KPMG

Tax Card 2021

Tax Services

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KPMG in the Czech Republic

Corporate Income Tax

• Standard rate	19%
• Qualified investment funds	5%
• Pension funds	0%

Tax depreciation periods

Category	Years
1 IT equipment, certain machinery	3
2 Office equipment, certain machinery, vehicles	5
3 Heavy machinery	10
4 Pipelines	20
5 Buildings other than category 6	30
6 Administrative and commercial buildings, hotels, department stores	50

Depreciation can be calculated on either a straight-line or an accelerated basis. The depreciation of certain new assets in depreciation groups 1–3 can be increased by 10, 15 or 20 percent in the first year.

Moreover, taxpayers may apply extraordinary tax depreciation for assets classified in tax depreciation group 1 and 2 and acquired from 1/1/2020 to 31/12/2021. Such assets may be depreciated for tax purposes over twelve months (categorised in tax depreciation group 1) or twenty-four months (tax depreciation group 2).

Fixed assets used to produce solar energy must be depreciated on a straight-line basis over 240 months.

Tax depreciation of intangible assets

The figure below summarises the tax depreciation of intangible assets acquired before 31/12/2019.

	Months
• Audio-visual work	18
• Software and R & D results	36
• Other intangible assets	72
• Goodwill	180

For them, only straight-line depreciation is available.

The category of intangible assets for corporate income tax purposes was cancelled effective from 1/1/2021. The tax depreciation of such assets corresponds with their accounting depreciation.

Intangible assets acquired in 2020 may be depreciated by either method, depending on the taxpayer's decision.

Loss utilisation

- Tax losses may be carried forward for up to 5 years.
- Tax losses of up to MCZK 30 may be utilised in the two taxable periods immediately preceding the taxable period for which a tax loss was determined.
- Tax consolidation is not possible.

Withholding taxes on income of non-residents

For example:

• Dividends	35/15/0%
• Interest	35/15/0%
• Royalties	35/15/0%
• Operating lease rentals	35/15%
• Finance lease rentals	35/5%

The withholding tax rates may be reduced by double tax treaties (a list is provided below). Payments to persons resident in a country with which the Czech Republic has not concluded a double tax treaty or an agreement for the exchange of information are subject to the 35-percent rate. Withholding tax normally becomes payable when the payer of the income accounts for the liability.

Persons from EU and EEA countries who receive income subject to withholding tax (except for dividends) may either apply the withholding tax as a final tax or file a tax return including expenses and deduct the withholding tax from the final tax liability.

Participation exemption

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 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).

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 if the shares have been held for 12 months. Qualifying holdings are defined in the same way as exempt dividends.

Intercompany interest and royalties

Interest and royalties paid by a Czech resident company or a Czech permanent establishment of a company registered in another EU member state to an associated company resident in another EU or EEA member state or Switzerland are not subject to withholding tax in the Czech Republic provided that certain conditions are met (e.g. uninterrupted direct shareholding for at least 24 months).

Transfer pricing

The arm's length principle generally applies to transactions between related companies. The OECD Transfer Pricing Guidelines are followed in the application of domestic transfer pricing legislation. The OECD Base Erosion and Profit Shifting (BEPS) initiative continues to influence interpretations in this area.

Transfer prices are one of the priority areas of the Czech tax authorities. The volume of additionally assessed tax has grown significantly over the years. In 2019 the tax authorities reported additionally assessed tax of CZK 356 million. The focus of the tax authorities is on the value chain within a group, functional and risk profiles, pricing, restructurings, exit taxes connected with the transfer of intangibles, and proofs of service charges, while they also tend to investigate financial transactions more closely.

Transfer pricing documentation is not obligatory. However, during a tax inspection, companies are expected to provide it upon request, usually within 15-30 days. Most probably, a Czech version will be required. With their income tax return, corporate taxpayers are further obliged to file an appendix reporting related party transactions. The tax authorities use the collected data to pre-select taxpayers for tax inspections, while also looking at other risk indicators, e.g. long-term losses, transactions with tax havens, etc. In 2017, Country-by-Country Reporting was fully implemented.

To best manage transfer pricing risks, having transfer pricing documentation and supporting calculations available, and the active cooperation of management during tax inspections is recommended. TP documentation is essential for transferring the burden of proof, as if proper documentation is submitted, the obligation to prove the accuracy (or inaccuracy) of the claims (e.g. breach of the arm's length principle) is transferred to the tax authorities.

It is also possible to request uni- or bi-lateral advance pricing agreements on the transfer pricing methods applied in intra-group transactions. Since January 2018, permanent establishments or branches can also ask for such rulings.

Thin capitalisation

Financial expenses connected with credits, loans and other debt instruments (e.g. cash-pooling) are non-deductible if:

- The interest is dependent on the borrower's profits; or
- The total of credits, loans and other instruments from related parties (including back-to-back financing) exceeds four times equity (six times for banks and insurance companies).

Deductibility of borrowing costs

Exceeding borrowing costs (i.e. the difference between tax deductible borrowing costs and taxable borrowing income) are tax deductible only to a threshold calculated for tax purposes from earnings before tax, interest, depreciation and amortisation. If borrowing costs exceed this limit, the tax base is increased by the excess amount. Non-deductible borrowing costs may be transferred to the following tax periods. The limit is CZK 80 million or 30 percent of EBITDA.

Exit tax

The transfer of assets abroad without a change in ownership – for instance a transfer of assets from the head office in the Czech Republic to a permanent establishment abroad or vice versa or a transfer of tax residence abroad – shall be subject to taxation.

CFC rules

If a foreign subsidiary qualifies as a controlled foreign company (CFC), its income from qualifying assets and activities will be taxed at the Czech controlling entity.

A controlled foreign company is a company in which a Czech controlling entity holds (directly or indirectly) at least 50 percent and whose effective tax liability is lower than one half of what it would have been in the Czech Republic.

CFC rules will mostly apply to the subsidiary's passive income (i.e. interest, dividend, royalty).

Taxation of hybrid instruments

Taxable profit shall be increased by the amount of expenses which as a consequence of their hybrid treatment resulted on the group level in the effective double deduction of this expense or deduction of this expense without being taxed as income.

Taxable period

The taxable period is generally the calendar year. However, taxpayers may choose a different taxable period if they notify the tax authorities.

Reporting duty related to income flowing abroad

Taxpayers should report not only payments to foreign entities from which tax was withheld but also transactions generally liable to withholding tax but exempt from tax in particular cases, either under national legislation or the relevant double taxation treaty.

Untaxed income payments flowing abroad have to be reported if such income exceeds CZK 300,000 per month. The report should be submitted once a year, always by the end of January of the following year. The reporting of income taxed by withholding tax should be submitted on a monthly basis.

This duty includes dividends, royalties, interest paid abroad,
and gratuitous income.

Mandatory disclosure requirements (DAC 6)
The obligation to report cross-border arrangements meeting hallmarks defined in EU Directive 2018/822 (e.g. certain arrangements meeting characteristic hallmarks together with the main benefit test e.g. where obtaining a tax advantage is the main or one of the main benefits of such arrangements) to the tax authorities was implemented during 2020. The financial administration has extended the reporting deadlines for DAC6 in response to the COVID-19 pandemic.

The reporting deadlines are as follows:
- Reportable cross-border arrangements whose first steps were taken between 25 June 2018 and 30 June 2020 must be reported by 28 February 2021.
- Reportable cross-border arrangements whose first steps were taken between 1 July 2020 and 31 December 2020 or made available or ready for implementation between 29 August 2020 and 31 December 2020 must be reported by 30 January 2021.
- Reportable cross-border arrangements made available or ready for implementation or whose first steps were taken after 1 January 2021 must be reported within 30 days of the relevant event.

Personal Income Tax

Rate

As of 1 January 2021, progressive taxation with two tax bands has been introduced: a first tax rate of 15% will be applied to income up to 48 times (four times) the average wage; a second tax rate of 23% will be applied to income above this limit.

Annual income	Monthly (employment) income	Tax rate
up to CZK 1,701,168	up to CZK 141,764	15%
exceeding CZK 1,701,168	exceeding CZK 141,764	23%

An amendment to the Income Tax Act abolished the super-gross wage concept and a 7% solidarity tax surcharge.

Tax base for employees

The tax base for employees is the gross salary amount.

The effective tax and social security rate for a person subject to Czech social and health insurance and earning CZK 1,200,000 (EUR 47,000) per year is 26 percent.

Taxable benefits

Examples:
- cost of living allowance;
- home leave allowance;
- one percent per month of the purchase price of a company car used for private purposes;
- private fuel paid by employer;
- private medical insurance paid by employer;
- stock option income;
- reimbursement of foreign and/or domestic taxes.

Tax free benefits/allowances

Examples:
- pension and life insurance premiums up to statutory limits;
- housing provided by employer under certain conditions (subject to a monthly limit of CZK 3,500);
- medical care in non-cash form;
- school fees in non-cash form.

Personal tax reliefs

Examples:

• Basic allowance	CZK 27,840
• Child allowance for first child	CZK 15,204
• Child allowance for second child	CZK 19,404
• Child allowance for third and any subsequent children	CZK 24,204
• Spouse allowance	CZK 24,840

Social and health insurance

Type of insurance	Paid by		Total
	Employer (%)	Employee (%)	(%)
Social:			
• Pension insurance fund	21.5	6.5	28.0
• Sickness insurance fund	2.1	0	2.1
• Employment insurance fund	1.2	0	1.2
Health	9.0	4.5	13.5
Total (%)	**33.8**	**11.0**	**44.8**

The annual cap on the calculation base for social security equals 48 times the average wage (CZK 1,701,168 in 2021). No cap applies to health insurance.

Employers are obliged to pay their employee's wage compensation from the first to the 14th day of sickness. Statutory sick pay is paid from the 15th day.

Tax base for self-employed persons

Self-employed persons cannot deduct social security and health insurance contributions from their tax base. Instead of claiming actual expenses, they may apply lump sum deductions in the range of 40–60 percent (80 percent for farming activities). However, in some cases, the amount of the deduction is limited.

A lump sum tax also covering social security and health insurance was introduced for self-employed persons as of 1 January 2021. However, this applies to persons not registered for VAT and with an annual income not exceeding CZK 1 mil.

Investment income

Capital gains from the transfer of real estate are included in an individual's tax base. Gains on assets held for non-business purposes can qualify for a tax exemption if the necessary holding periods have been met.

Capital gains on securities are exempt from taxation if the income from such sales does not exceed CZK 100,000 in a tax year. No tax is payable after a 3-year holding period.

Capital gains from participation rights in limited liability companies and co-operatives are exempt after a 5-year holding period.

VAT

Three VAT rates apply in the Czech Republic:

Standard VAT rate – 21 percent: most products and services

Reduced VAT rate – 15 percent: basic foodstuffs, certain pharmaceutical products, certain medical equipment, heating, social housing

Reduced VAT rate – 10 percent: essential baby nutrition, certain pharmaceuticals, books, mill products and other products suitable for a gluten-free diet, and newspapers. Heating is subject to 10 percent VAT starting on 1 January 2020. Supplies of drinking water, and water and sewerage services are subject to 10 percent starting on 1 May 2020.

Zero rate – exports of goods, intra-community supplies, international transport and related services, services on goods subsequently dispatched outside the EU and other supplies defined in the VAT Act. Certain supplies (e.g. financial services, real estate) are exempt.

A local reverse-charge regime applies to certain supplies effected between Czech VAT payers – e.g. supplies of gold, scrap materials and waste, construction and assembly works, emission rights, cereal and technical crops, metals, mobile phones, integrated circuits, tablets, laptops, videogame consoles, sugar beets, supplies of gas and electricity, selected telecommunication services for entities operating on a wholesale basis (and the provision of labour for construction and assembly work or various forms of forced delivery of property).

Input VAT claimed in connection with the purchase of assets (i.e. long-terms assets, low-value assets and inventories) must be returned (even partially) if the asset is destroyed, lost or stolen and such a fact has not been properly documented.

VAT group registration is available.

Excise Duties

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

Energy Taxes

Energy taxes apply to natural gas and other gases, electricity, and solid fuels. Only supplies delivered within the Czech Republic are subject to energy taxes.

A wide range of exemptions (e.g. for energy used in metallurgic or mineralogical processes) applies. To claim an exemption, approval needs to be obtained from the customs authority.

Real Estate Tax

Plots of land recorded in the Czech Real Estate Register and constructions used or completed in the Czech Republic are subject to real estate tax. This is the only tax assessed for the taxable period in advance, in particular based on the balance for the first day of the calendar year.

Persons liable to this tax are the owners of real estate. The duty to file a tax return arises only when a change of facts decisive for determining the tax occurred during the calendar year (with certain exceptions). The deadline for filing tax returns is 31 January. A tax of up to CZK 5,000 is payable in a single payment before 31 May; the tax exceeding this limit is payable in two identical payments before 31 May and 30 November.

The tax base, the tax rate and the application of a certain coefficient derive from the real estate's type and location (municipality).

Some types of real estate may be exempt from real estate tax.
Real estate tax is deductible for corporate income tax purposes.

Immovable Property Acquisition Tax

Acquisitions of real property where the ownership title was entered into the Real Estate Register in December 2019 and later shall no longer be subject to immovable property acquisition tax. The tax on the acquisition of immovable property was abolished in 2020 with retroactive effect.

Gift and Inheritance Taxes

As of 1 January 2014, gift and inheritance taxes have been abolished. Gifts and inheritances other than between close relatives are instead subject to income tax.

Road Tax

Road tax is generally payable by the operator of a vehicle registered in the Czech Republic.
The tax rate varies from CZK 1,200 to CZK 4,200 for passenger vehicles and from CZK 1,800 to CZK 37,800 for other vehicles.

Double Tax Treaty Network

As of 1 January 2021, treaties with the following countries are in force:

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

Tax Incentives

Main activities that can be supported:

- Launching a new production or expanding an existing production business (production capacity enhancement, production portfolio diversification, significant changes of the whole production process) in the manufacturing industry
- Launching a new technology centre (i.e. R&D or innovation centre) or expanding an existing one
- Launching a new strategic services centre or expanding an existing one (e.g. software centres, data centres, repair centres or shared service centres).

Main incentives (forms of state aid):

- Corporate income tax relief (tax holiday) for up to 10 taxable periods
- Cash grants for the creation of new jobs*
- Cash grants for staff training and retraining*
- Cash grants for the acquisition of tangible and intangible fixed assets for strategic investment actions*
- Transfers of land including related infrastructure at discounted prices*
- Exemptions from real estate tax in preferential industrial zones.*

*aid intended only for selected investment project regions/locations.

Limits on the incentives depend on the location of the investment. For new projects, the total value of state aid can be up to 25 percent of the investment amount for large companies (35 percent for medium-sized and 45 percent for small enterprises).

Main conditions:

- Work related to an investment project may only start after submitting an application for investment incentives to the CzechInvest agency.
- A minimum investment of CZK 80 million (at least CZK 40 million for the acquisition of machinery).
- An investment project must meet the requirement of higher added value activities (in particular, the average monthly gross wage and a research and development activity) with some exceptions.
- Applications must include the quantification and justification of the expected benefits of an investment project for the region and the state (the Czech Republic). It is paramount that such benefits be properly documented.
- All activities, buildings or facilities have to be environmentally friendly.
- All applications are subject to government approval.
- All general conditions must be fulfilled within 3 years from the date a decision on granting investment incentives was issued.

R&D allowance:

Expenses incurred by taxpayers on R&D activities can be claimed as a special tax allowance. As the allowance may amount to up to 110 percent of the eligible R&D costs, more than two times the amount can be deducted for tax purposes.

EU Cash Grants

Additional cash grants are available from Czech and EU funds. However, individual EU cash grant programmes are usually only available for a limited time and require regular monitoring. The 2014–2020 EU budgetary period has just finished and last calls for the selected programmes are running.

A new programme period for 2021–2027 is now being prepared. First calls are expected to be announced in summer 2021.

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This card was prepared as a quick reference tool for the most common tax rates and amounts and represents the status as at 1 January 2021.