million (approx. EUR 390,000 or USD 429,000), of which at least CZK 5 million must be invested in machinery. Machinery must be new;
- creation of at least 20 new jobs.

Business Support Services Centres:

- establishment or expansion of:
 - shared services centre
 - software development centre
 - high-tech repair centre
 - data centre;
- creation of at least 20 new jobs for software development centres and data centres, 50 new jobs for high-tech repair centres, 70 new jobs for shared services centres.
- only projects proving a higher added value are to be supported.

The following projects will qualify as higher added value:

- software development centre: development of new software or innovation of current software; the services of the centre must be delivered to at least 3 states.
- data centre: filing, sorting and data management via computer systems of the centre; the services of the centre must be delivered to at least 3 states.
- high-tech repair centre: repair of high technology machinery (e.g. electronic machinery, radio and other linked machinery, optical apparatuses); the services of the centre must be delivered to at least 3 states.

- shared services centre: takeover management, operation and administration of internal activities such as accounting, finance, HR, marketing; the services of the centre must be delivered to at least 3 states.

The following conditions apply for all types of investments:

- The acquisition of assets for the project, including construction work, cannot start before the application for incentives is submitted.
- The investment must be maintained (in the minimum amount and structure) for at least five years from its finalization.
- 2019 amendment is assessing environmental aspects when awarding investment incentives: applicants will have to quantify their projects' electricity consumption.
- Obligation to quantify and support an investment project's expected benefits for the region and the state.

Strategic Investment (Large Projects)

Large projects can qualify for strategic investment status.

- The main benefit of this status is the possibility to obtain a higher portion of incentives in cash instead of tax relief.
- Cash grants can reach up to 10% in the case of projects in the manufacturing industry (CZK 1.5 billion at maximum) and up to 20 % in the case of projects in technology centres and high-tech repair centres (CZK 500 million at maximum).
- For strategic investments in the manufacturing industry, the minimum amount to be invested in fixed assets is CZK 500 million, of which CZK 250 million must be invested in new machinery. At least 500 jobs must be created.
- For strategic investments into technology centres, the minimum amount to be invested in fixed assets is CZK 200

million, of which CZK 100 million must be invested in new machinery. At least 70 jobs must be created.

- For strategic investments into high-tech repair centres, the minimum amount to be invested in fixed assets is CZK 200 million, of which CZK 100 million must be invested in new machinery. At least 100 jobs must be created.

Income Tax Relief

Calculation

The tax treatment of a new company (plant) differs from that of an expanded facility only in the calculation of tax relief that can be claimed.

For new companies, taxpayers are entitled to full tax relief, excluding tax on net interest income.

For the expansion of an existing plant, the amount eligible for tax relief is the difference between the tax relief that would be available for a new company and the average of the tax liabilities in the three years immediately preceding the first year in which tax relief can be claimed. The latter figure is adjusted with reference to industrial inflation and the current tax rate. This formula represents a rough attempt to limit the amount eligible for tax relief to any additional profits resulting from the expansion.

Permissible Level of State Aid and Subsidy Amounts

The total value of incentives must not exceed the maximum permissible level of state aid. The maximum amount of state aid is based on the rules set by the EU and comes to 25 percent of eligible costs (investment in land, buildings, machinery and

equipment and selected intangible assets) except for Prague, where no incentives can be provided.

For technology centres and business support services centres, eligible costs may alternatively comprise the wage costs of employees in newly created jobs within 24 months of the month in which a particular position was filled.

Job Creation

Cash grants will be provided to employers creating new jobs in specific regions based on the current unemployment rate or in special economic zones. Cash grants may amount up to CZK 300,000 per new job based on the region.

Training and Retraining of Employees

Cash grants for the training and retraining of employees will be provided to employers in the form of partial reimbursements of the costs incurred. Subsidies may cover 25 percent of the eligible costs of employee training and retraining.

Purchase of Construction Sites

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

How Can KPMG Help Investors in the Area of Incentives?

KPMG in the Czech Republic is a leading advisor on investment incentives and can help investors with:

- initial assessments of whether projects qualify for investment incentives;

- calculation of estimated benefits;
- preparation of applications for investment incentives;
- full support during the approval process;
- full support during the implementation phase;
- negotiations with the government on extraordinary incentives;
- site selection analysis.

To obtain more detailed information, please contact Jan Linhart at jlinhart@kpmg.cz.

EU Structural Funds

The Czech Republic (Excluding Prague)

Businesses set up in the Czech Republic can also obtain support from EU Structural Funds under several operational programmes.

EU funds are available mostly in the form of investment cash grants. The availability of grants for large entities is currently limited in accordance with EU rules. The grants below could potentially be granted to new investors:

- Programme Innovation – support for innovations in production
- Programme ICT – shared service centres
- Programme Potential – support for R&D centre expansion/ establishment
- Programme Energy Savings
- Program Applications – support for operational costs of R&D projects.

To obtain more detailed information, please contact Jan Linhart at jlinhart@kpmg.cz.

R&D Tax Allowance

Companies performing R&D activities may apply a special tax deduction.

The R&D deduction in fact allows companies to claim internal R&D costs twice: first, within the profit and loss account, second, as a special tax deduction. Effectively, savings can thus reach up to 19 percent of R&D costs. The deduction can be claimed every year and there is no limit on the maximum amount to be claimed.

KPMG in the Czech Republic is an authorised advisor in the area of R&D tax deductions and provides a wide range of related services. It can help clients with:

eligible activity definition

- calculation of the deduction
- preparation of required documentation
- obtaining a ruling from the tax authority
- issuance of a certified court expert opinion.

Education Tax Deduction

The education tax deduction was introduced as a new tool in 2014. Companies may obtain a special tax deduction for certain costs relating to vocational or professional education activities.

The deduction covers various activities relating to the education of secondary school or university students on the premises of companies. Companies can also receive a deduction for assets acquired for the purposes of such education.

Business Structures

Establishing a company in the Czech Republic is neither financially demanding nor very time-consuming – e. g. for a limited liability company (s. r. o.), minimum registered capital of CZK 1 is sufficient and the company can be established within one month.

The basic provisions governing business obligations and other specific aspects of doing business in the Czech Republic are set out in the Civil Code and the Act on Business Corporations.

The Act on Business Corporations addresses the main aspects of Czech corporate law. It also regulates the relationship between companies and their statutory representatives, their rights, obligations and liabilities for breaches of due care. Further, it sets out the rules for holding companies and the liability for damage caused by their controlling entities.

Types of Business Entities

The Act on Business Corporations recognises the following types of business entities:

- limited liability companies
- joint-stock companies
- general partnerships
- limited partnerships
- co-operatives including European Cooperative Societies
- Societas Europaea (SE, European Companies)
- European Economic Interest Groupings (EEIG).

Foreign legal persons may also establish a branch in the Czech Republic.

A branch is not considered a legal entity, but must nevertheless be registered in the Commercial Register.

The Act on Business Corporations regulates the status and activities of entrepreneurs and applies to both legal entities and individuals.

A Czech legal person is an entity that has its registered office in the Czech Republic. Foreign persons are defined as persons (individuals or legal entities) domiciled abroad or having their registered office outside the Czech Republic.

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

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

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

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

- The company must have at least CZK 1 of registered capital.
- The list of shareholders, the amount of each shareholder's contribution and the names of the members of the supervisory board (if one is established) must be recorded in the Commercial Register.
- The law allows the creation of different kinds of shares. Shares to which the same rights and obligations are attached form one kind of share. Shareholders may own more than one share and also different kinds of shares.
- The shares of a shareholder may be represented by a common share certificate (kmenový list). However, such a certificate cannot be in the form of a registered certificate and may not be publicly offered or admitted to trading on the regulated market.
- A supervisory board is not required. Upon their discretion, shareholders may decide on its establishment.
- The general meeting appoints an executive (jednatel) or executives, who are legally responsible for the management of the company and whose details, including information on their authorisation to act on behalf of the entity, must be recorded in the Commercial Register.
- Companies may also appoint legal entities as executives.
- A limited liability company's financial statements do not have to be audited unless two or more of the following criteria have been met for two consecutive years:
 - Net turnover exceeds CZK 80 million per annum.
 - Total assets exceed CZK 40 million.
 - The average number of employees exceeds 50.

- Establishment will occur around one month after having provided all necessary documents and information. Expected amendment should provide for limited liability company's establishment to be done online within 24 hours with a minimum fee amounting to 500 CZK (approx. EUR 20).

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

- Registered capital has to be at least CZK 2 million or EUR 80,000.
- Non-cash contributions to registered capital must be valued by an independent expert proposed by the founders or the already existing company in case of a registered capital increase. The valuation is binding for the company.
- Financial statements of a joint-stock company do not have to be audited unless any of the following criteria has been met for two consecutive years:
 - net turnover exceeds CZK 80 million per annum;
 - total assets exceed CZK 40 million;
 - the average number of employees exceeds 50.
- Annual financial statements must be published.
- The company may decide between two internal structures: either a supervisory board and a board of directors (dualistic organisation of corporate bodies), or an executive director and a managing board (monistic organisation of corporate bodies).

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

- A general partnership is formed by two or more persons (individuals or legal entities).
- The partners in a general partnership are liable for the debts of the company.
- The names and addresses or the registered offices of the partners must be registered in the Commercial Register.
- All partners are entitled to act on behalf of the partnership and are jointly and severally liable for the partnership's obligations to the extent of their entire property.
- Requirements for financial statement audits are the same as for a limited liability company.

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

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

Co-operative (družstvo)

- Co-operatives are formed by at least three members, either legal entities or individuals, to undertake business activities for the economic or social benefit of their members.
- Members are not liable for the obligations of the co-operative; however, the co-operative may demand contributions from its members to cover losses.
- Requirements for financial statements audit are the same as for a limited liability company.

Branch of a foreign person (pobočka zahraniční osoby/odštěpný závod)

- Branches of foreign businesses can conduct business activities in the Czech Republic if they are registered in the Commercial Register.
- The entry in the Commercial Register must include details about the activities of the foreign business and its office in the Czech Republic, the scope of its business activities and the name and the address of its director (general manager).
- A branch must obtain a trade licence from the regional Trade Licensing Office.
- The liability of a founder of a branch is not limited since a branch is not an independent entity.
- Requirements for financial statement audits are the same as for a limited liability company.

Company formation procedure:

- memorandum of association
- obtaining a trade license
- contribution payment
- registration in Commercial Register.

A company is formed after a founder's deed or a memorandum of association has been completed and signed. Limited liability companies and joint-stock companies must obtain these documents in the form of a notarial deed.

After the founder's deed or memorandum of association has been signed and filed, the future executives of the company must register their trade licences at the Trade Licensing Office and obtain the documents necessary to register the address of the company.

The company founders also need to appoint a contributions' administrator responsible for proving to the Commercial Register that the contributions to the registered capital have been paid up by the shareholders.

After the future executives have collected all necessary documents, they may file an application for the registration of the company in the Commercial Register. Once the court administering the Commercial Register issues a decision on the company registration and this decision enters into force, the process of the company's formation is complete. The whole process may take up to two months.

The Commercial Register

A company that is not a branch has an independent legal personality and is entitled to commence business activity in the Czech Republic only after registration in the Commercial Register. Courts have to register a new company in the Commercial Register within five business days after the delivery of a defect-free application. Fees amount to CZK 6,000 for a limited liability company and CZK 12,000 for a joint-stock company (approx. EUR 220 and 440) or CZK 2,700 for a limited liability company and CZK 8,000 for a joint-stock company (approx. EUR 100 and 300) if registered directly by a notary.

Access to the Commercial Register is freely available on the internet www.justice.cz, <http://www.info.mfcr.cz/ares/>.

Employment Policy

The Czech Republic has a skilled and educated labour force and its literacy rate is above 98 percent. Czech labour law is not considered excessively rigid and is relatively flexible within the EU context.

Employment law is governed primarily by the Labour Code. Where an employee from another EU member state is sent by an employer to work in the Czech Republic as a part of the transnational provision of services, certain minimum requirements of the Czech Labour Code must be respected, such as maximum working hours, minimum length of rest periods, minimum annual leave entitlement, minimum salary and overtime rates, occupational health and safety, etc.

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

The maximum amount of overtime that may be assigned unilaterally by the employer is 8 hours per week and 150 hours per year. The maximum amount of overtime work agreed with the employee may not exceed 208 hours per half a year.

The retirement age for individuals ranges from 58 to 72 based on gender, date of birth and the number of children raised (applicable to women only).

Employment Contracts

Employers are required to conclude written employment contracts with their employees. The contract must at least describe the type of work, the date when the employee will commence working, and where the work will be performed.

Trial periods may generally not be longer than three months, except for managerial positions, where a trial period of up to six months can be agreed.

A fixed-term employment contract may be concluded for up to three years, and may only be renewed twice (with certain exceptions).

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

- by agreement
- by notice
- by immediate termination
- anytime during the trial period.

A fixed-term employment contract also terminates upon the expiry of the agreed period. An employment relationship with a foreigner terminates also by the expiry of their work or residency permit.

If employment is terminated with notice, a two months' notice period applies (unless agreed otherwise).

The employee can give notice without stating any reason. However, if the notice is given by the employer, it must specify one of the reasons stated in the Labour Code, such as:

- The employer (or its part) is being liquidated or is ceasing to carry on business.
- The employer's operations (or its part) are relocating.
- The employee has become redundant following the employer's organisational change.
- The employee is no longer healthy enough to perform work.
- The employee has committed a serious breach of obligations (or several less serious breaches).
- The employee has failed to fulfil the prerequisites for the performance of the job or their work performance is poor.

Where an employment contract is terminated for any of the reasons under points 1 to 3, the employer is obliged to pay the employee up to three months' severance pay depending on the duration of the employment relationship. If the reason for termination is the employee's health incapacity resulting from an occupational disease or accident at work, the severance pay equals twelve times the employee's monthly earnings.

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

Employment terminations during the trial period may be submitted by either party for any reason, or without any reason being given.

Employment Agencies

An alternative to employment contracts is agency employment. An employment agency provides its clients with human resources, without the clients having to conclude employment contracts directly with the employees. Even though this option is more expensive, it provides greater flexibility in the allocation of human resources.

Mass Layoffs

If an employer terminates the employment relationships of a certain number of employees as defined in the Labour Code, for the specific reasons set out above under points 1 to 3, within a period of 30 calendar days, this is considered a mass layoff and special conditions, such as a notification obligation to the Labour Office and trade unions, apply.

Trade Unions

Unions can be formed freely and neither the state nor any other subject can restrict their formation.

Trade unions engage in collective bargaining with the employer and also at a national level. A tripartite council including representatives from trade unions, employers and the government meets annually to discuss labour issues.

The role of trade unions in the Czech Republic is to formulate and assure the labour, economic and social interests of employees. The aim of collective bargaining is to conclude a collective bargaining agreement with the employer guaranteeing the employees certain rights.

Holidays

The statutory minimum holiday period is four weeks per annum, unless increased by a collective bargaining agreement, employment contract or internal regulations. Holiday pay is calculated from employee's average monthly earnings.

Social Security and Health Insurance

Both the employee and the employer must contribute to two major schemes: social security and health insurance.

Payments from the social security insurance system typically include:

- pensions
- cash benefits such as sick leave, maternity benefits, social benefits, etc.

Social security treaties have been concluded with certain countries and relieve seconded employees of the burden of having to pay social security contributions in more than one country.

Concurrence of Membership in a Statutory Body and Employment

Under the current legislation and case law, it is not recommended that a member of a corporation's statutory body performs their office within an employment relationship with the company. Instead, such person should conclude an agreement on performance of the office governed by the Act on Business Corporation, not the Labour Code.

Financial Services

**The Czech financial sector:
a safe harbour for foreign
investments (continuing
profitability, sufficient liquidity,
as well as capital adequacy).**

Regulation and Supervision

The Czech National Bank (CNB) is the central bank of the Czech Republic. It determines the country's monetary policy, carries out and coordinates the supervision of the Czech financial market, issues banknotes and coins, and manages the circulation of currency as well as the payment and settlement systems between banks. More details can be found at www.cnb.cz.

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

As the Czech Republic is an EU member, in the area of supervision the CNB cooperates with European institutions (the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) on unifying supervisory procedures and creating conditions for close cooperation between home and host supervisors.

Prudential rules for banks, credit unions and investment firms are primarily regulated by the Capital Requirements Regulation (CRR) directly applicable in EU member states and a decree issued in 2014, driven by measures agreed on at the EU level and implementing the requirements of Basel III/CRD IV into Czech legislation.

In June 2019 amendment to CRR and CRD IV (CRR 2 and CRD V) entered into the force to further implement Basel III reform in to the EU law. CRR 2 will apply from June 2021, while CRD V should be transposed into the national legislation until the end of 2020.

Solvency II, a new, harmonised EU-wide insurance regulatory regime, became fully applicable on 1 January 2016 in all EU member states, including the Czech Republic.

Licences

The licensing of banks and other financial institutions and matters connected with mergers and acquisitions and other market entries are fully within the responsibilities of the CNB.

A foreign financial institution can enter the Czech market in the following four ways:

- as a new company, with up to a 100 percent foreign ownership;
- by acquiring an equity stake in an existing entity;
- by establishing a branch of the parent institution with a separate licence;
- by establishing a financial institution of the parent based on the licence of the parent institution (applicable to all banks and insurance companies with a registered office in the EU under the “single licence principle”).

Financial Market Guarantee System

In January 2016; The Financial Market Guarantee System was established to govern the function of Deposit Insurance Fund (the Deposit Insurance Fund has become an internal unit of the Financial Market Guarantee System) and newly established Resolution Fund pursuant Banking Recovery and Resolution Directive (BRRD).

In 2010, the deposit limit for 100-percent protection was raised to EUR 100,000. The deposit claims of banks, foreign banks, financial institutions, health insurance companies and state funds are not insured.

All banks and branches of foreign banks (excluding branches of parent banks participating in the deposit insurance scheme in their parent country) are obliged to participate in the scheme and to contribute to the deposit insurance fund in compliance with the Act on Banking.

The newly established Resolution Fund serves for the collection of funds that may be used in the event the stability of any financial institutions is threatened in order to avoid closure of the institution's operations and the pay-out of deposit compensation to their clients.

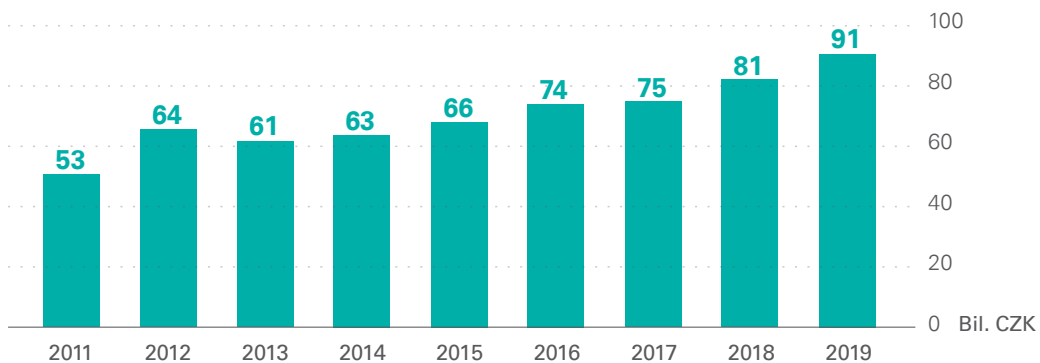
Banking Sector

The Czech banking sector is primarily represented by banking institutions with international ownership. It is dominated by big foreign banking groups such as Erste, KBC, Societe Generale, UniCredit or Raiffeisen. Although the banking sector is significantly concentrated, small and medium banks have been able to strengthen their position on the Czech market in recent years.

As at 31 December 2019, 49 banks (including foreign branches and building societies) offered banking services to clients in the Czech Republic; 39 of them were controlled by foreign investors and ten by local stakeholders. The group of the four largest banks (banks with total assets greater than CZK 200 billion) continues to play a predominant role in the banking sector in the Czech Republic. As at 31 December 2019, their share of total banking assets equalled approximately 60 percent.

Despite a low interest rate environment, the Czech banking sector showed very good profitability in last few years with a rising trend. The interest rates started to rise in the second half of 2017 (in August 2017 increased two-week repo rate after 5 years of stable rate at 0,05% and in August 2018 increased CNB discount rate after almost 6 years of stable rate of 0,05%) which helped with increasing profitability over the last two years. Net profits of 2019 were almost CZK 91 billion with the level of non-performing loans at approximately 2,5 percent.

Profitability of Czech Banking Sector



Source: *CNB, Basic indicators of the financial market sectors*

Insurance Sector

The Czech insurance sector is dominated by the Generali Česká pojišťovna and VIG insurance groups. The remainder of the TOP 10 insurance companies is made up by composite insurance companies, while the rest is represented by bank-assurance and specialised insurance companies.

As at 31 December 2019, 47 insurers (including foreign branches) and one reinsurance company offered insurance services to clients in the Czech Republic. Local shareholders controlled 14 insurance companies, whereas the rest had mostly foreign owners. The two largest groups reached CZK 75,6 billion of gross written premium (measured by annual premium equivalent). Overall market profitability is approximately a 14% return on equity (three-year average/2017 - 2019) and the market manages approximately CZK 490 billion of assets.

Typical products include both life and non-life insurance. The non-life insurance business is dominated by car insurance (compulsory motor third party liability insurance and casualty and collision (automobile insurance)) and commercial insurance.

Supervision of the insurance market is performed by the CNB.

Investment Management and Funds

As at 31 December 2019, according to CNB statistics, the Czech market was represented by 408 investment funds domiciled in the Czech Republic. In addition, 1,761 foreign investment funds are registered for public offer in the Czech Republic.

Investment funds may take the following legal forms:

- mutual fund
- trust fund
- joint-stock company
- investment company with variable capital (société d'investissement à capital variable)
- limited partnership
- limited liability company
- European company.

Generally, minimum fund capital of EUR 125 thousand is required. A notification duty to the CNB only applies to special investment funds not fulfilling these requirements. However, every fund's asset manager must have the approval of CNB. Supervision of the investment fund market is handled by the CNB.

Taxation of investment funds

Investment funds qualifying as so-called basic investment funds are subject to income tax at rate of 5%. This rate does not apply to certain types of income, e.g. received foreign dividends that are subject to 15% taxation. The non-qualifying funds are taxed at the standard 19% income tax rate.

The Stock Exchange

The Prague Stock Exchange (PSE) began trading in April 1993. Trading on the PSE is conducted via licensed securities dealers, who are also PSE members. These are primarily major banks and brokers. If a common investor decides to invest in the exchange, they need to contact one of the PSE members or become a member themselves.

It is currently possible to conclude trades either directly through the regulated market (administrated by the PSE) or the non-regulated market, primarily intended for OTC (over-the-counter) trades (administrated by the Central Depository). Since 2012, trades on the regulated market are traded via the stock international exchange platform – Xetra. The basic criteria for trading and listing on either market can be found at: www.pse.cz.

Foreign Exchange

Regulation

The Act on Foreign Exchange fully implements the obligations that the Czech Republic accepted under international agreements in relation to the free movement of capital and the system of payments. The Czech Republic has concluded many agreements with other countries on the promotion and reciprocal protection of investments.

Market development

In November 2013, CNB started intervention to keep CZK to EUR above 27 CZK/EUR. This intervention affected exchange rates of many other currencies to CZK. The intervention was ended in April 2017 and CZK started to appreciate to most other currencies. Due to the spread of the SARS-CoV-2 virus Czech crown started to weaken in March 2020.

After the release of the interventions, foreign exchange rate of CZK started to appreciate to both EUR and USD. In 1Q of 2018 CZK to USD reached its minimum at 20,163 and started to fluctuate between 22 and 23 CZK for USD. Development of CZK to EUR showed gradual appreciation that started on 27 CZK for EUR in April 2017 and reached its minimum at 24,795 in mid-February 2020. After that, mainly due to the spread of the SARS-CoV-2 virus, CZK to both USD and EUR suffered a depreciation.

As at 19 March 2020, the foreign exchange rate of CZK to EUR was 27.605; the exchange rate of CZK to USD was 25.567.

Direct Taxes

The Czech Republic is party to a large number of double taxation treaties and has implemented the relevant EU directives.

Taxation of Legal Entities

Corporate income tax is levied on the profits of legal entities, primarily limited liability companies (s. r. o.) and joint-stock companies (a. s.). Although partnerships are also legal entities, the profits of a general partnership (v. o. s.) are not subject to corporate tax; instead, the partners' shares of profits are taxed in their own hands.

In the case of a limited partnership (k. s.), the limited partner's share of the profits is subject to corporate income tax at the level of the limited partnership, while the general partner's share is taxed in the same way as in the case of a general partnership. In addition, trusts are subject to corporate tax even though they are not legal entities.

A foreign company's branch or permanent establishment is generally subject to tax **on the same basis as a company**. They may also be taxed on a deemed profit basis, which is usually a percentage of the revenues generated in the Czech Republic, or a percentage of costs. Furthermore, taxpayers may ask tax administrators for binding rulings on the manner of determining the tax base of a permanent establishment (or a registered branch of a foreign entity) located in the Czech Republic.

Generally the tax base is the difference by which income exceeds the expenses relevant to the taxable period.

In 2020, the corporate income tax rate is 19 percent.

A reduced rate of five percent applies to the income of qualifying investment funds and a reduced rate of zero percent applies to qualifying pension funds. Full or partial tax relief from corporate tax may be claimed for certain qualifying investments (see [Chapter 3 – Investment incentives and state aid](#)). Capital gains are generally included in income and taxed at the same rate.

Companies are exempt from tax on capital gains from the sale of shares in a subsidiary resident in the EU, EEA or a country with which the Czech Republic has concluded a double tax treaty and which has a corporate tax rate of at least 12 percent as long as the shares have been held for 12 months. Qualifying holdings are defined in the same way as for the dividend exemption.

There is no tax consolidation in the Czech Republic. Each company within a group is taxed individually, with no possibility to set-off losses against the profits of a different

company. However, virtual tax consolidation can be achieved through a partnership structure. **Dividends received by Czech resident companies from non-residents are taxed at a rate of 15 percent.** Dividends received by a Czech parent company or a permanent establishment of an EU company from subsidiaries registered in EU and EEA countries, or Switzerland are tax exempt provided that certain conditions are met (e.g. specific legal form, minimum 10-percent shareholding, 12-month uninterrupted holding of the shares, entities not tax exempt).

Dividends received from subsidiaries which are resident in other countries that have entered into double tax treaties with the Czech Republic are also exempt as long as the profits have been subject to a corporate tax of at least 12 percent (in addition to the above conditions stipulated for EU companies).

Dividends paid to a parent company registered in the Czech Republic, an EU or EEA member state, or Switzerland are not subject to withholding tax provided that certain conditions are met (e.g. specific legal form, minimum 10-percent shareholding for 12 months, entities not tax exempt).

New rules designed to counteract so-called “hybrid mismatches” between associated entities or arising from “structured arrangements” were introduced in 2019. Hybrid mismatches may take the form of a double deduction when one amount reduces the tax base in both the source state and the recipient state, or the form of the non-inclusion of income in the tax base in the recipient state while deducting expenses in the source state. The tax base has to be increased by the amount corresponding to the amount which decreased tax base. New rules relating to hybrid mismatches do not apply on taxable periods which started prior 1 January 2020.

Mergers and divisions of companies can generally be carried out on a tax neutral basis. The EU Mergers Directive and the EU Cross-Border Merger Directive have been broadly assimilated into Czech law. In general, domestic legislation maintains the tax neutrality of mergers and allows the transfer of unused tax losses for transactions satisfying certain legal conditions (transfers of business and mergers), provided that tax avoidance is not the main purpose of the transaction. Additionally, there is a “same activity” rule, under which tax losses can only be offset against income earned from the same economic activity that generated the tax loss.

Taxation of Business Income

The starting point for computing taxable profit is the profit before tax in the Czech statutory financial statements. **This is then subject to adjustments under the Income Taxes Act.** Unless this Act contains a provision to the contrary, income and expenses booked for accounting purposes are taxable/deductible. Where capital gains form part of business profits, they are taxable as normal income or exempt under the participation exemption rules. **For companies, the taxable period is generally the same as the financial year.** It is possible to adopt a financial year ending on a date other than 31 December, if it is the last day of a calendar month. If the financial year-end changes, provisions in the Income Taxes Act deal with the resultant long or short period. However, these are not perfectly drafted and numerous issues can arise in such cases. Individuals are always taxed on a calendar-year basis.

According to the general rule of Income Tax Act expenses incurred for the purpose of generating, assuring or maintaining taxable income are tax deductible. However, there is number of exceptions which are defined by **Income Tax Act.**

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

The Act on Provisions allows create tax-deductible legal adjustments to bad debt provisions if certain conditions are met. It also allows taxpayers to create tax-deductible reserves if certain conditions are met.

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

Tax depreciation, which usually significantly differs from accounting depreciation, can be claimed on fixed assets (i.e. tangible and intangible assets). For this purpose, tangible assets are divided into several categories. Depreciation on most assets may be claimed on either a straight-line or an accelerated basis. Tax depreciation of intangible assets reflects their user rights

stipulated by contract. If user rights are not timely limited, the period of tax depreciation is stated by ITA.

Tax losses may be carried forward for five years. Losses may not be carried forward following a substantial change in the direct ownership of a company, unless it can be shown that at least 80 percent of the company's revenues derive from the same activities as those carried out in the period when the loss arose. A substantial change is the change of at least 25 percent in the ownership of registered capital or voting rights, or a change resulting in a person obtaining a controlling influence in the company. Restrictions also apply in the case of certain corporate restructuring. A ruling may be obtained from the tax authority to confirm whether a loss may be utilized after a substantial change or restructuring.

Newly tax loss carry back for two years has been introduced in 2020.

Transfer Pricing

As has been the case in other OECD countries, TP audits have become **one of the biggest priorities of the Czech tax authorities**. The focus is not only driven by global BEPS (Base Erosion and Profit Shifting) initiatives, but also by the state administration's general focus on increasing the compliance of companies with valid regulations and arm's length principles. TP audits are mainly focused on companies with investment incentives, companies incurring tax losses and companies receiving a significant volume of intra-group services.

Czech legislation is relatively simple in this area. Transfer pricing is dealt with in a short provision that states that if prices agreed in transactions between related parties are not at arm's length and the difference is not properly justified, the tax base should be adjusted. It is possible to request a unilateral or bilateral advance pricing agreement from the tax authorities on the appropriate transfer pricing methodology. No retroactive agreements are possible.

In addition to the provisions of the Income Taxes Act, the Ministry of Finance has issued guidelines providing more detailed information, especially on transfer pricing documentation (e.g. Decrees D-34, D-32, D-334 and D-10). These are not legally binding, but given that the tax authorities usually follow them, they represent useful guidance for taxpayers.

Companies are also required to disclose various types of related party transactions, including the volumes realized with each related party, in an appendix to the corporate income tax return.

This disclosure obligation falls upon Czech taxpayers who meet one of the three below-listed criteria:

- assets totalling more than CZK 40 million
- a net turnover of more than CZK 80 million
- a recalculated headcount exceeding 50 employees.

The obligation is further limited to companies meeting the above criteria and that have either:

- performed transactions with related parties abroad
- incurred tax losses
- are recipients of investment incentives.

There is currently no legal obligation to prepare transfer-pricing documentation. However, during tax inspections, the tax authorities regularly require transfer pricing documentation to be provided, usually giving taxpayers a deadline of 15-30 days.

Thin Capitalisation

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

- Financial expenses (including interest) arising from loans and credits received from related parties in excess of four times the borrower's equity (six times for banks and insurance companies) are tax non-deductible.
- Interest on loans and credits received from unrelated parties, or those secured by a related party, is fully deductible on general principle, except for interest on "back-to-back" loans (i.e. where a related party provides a loan, credit or deposit to an unrelated party which then provides the funds to the borrower), which is treated as interest on related-party debt.

- Where interest or other revenue is derived from the borrower's profit, all financial expenses on the loans or credits received are tax non-deductible.

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

Tax Deductibility of Excessive Borrowing Costs

Since 1 April 2019 additional rules concerning tax-deductibility of interest and other financial expenses came into force. According to the new rules the amount of borrowing costs (less borrowing income) are tax-deductible only up to CZK 80 million (or 30% of EBITDA if such amount is higher).

Borrowing costs which were treated as tax non-deductible in one year can be deducted in future years provided that in these years the limitation threshold is not exceeded.

The limitation applies for both internal and external borrowing costs (including bank loans).

Taxation of Individuals

Individuals are subject to income tax, social security, health insurance, and taxes on land and buildings.

The taxation of individuals primarily depends on their residence status. Residents of the Czech Republic are subject to tax on their worldwide income, whereas non-residents are subject to tax on Czech-source income only.

Czech tax residence is defined as either:

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

Personal income tax is charged on:

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

There are numerous exemptions, the most important of which are the exemptions **from tax on gains from the sale of shares and securities.**

- Gains on the sale of securities are exempt if they were held for three years.
- Generally, no tax is payable if the income from the sale of securities does not exceed CZK 100,000 in a tax year.
- Gains on the sale of shares in a limited liability company are exempt if the shares were held for five years.
- Gains from the sale of non-business real estate are exempt if the property was held by the taxpayer for at least five years prior to the sale. Gains from the sale of a dwelling are also exempt if the dwelling was used as the taxpayer's main residence for at least two years. If it was used for less than two years, the exemption applies if the gains are to be used for the taxpayer's housing in the future.

From 2015, exempt income exceeding CZK 5 million in a given tax year must be declared to the tax authorities.

The income of individuals is subject to a **flat tax rate of 15 percent**. An additional seven percent (a “solidarity tax”) is applied on income (the sum of gross salary and the self-employment tax base) exceeding the maximum annual assessment base for social security contributions (CZK 1,672,080 in 2020). The 15% percent flat tax on employment income is calculated based on the super-gross salary, which is the gross salary increased by social security and health insurance contributions payable by the employer. The tax base for the employees who are not subject to Czech social security and health insurance, except employees insured in other EU member state, Switzerland or EEA state, is calculated as the gross salary plus a notional amount corresponding to the Czech social security and health insurance contributions that a Czech employer would have to pay if the salary was subject to the normal Czech social security regime. The tax base for the employees who are obligatory insured in another EU Member State, Switzerland or in EEA State is as of 1 January 2019 calculated as the gross salary plus an employer’s part of the foreign obligatory social security and health insurance contributions.

Thus, the effective tax rate is not 15 percent (or 22 percent for persons subject to the solidarity tax) but a higher rate, depending on the income level. Dividends and certain types of other Czech source income are taxed separately and are subject to a 15 percent withholding tax at their source.

Foreign source investment income should be included in the tax base and is subject to a flat tax rate of 15 percent. Business income or other self-employed income may be reduced by actual expenses or by an optional lump-sum deduction ranging from 30 to 80 percent of gross income. The annual lump-sum deduction is limited to a maximum of CZK 1,600,000 for income from agricultural business, CZK 1,200,000 for business income based on a trade license, CZK 600,000 for rental income and CZK 800,000 for other business income.

Employees are subject to tax on income in all forms, whether in cash or in kind. In particular, benefits, such as the provision of a car available for both business and private use, are taxable. It is not possible to deduct an employee’s social security and health insurance contributions from the tax base. However, items such as mortgage interest, payments for supplementary pension insurance with state support, private life insurance premiums,

and donations can be deducted if certain conditions are met. Employer contributions to defined private pension schemes up to CZK 50,000 per year (CZK 30,000 prior to 1 January 2017) are tax-free for the employee.

The Czech pension system comprises two pillars – a mandatory pay-as-you-go pension system run by the government (the first pillar) and a voluntary additional pension system administered by commercial insurance companies (the second pillar).

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

The salaries of employees are usually subject to the deduction of wage tax withheld by their employer on a monthly basis, with possible annual reconciliations. It is possible to second expatriate staff through a permanent establishment of a foreign employer that, although taxable, is not registered in the Commercial Register. In such cases, no liability to withhold tax arises. Instead, the employees themselves are liable to file tax returns and pay tax, normally in quarterly instalments.

Employees of foreign companies may fall under a further possible tax treatment, the “deemed employer” rule, which is essentially an anti-avoidance provision.

The rule may apply if employees of a foreign employer work in the Czech Republic under the control of a Czech person who pays a fee to the foreign employer for their services. Here, the Czech person is regarded as the employer for tax purposes and has to account for the employees’ income tax.

In practice, this rule is rarely applied to employees of bona fide foreign investors unless they choose to use it as an alternative to the permanent establishment described above. Further special treatment applies to licensed labour agencies.

Resident and non-resident individuals may claim a basic personal tax allowance of CZK 24,840 per year. Various other credits are granted to residents, such as a tax credit of CZK 24,840 per year for a spouse living in the taxpayer’s household if the spouse’s annual income does not exceed CZK 68,000, and tax allowances for children (a tax allowance of CZK 15,204 for the first-born, CZK 19,404 for the second-born and CZK 24,204 for the third-born and any subsequent child). Tax allowances up to the amount of the minimal wage announced for a given tax year (CZK 14,600 for 2020) can be claimed for fees paid to childcare facilities.

Allowances are also granted to residents of the EU or EEA if at least 90 percent of their income is derived from sources in the Czech Republic. The amount of income from foreign sources should be confirmed by the foreign tax authorities in the state of residence.

	Pension	Sickness insurance	Unemployment insurance	Health insurance	Total
Employer (%)	21.5	2.1	1.2	9.0	33.8%
Employee (%)	6.5	0.0	0.0	4.5	11.0%

Social security contributions, where payable, amount to 45 percent (44.8 percent as of 1 July 2019) of an employee's salary (for income up to an annual cap for social security – see below). This consists of an employee contribution of 11 percent and an employer contribution of 34 percent (33.8 percent as of 1 July 2019), made up as follows.

The maximum annual assessment base for social security premiums in 2020 is CZK 1,672,080. There is no cap on health insurance premiums. Social security and health insurance contributions must be paid on a monthly basis. Social security contributions must be paid until the aggregate of the monthly assessment base exceeds the maximum annual assessment base. Upon achieving this limit, the employer should stop paying social security contributions. The assessment base is very similar to the tax base.

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

Tax on the Acquisition of Immovable property

Tax on the acquisition of immovable property has been abolished in 2020.

Taxation of Income from Inheritance and Gifts

On 1 January 2014, gift and inheritance taxes were abolished. The taxation of such income is now governed by the Income Taxes Act. Gifts are taxable unless the donor is a qualifying spouse or close relation. They are subject to a flat rate of 15 percent for individuals and 19 percent for companies. No tax is payable on inherited property.

Tax on Immovable Property

Tax on immovable property is composed of tax on land and tax on buildings and units. The tax is payable by owners of immovable property situated in the Czech Republic, and it is calculated as at 1 January of the relevant year. Any changes arising during the year are not reflected.

Property tax on land

Land plots situated in the Czech Republic are subject to the property tax on land. Some plots are exempt from the tax, e.g. plots of land with taxable buildings or land used for miscellaneous purposes defined in the Act.

Land subject to tax	Tax base	Tax rate
Arable land, hop field, vineyard, garden, orchard	The area of the land multiplied by the average price determined in the decree	0.75%
Permanent herbage	The area of the land multiplied by the average price determined in the decree	0.25%
Hard surface used for primary agricultural production, forestry and water management	Area in m2	CZK 1/m2
Hard surface used in industry, building industry, transportation, energy industry, other agricultural production and other business activities	Area in m2	CZK 5/m2
Building site (land determined for construction of a future building subject to tax)	Area in m2	CZK 2/m2
Other areas	Area in m2	CZK 0.20/m2
Built-up area and courtyard	Area in m2	CZK 0.20/m2

Property tax on buildings and units

Property tax on buildings and units applies to completed or used buildings and units situated on the territory of the Czech Republic. Similarly to land, some buildings or units used for miscellaneous purposes defined in the Act are tax exempt.

The tax base is the surface area of the built-up area in m². Rates for buildings and units used for carrying on business activities are as follows:

Type of building/unit	Tax rate
Building/unit used for business activities in primary agricultural production, forestry and water management	CZK 2/m ²
Building/unit used for business activities in industry, building industry, transportation, energy industry or other agricultural production	CZK 10/m ²
Building/unit used for other business activities	CZK 10/m ²

An additional charge of CZK 0.75 per square metre is levied for each storey (above the ground floor) of a building used for business purposes, if the area of the storey exceeds one third of the area of the ground floor. For some types of immovable property, the rates are multiplied by a coefficient ranging from 1 to 5 depending on the location of the property. In addition, the tax can be increased by another coefficient, varying from 2 to 5, based on the decision of the relevant municipality.

Taxation of Non-residents and Cross Border Tax Issues

Companies with their registered office in the Czech Republic or whose place of effective management is in the Czech Republic are subject to Czech tax on their worldwide income and are referred to as Czech tax residents. Other companies (tax non-residents) are subject to tax only on their Czech source income, subject to the provisions of any double taxation treaties.

Foreign source income of Czech tax resident companies is generally taxable in the Czech Republic, subject to the provisions of any double taxation treaties. The income of foreign branches or permanent establishments of Czech tax residents is included in their Czech taxable profit. Dividends from foreign companies are a separate source of income taxable at a special rate of currently 15 percent, although a full participation exemption applies for dividends received from qualifying participations.

Also under certain double taxation treaties, certain categories of foreign income of Czech tax residents are exempt from Czech tax. In such cases, expenses related to such income are not tax deductible. Credit for foreign taxes on income that is also

subject to Czech tax is available only if a double taxation treaty exists with the other state. Otherwise, the foreign tax can only be treated as an expense.

Different tax rules are applicable to different categories of Czech source income which may be earned by tax non-residents including:

- income of a permanent establishment in the Czech Republic;
- income from a dependent activity (employment) performed in the Czech Republic;
- income from services provided in the Czech Republic;
- income from the sale or use of real estate situated in the Czech Republic;
- royalties, dividends and other profit distributions, interest, and lease rentals;
- income from the transfer of shares in Czech resident companies;
- income from the sale of a business located in the Czech Republic.

According to the Czech tax law, a permanent establishment ('PE') means a facility (fixed place of a business) located in the Czech Republic, where a Czech non-resident entity carries on its activity in the Czech Republic. A PE should mean for example an office, workshop, place of sale (sales area) or a building site ('fixed place PE'). Further, a PE of a non-resident can also be created in the Czech Republic provided that the employees or other personnel engaged by the non-resident are active in provision of services in the Czech Republic for a period of six months within any 12-month period ('service PE'). Separately, if a person is acting on behalf of a non-resident on the territory of the Czech Republic and has and habitually exercises authority to conclude contracts that are binding for the non-resident, then a PE of the non-resident is deemed to exist in the Czech Republic in respect of all activities which that person undertakes for the non-resident ('agent PE').

Tax liabilities may in certain cases be mitigated or eliminated by tax treaties, where applicable. In particular, if an applicable tax treaty is in place, then:

- Income from services are usually taxed only if the services are deemed to be provided via a permanent establishment in the Czech Republic.
- Income from employment is usually taxed only if the individual is employed by a Czech company or whose salary is attributed to a Czech permanent establishment of a foreign company, or if he/she spends more than 183 days in the Czech Republic.
- Certain categories of income earned by non-residents, including dividends, interest, royalties and fees for services rendered in the Czech Republic are liable to a withholding tax at a rate of 15 percent. The rate is increased to 35 percent if the income is paid to residents of countries that have not signed a double taxation treaty with the Czech Republic, and when no arrangement is in place for the exchange of information on tax matters.

Withholding tax is a final tax that is generally reduced by double taxation treaties. Residents of other EU and EEA countries can file a tax return in respect of some types of income subject to withholding tax (e.g. interest, royalties, or freelance work) and claim a deduction for any related expenses (this does not apply for withholding tax from dividends). In such a case, the withholding tax is considered an advance payment. The claiming of expense deductions may result in a reduction in the tax burden as withholding tax is calculated on a gross basis. Standard 19% corporate income tax rate and 15% personal income tax rate will be applied in such case.

The EU Parent-Subsidiary Directive has been implemented in the Czech Republic; hence, dividends paid by a Czech subsidiary to a parent company that is a tax resident in an EU member state may be exempt from withholding tax. These provisions also apply to dividends paid from a Czech subsidiary to a Czech parent as well as dividends paid to Swiss, Norwegian, Icelandic or Liechtensteiner parent entities.

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

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

From 1 April 2019, companies are obligated to report Czech source income which is paid abroad and is subject to withholding tax. The reporting obligation is also applicable to income in relation to which no withholding tax is due, either by virtue of exemption under the Income Tax Act or through the application of a relevant double taxation treaty.

Tax Administration

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

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

All individuals with an annual taxable income exceeding CZK 15,000 must file tax returns unless the income is tax exempt or subject to withholding tax. A return must also be filed by any individual who is liable to the solidarity tax. This means that, in general, low-paid employees of Czech companies or branches of foreign entities are not required to file returns unless they have other taxable income higher than CZK 6,000. Anyone claiming a tax loss must also file a return.

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

This deadline is extended by a further three months if:

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

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

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

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

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

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

Interest on overdue tax is assessed at the Czech National Bank repo rate plus 14 percent, starting on the fifth working day following the due date. Where additional tax is assessed, a penalty of 20 percent of the additional tax is levied.

If the tax authorities reduce a VAT refund, they will levy a penalty of 20 percent of the reduction. If a tax loss is reduced, one percent of the reduction becomes payable as a penalty. If the taxpayer corrects the tax base in an additional tax return, only interest on the overdue tax is payable.

The interest and other penalties are likely to be modified in the near future. A significant amendment of the Tax Code has been approved in 2020 and is effective as of 1 January 2021.

Indirect Taxes

**The Czech VAT system is based
on the harmonised principles
of EU Directive 2006/112.**

Value Added Tax (VAT)

VAT is generally due on supplies of goods or services, intra-community acquisitions of goods and imports of goods with the location of supply in the Czech Republic.

VAT Rates

The standard VAT rate is 21 percent. The first reduced rate is 15 percent (applies to e.g. food products, social housing construction, and transfers of social housing, unless these are tax-exempt) and the second reduced rate is 10 percent (applies to e.g. essential baby nutrition, pharmaceuticals for human and veterinary purposes, books and newspapers, public transportation services, mill products).

Exports and intra-community supplies of goods, as well as the international transport of goods relating to exports or imports of goods, are zero-rated if all required conditions are met.

Certain supplies of goods and services are exempt from VAT, for example:

- insurance and financial services;
- postal services;
- education;
- health and welfare services;
- transfer and financial leasing of immovable property under certain conditions;
- renting of immovable property (apart from short-term leases, leases of parking spaces and leases of safe deposit boxes).

VAT Registration

VAT registration is obligatory for taxable persons established in the Czech Republic whose turnover for the preceding 12 consecutive months exceeded CZK 1 million. Other situations may also lead to obligatory VAT registration (e.g. the purchase of a going concern from a VAT payer, the transfer of the assets of a dissolved or spun-off VAT payer entity to a taxable person).

A taxable person not established in the Czech Republic becomes a Czech VAT payer if they make a specific transaction with the location of supply in the Czech Republic, such as a zero-rated supply of goods to another EU member state or a Czech local taxable supply (supply of goods, provision of services) on which they have to account for VAT (i.e. the reverse-charge regime is not applicable). No registration threshold applies.

Taxable persons (both established and not established in the Czech Republic) may voluntarily register for VAT.

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

Persons Identified for VAT

A taxable person who is not a VAT payer can become a VAT identified person for purposes of intra-community supplies. The person identified for VAT is obliged to account for output VAT; however, they are not entitled to claim related input VAT. The person identified for VAT is only required to submit VAT returns for VAT periods in which they are liable to pay VAT.

Reporting Requirements

VAT Returns

In general, VAT returns have to be submitted electronically on a monthly basis. Under certain circumstances, VAT payers can opt for a quarterly reporting period. However, for VAT groups and taxable persons whose turnover exceeded CZK 10,000,000 in the previous calendar year, a quarterly reporting period is not possible.

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

VAT must be paid by the VAT return's due date. If excess input VAT is reported, VAT credit should be paid to the VAT payer within 30 days of the deadline for submitting the VAT return. The period for a VAT deduction refund might be extended due to a tax inspection.

A penalty applies for non-submission/delays in the submission of a VAT return (max. CZK 500,000). Late payment interest on overdue VAT amounts will be assessed by the Czech tax authorities based on a repo rate of the Czech National Bank increased by 14% per calendar year.

EC Sales Lists

An EC Sales List must be completed in general on a monthly basis if a VAT payer or person identified for VAT (where applicable) either:

- supplies goods from the Czech Republic to another EU member state to a person registered for VAT in another EU member state;
- moves their own goods from the Czech Republic to another EU member state;
- acts as the intermediary in a triangular transaction between VAT registered traders in other EU member states;
- provides a service to a customer established in another EU member state, where the place of taxable supply is determined in that EU member state under the general rule.

VAT Ledger Statement

- Czech VAT payers are further obliged to electronically file a VAT Ledger Statement including mainly the below supplies:
- local supplies;
- local purchases;
- acquisition of goods from another EU member state and supplies acquired from persons not established in the Czech Republic;
- supplies (both received and provided) under the local reverse charge regime.

Intrastat Declarations

Businesses dispatching goods to or receiving goods from other EU member states and exceeding relevant annual thresholds (CZK 12 million for dispatches or CZK 12 million for goods received) must complete and file Intrastat declarations.

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

Recovery of Input VAT

In general, a Czech VAT payer is entitled to deduct input VAT in respect of received supplies used for the VAT payer's own business activity. Input VAT can be claimed within three years after the end of the tax period in which the taxable supply was made. A VAT payer must have a VAT invoice to exercise the right to deduct input VAT (a VAT document). A VAT payer is generally not entitled to deduct input VAT on taxable supplies used for VAT exempt supplies, representation (entertainment) or non-business purposes.

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

A Czech VAT refund is possible for EU business entities under a special mechanism. Non-EU businesses can claim refunds of Czech VAT by submitting a written application to the tax authority for Prague 1. Refunds are only made on the basis of reciprocity.

Other Notes

Local Reverse Charge

The local reverse charge mechanism applies to supplies of gold, scrap materials and waste, supplies of immovable property, unless they are exempt, construction and assembly works effected between Czech VAT payers.

In addition, the reverse charge regime has been temporarily extended to:

- a) emission rights;
- b) mobile phones, integrated circuits, tablets, laptops, and videogame consoles;
- c) supplies of gas and electricity to dealers and supplies of electricity certificates;
- d) telecommunication services;
- e) cereal and technical crops, sugar beets;
- f) metals.

The mechanism shall be applied when the commodities under b) and f) are supplied between two domestic VAT payers and if the total tax base for all of the selected goods supplied exceeds CZK 100,000. The reverse-charge regime could be applied also to supplies below CZK 100,000, if the contracting parties agree to this treatment in writing.

Reverse charge applies also to local supplies of goods effected by a person not established in the Czech Republic and not registered for Czech VAT to a Czech VAT payer.

Bad Debt Relief

A VAT payer is allowed to claim a VAT refund for uncollectible receivables (bad debts) if the debtor is under bankruptcy proceedings, execution or died (effective as of 1 April 2019). The Czech VAT Act stipulates further conditions for such bad debt relief.

Liability for Payment of VAT

As the recipient of a taxable supply, a Czech VAT payer can be liable for VAT from the received supply if it has not been paid by the supplier. The tax authority may demand VAT payment by the recipient of the supply if e.g. a supplier intentionally failed to pay VAT and the customer knew or should have known of this fact, the price for the received taxable supply is clearly and unjustifiably different from the arm's length price; the supplier has been identified by the tax authority as an unreliable VAT payer or newly as an unreliable entity; the payment has been made to a bank account not published in the tax authority's register (liability is only applied if the payment exceeds CZK 540,000, including VAT) or consideration for a taxable supply has been remitted to a foreign account or in a virtual currency etc.

Customs Duties

As the Czech Republic is an EU member state, customs matters are governed by EU law. Customs duties are payable on goods imported from outside the EU. Customs rates depend on the type of goods.

Excise Duties

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

The Czech Act on Excise Duty implements EU rules governing the production of excise goods and their release into free circulation. They must generally be produced in a tax warehouse. Once removed from the tax warehouse, they must be released into free circulation and excise duty must be paid. A suspension exemption can be applied if excise goods are transported to another EU member state or exported.

Energy Taxes

Energy taxes include tax on natural gas and other gases, electricity and solid fuels. Only supplies of such products delivered within the Czech Republic are subject to tax. The rules for energy taxes are harmonised within the EU.

The rates of energy taxes are fixed at a set amount per unit for each group of products.

An exemption from energy tax may be claimed under certain conditions, e.g. if the energy is used in metallurgical or mineralogical processes, the electricity is generated from renewable sources, or natural gas and other gases are used for the production of heat for households and heating facilities.

Financial Reporting and Audits

The disclosure scope of Czech accounting legislation is considerably less demanding than that of IFRS. Under specific conditions, IFRS can/must be used.

Financial Reporting

Main features of financial reporting

- Czech accounting rules are similar to International Financial Reporting Standards (IFRS), but with some significant differences. In particular, Czech accounting rules are much less detailed than IFRS rules.
- The Act on Accounting serves as the main framework, and detailed guidance is provided in the Decree on Double-Entry Accounting and Czech Accounting Standards.
- Different decrees and standards specify the rules and standards for different types of corporations (accounting units), e.g. companies, sole entrepreneurs, banks, insurance companies and non-profit organisations, as well as municipalities and institutions financed by the state.
- All corporations listed in the Commercial Register are obliged to use double-entry bookkeeping. Some specific accounting units not registered in the Commercial Register are permitted to keep simplified accounting records (tax evidence).
- All corporations recorded in the Commercial Register are obliged to publish their annual reports including statutory financial statements in the Commercial Register; all financial data about all Czech corporations is thus publicly accessible.
- The Act on Accounting defines public interest entities in line with EU legislation; i.e. accounting units whose transferable securities are admitted to trading on a regulated market in the EU, credit institutions and insurance companies.
- All accounting units and groups are categorised depending on the following criteria: net turnover, balance sheet total and average number of employees. In total, there are four accounting unit categories (micro, small, medium and large) and three group categories (small, medium and large).
- All accounting records must be in Czech.
- All accounting records must be kept and financial statements presented in Czech crowns (CZK).
- The general structure of accounts must be in accordance with the standard chart of accounts.
- Statutory financial statements consist of a balance sheet, an income statement (minimally classified by nature), a cash flow statement, a statement of changes in equity and notes.
- Different categories of accounting units disclose different information in their financial statements (e.g. the cash flow statement and the statement of changes in equity are

mandatory for medium and large entities only; different requirements exist for disclosures in the notes, etc.).

- The exact layout, structure and headings of the balance sheet, the income statement and the cash flow statement are set in prescribed templates, and minimum disclosures in the notes are prescribed in the decrees. The disclosure scope of Czech accounting legislation is considerably less demanding than that of IFRS.
- A separate report on payments to governments must be prepared by large entities and public interest entities that are active in extractive industries or in the logging of primary forests.
- Public interest entities (large, more than 500 employees) and big groups should report non-financial information on environmental, social and employee-related matters, respect for human rights, anti-corruption and bribery matters.
- All accounting units with shares or bonds publicly listed in the EU must maintain books and prepare their financial statements in accordance with IFRS, as adopted by the EU (further “IFRS”).
- All other accounting units may choose to maintain books and prepare their financial statements in accordance with IFRS if they are consolidated by a parent or an ultimate parent company in accordance with IFRS, or if they have to consolidate, and if they prepare both standalone and

consolidated financial statements in accordance with IFRS.

- The Act on Accounting requires that consolidated financial statements be prepared for an accounting unit that is a controlling entity. Subsidiaries and accounting units over which significant influence is exercised are deemed consolidated accounting units.
- The obligation to consolidate applies to medium and large groups. Small groups must consolidate only if they include a public interest entity.
- Consolidation is not obligatory where the consolidating entity is part of another consolidating entity that is governed by the law of an EU member state, and where specific prescribed conditions have been met. However, this rule does not exempt from the obligation to publish consolidated financial statements as mentioned above. A Czech corporation opting not to consolidate has to translate and publish the consolidated financials of its parent or ultimate parent.
- The Act on Corporations requires that all corporations that are part of a group prepare a report on relations between related parties.

Auditing Requirements

Audits are compulsory for:

- large accounting units;
- medium accounting units;
- small accounting units that are joint-stock companies and that, in both the current and previous accounting period, have met at least one of the following criteria:
 - net turnover exceeds CZK 80 million per annum;
 - total assets exceed CZK 40 million;
 - the average number of employees exceeds 50;
- all other small accounting units that meet at least two of the above criteria in both the current and previous accounting period;
- certain non-profit organisations.

Audit requirements also apply to annual reports:

- the auditor expresses an opinion on whether the annual report is consistent with the financial statements for the same financial year and whether it was prepared in accordance with legal requirements; or
- the auditor issues only one report which comprises opinions on both the financial statements and the annual report.

The Act on Auditors defines the responsibility of the Chamber of Auditors, which authorises auditors and sets the standards for audits and also the responsibility of the Public Audit Oversight Board, which supervises over its activity. Audits are carried out in accordance with the Act on Auditors and the International Standards on Auditing (ISAs) as amended by relevant application guidelines of the Chamber of Auditors of the Czech Republic.

Corporate Transactions

Corporate transactions have become an important feature of the Czech legal environment, making it possible for entrepreneurs to expand or restructure their business activities in the Czech Republic.

Mergers and acquisitions are primarily regulated by the Civil Code, the Act on Business Corporations, the Act on Takeover Bids, the Act on Transformations of Business Companies and Co-operatives, accounting and tax laws, anti-monopoly regulations, and a number of special regulations applicable to specific sectors, such as banking, insurance and other financial services.

Ownership of Real Estate

The Czech Republic does not place any restrictions on real estate ownership.

Acquisition and Disposal of Czech Legal Entities

For foreign individuals and legal entities, no restrictions apply to owning a business or holding shares in Czech companies. Foreign persons may acquire and sell up to 100 percent of the share capital of a limited liability or joint-stock company (most commonly used legal entities). Other legal forms are also available (European Companies, general partnerships, limited partnerships, cooperatives).

The transfer of an ownership interest in a limited liability company must be recorded in the Commercial Register. The shares of certain joint-stock companies are registered with the Central Securities Depository Prague or deposited in escrow at the Central Securities Depository Prague, a bank or other entity

entitled to maintain records of investment instruments. In the case of shares traded on the regulated securities market in the Czech Republic or another EU member state, the acquirer is obliged to notify the company (the issuer) and the Czech National Bank if their share of the company's voting rights exceeds a certain level.

Purchases of Enterprises

An acquisition can also be made by purchasing an enterprise or its parts, with the buyer acquiring the rights, assets and liabilities connected with a running business. The sale and purchase agreement associated with the acquisition of enterprise must be approved by the general meeting or the shareholders of the company.

Contributions to Companies

Another way of acquiring a share in a business is by making a financial or non-monetary contribution in the company registered capital. For this purpose, the general meeting of the company must decide on a new share issue. The increase in registered capital is then registered with the Commercial Register court. With some exceptions, non-monetary contributions have to be evaluated by an independent expert listed in a special register.

Regulation of Certain Foreign Investments

In accordance with a proposed Czech bill based on the Regulation (EU) 2019/452, the Ministry of Industry and Trade should screen foreign direct investments (at least a 10% share in the voting rights) primarily from non-EU countries and also investments made by an EU entity controlled by a third-country investor. Some foreign investments will require approvals: mainly those involving investments in transactions with military material or critical infrastructure.

Transformations of companies (merger, transfer of assets to a shareholder, demerger, change of legal form and cross-border relocation)

In Czech legislation, mergers fall within the category of transformations of businesses, which also include demergers of companies, transfers of assets to shareholders, any changes in a company's legal form and cross-border relocations. Transformations of businesses are possible even if the companies are in liquidation or insolvency proceedings. Transformations can be undertaken as national or cross-border transactions with legal entities registered in other EU or EEA countries, including European Companies (Societas Europaea).

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

From a financial point of view, carrying forward the tax losses of wound up companies is generally allowed.

- Mergers are carried out on the basis of merger projects, subject to approval by the general meetings.
- The merger date can be determined either retrospectively or prospectively.
- In some cases, the merger procedure can be significantly simplified.
- In the case of mergers of joint-stock companies, it is possible to allow the voluntary buyout of new shares representing a minority share in the merging company if the successor company owns more than 90 percent of the merging company's voting rights.

Companies with different legal forms can also merge, and mergers may involve more than two entities. Cross-border mergers are possible; however, a number of special regulations apply.

The transfer of assets to a shareholder is a legal form of company transformation in which a company's assets are transferred to a shareholder owning more than 90 percent of the company's registered capital and also representing more than 90 percent of the company's voting rights.

A company can be demerged (divided) through:

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

Upon the demerger of a company by formation of new companies or by acquisition, the company being demerged ceases to exist without liquidation, while in a demerger by spin-off, its existence continues.

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

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

Takeover Bids

Voluntary takeover bids

For joint-stock companies traded on the regulated market, investors can make public offer to the shareholders if the bid allows them to gain control over the company.

Obligatory takeover bids

An investor acquiring 30 percent or more voting rights in a target company traded on the European regulated market thereby gaining factual control over the company, must offer to buy out the other shareholders within 30 days of the acquisition by submitting an obligatory takeover bid.

An obligatory takeover bid may be published only after it has been approved by the CNB.

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

Right to buy out participation securities (squeeze-out)

A shareholder owning securities representing more than a 90-percent share of the voting rights of a joint-stock company (a major shareholder) is entitled to ask the board of directors to convene a general meeting to decide on the transfer of all the other participating securities owned by minority shareholders, resulting in a squeeze-out of minority shareholders. The general meeting of the company decides on the squeeze-out. An expert valuation has to determine adequate compensation for the minority shareholders. Should the shares be traded on the European regulated market, a document justifying the compensation and prior consent of the CNB are required. Conversely, minority shareholders have the right to request the majority shareholder as defined above buy-out their shares.

Regulations

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

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

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

How KPMG Can Help

With KPMG's expertise, you can:

• Maximize your company's tax efficiency

• Minimize your company's tax liability

• Optimize your company's financial performance

• Increase your company's profitability

• Reduce your company's risk

• Improve your company's cash flow

• Enhance your company's reputation

• Streamline your company's operations

**KPMG is the advisor of
choice for many businesses
who have selected the Czech
Republic as an investment
location.**

Trusted Advisor

We understand the challenges and pressures faced by those looking to set up business in a new jurisdiction. We can work with you to help you focus on what matters, to avoid pitfalls and unnecessary costs and to ensure your investment projects will start to deliver a measurable return in the shortest possible time frame.

We work with both leading names as well as start-up companies in every sector.

As a result, KPMG in the Czech Republic has become the advisor of choice to many who have selected the Czech Republic as an investment location, providing all the support required to ensure continued business success. Thanks to the KPMG global network of professional firms, we can also work with you in your home country to maximize the potential of your investment in the Czech Republic.

We can assist in the following areas:

Initial assessment and start-up – a timely, pragmatic and cost effective assessment of the key issues, including the most beneficial corporate and tax structures available, any potential for maximising group taxation benefits on a global basis and available grant assistance. We can also advise on employee benefit issues, e.g. those relating to foreign and Czech state option schemes. We also provide practical business-focused advice and support in dealing with areas such as incorporations and grant application and assessment.

Ongoing business – we offer a broad range of audit, tax, advisory and legal services designed to ensure that investors in the Czech Republic continue to receive timely, proactive and relevant advice and support.

Our Services

Audits of Czech financial statements
Audits of financial statements (IFRS, US GAAP, HGB, etc.)
Audits of financial reports and information
Audits of prospective financial information
Review reports
Reporting on internal control systems
Sustainability reporting

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Energy
Government and Public Sector
Industrial Manufacturing
Insurance
Middle Markets
Telecommunications
Transportation

Our foreign desks:

Chinese Desk
German Desk
Japanese Desk
Korean Desk

KPMG in the Czech Republic

KPMG has been active in the Czech Republic since 1990, when the first office in Prague was opened. Currently, we employ over 1100 specialists based in offices in Prague, Brno, České Budějovice and Ostrava. We are one of the largest providers of Audit, Tax, Advisory and Legal services in the country. We help our clients alleviate risks and take advantage of business opportunities not only at home but also abroad.

As a member of a global network of professional firms, KPMG Czech Republic can draw on the knowledge and experience of more than 219,000 experts working in 147 countries. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

Useful Addresses

Czech Government Offices

Ministry of Finance of the Czech Republic

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

Ministry of Industry and Trade of the Czech Republic

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

Ministry for Regional Development of the Czech Republic

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

CzechInvest (Investment and Business Development Agency)

Štěpánská 15
120 00 Prague 2
T: +420 296 342 500
www.czechinvest.org

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

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

Banks active in the Czech Republic

An up-to-date list of banks active in the Czech Republic can be found on the website of the Czech National Bank, at:
www.cnb.cz

Business organisations

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

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