



Investment in the Czech Republic

Meet the Heart of Europe

2022

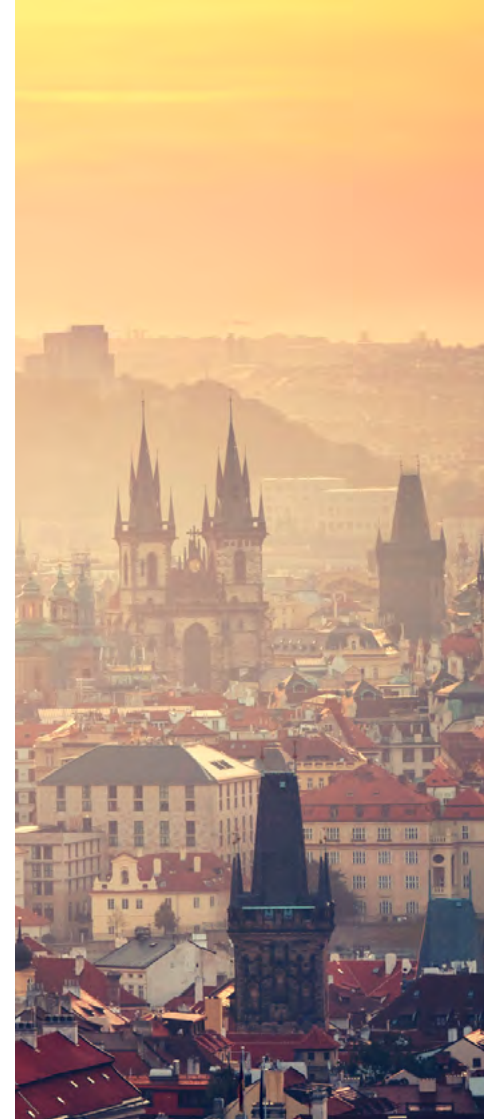




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01 Preface



For more than 30 years the Czech Republic has been an attractive market for foreign investors as they can benefit from the geographic location, economic stability and high level of industrialisation. Business leaders appreciate also favourable costs as well as educated workforce and advanced digitalisation. Very supportive business environment and incentives for both R&D and manufacturing are also advantages. This makes the country one of the biggest recipients of investments in the region. These advantages have been acknowledged by the world's major players who have invested in various facilities throughout the country.

The Czech economy entered 2022 in a strong position, following a significant rebound in 2021. Over the last year, the GDP grew by 3,3% per year. Although, there are new challenges resulting from continued disruptions in the global energy supply chain and raising costs, the characteristic features, such as low unemployment, remain optimistic. The added value of Czech industry and the whole Czech economy has been steadily increasing. The economy is benefitting from high-skilled workforce, large number of university graduates and favorable location.

The success story can be demonstrated in hard data and statistics. The effectiveness of Czech economy has overtaken the south of Europe such as Portugal, Spain and Italy. More of impressive numbers can be found in next chapters of this guide.

ESG: OPPORTUNITIES RISING

As governments, businesses and citizens look towards the 'new reality' of life after COVID-19, environmental, social and governance (ESG) issues are quickly rising up the agenda. Sustainability is the new lens through which companies will be evaluated and the world looks to the future where greater adoption of ESG is a norm. We should recognize that moving towards a low-carbon economy and move to use of renewable energy will create additional complexities for firms. However, I believe that opportunities will prevail. And those who will stay one step ahead will be the winners.

The Czech Republic is ready to embrace Green technologies and is standing at the forefront of advancement, with governments incentivizing firms and individuals to make smarter choices that consider the environmental impact of their actions. At the same time, the Czech Government is emphasising the stability of supplies and necessary security and safety measures, which are increasingly important in the energy sector and industries dependent on stable supplies of gas and electricity. This is also an important part of the agenda of the Czech Presidency of the EU in 2022.

CARVING THE NEW DIGITAL PATH

The global pandemic acted also as a catalyst for many of innovative offerings and accelerating its uptake. The pace of change is faster than before. Many executives are struggling to understand the future trends and set a vision that will enable their organization to capitalize on them. Even those with a strong vision are not sure whether they are moving fast enough to compete in the new world. Our professionals sit down with business leaders across the ecosystem to find out how these new trends are influencing their strategies and investments. I want to share good news: the future remains exciting in our region. My words are marked with many examples of product and service innovations undertaken in the Czech industry recently.

So, the ambition of the country is clear: to become one of Europe's innovation leaders. Already the Czechs belong among the EU's frontrunners as it is the 9th most advanced economy in EU according to Prosperity Index.

TIME TO SHAPE THE FUTURE

This year is full of recoveries and challenges. But there has been persuasive optimism driven by a focus on innovation, digitisations and sustainability. This is the best response for the future.

Making the right business decisions in today's complex global environment, where the pace of change continues to accelerate requires four things - insight, agility, collaboration and bravery. We can answer to this call and offer you our partnership when starting your successful adventure in the heart of Europe.



RADEK HALÍČEK

Managing Partner, Partner
in charge of Tax Advisory
and Legal Services

KPMG Czech Republic



02

Investment in the Czech Republic



The publication presents key economic indicators, highlights the potential of digitalization and ESG and describes legal and tax issues of key importance for investing in the country.

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 invest in the Czech Republic?

- Safe investment environment
- The industrial nature of the country
- Skilled and well-educated workforce
- Favourable labour costs
- Central location in Europe
- Dense and high-quality infrastructure
- Transparent system of investment incentives
- Strong focus on R&D
- Digitisation, strong focus on new technologies
- Stable social and political system
- EU membership
- Good quality of life
- World-class academic research open to partnering with industry

PROSPERITY INDEX: CZECHS AMONG TOP 10

The Czech Republic is the ninth most advanced economy in the European Union. This is according to the first pillar of the new Prosperity Index focused on the economy.

Source: Index prosperity Česka

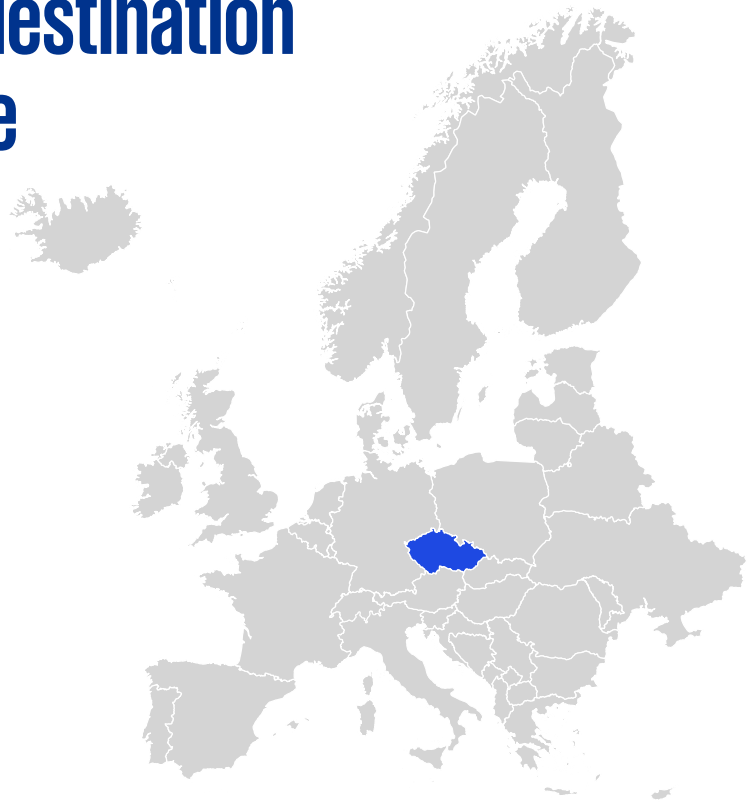
BEST COUNTRY FOR PRODUCTION IN EUROPE

The Czech Republic ranked fifth globally in the list of 47 countries most suitable for manufacturing. Within Europe, it is first. This is according to the Manufacturing Risk Index by Cushman & Wakefield (C&W).

Source: C&W: CR is best country for production in Europe - CzechInvest

Meet your business destination in the 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). The year 2021 brought increased investors' interest in the Czech Republic. As in the previous year, two-thirds of the projects comprised investments with high value added, i.e., technology-oriented investments and investments involving research and development.

Most of the investment projects were pledged by companies that are already established in the Czech Republic, as 39 projects were aimed at expanding those companies' existing activities. According to CzechInvest, the value of new investments reached CZK 25.25 billion. The largest number of investments will be implemented in the South Moravia region, followed by Moravia-Silesia.



Meet the financial support for your investment

Covering up to 40% 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 also be supported from EU Structural Funds.

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

Job-creation grants

Financial support for creation of new jobs in selected regions

Training and retraining grants

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

Property-tax incentive

Property-tax exemption in Special

Meet your investment opportunities: Key sectors

AI & digital

The Czech Republic is one of the best European destinations for investments in information and communication technologies (ICT). This is confirmed by the strong inflow of projects with high value added from leading global companies in this area and the local tradition of outstanding technical fields.

EcoTech

Innovations and new technologies are the driving forces of many Czech companies. The scope is wide, such as green technologies, technologies for environmental sustainability, batteries and renewable sources of energy, smart distributed energy systems, sustainable technologies in industry, technological reduction of pollution, lightweight materials, industrial chemistry and also agriculture.

Life Sciences

Development of the sector is supported by effective patent protection, adoption of GMP, GLP and GCP standards, relatively non-restrictive genetic engineering and the government's support for R&D and knowledge transfer between the science and business communities. The Czech government set development of new pharmaceutical treatments and diagnostics as one of the top priority areas.

Aerospace

The Czech aerospace industry has undoubtedly advanced to the level of global competitiveness in terms of quality and innovation while maintaining some of the advantages of an emerging market for investors. From basic production to final aircraft assembly and cutting-edge R&D programs, the local aerospace industry has progressed significantly.

Automotive

As a result of its long industrial tradition and ability to compete at the global level, the Czech Republic has achieved one of the highest concentrations of automotive manufacturing, design and R&D activity in the world. The country is home to three key vehicle manufacturers and it also has excellent business opportunities for suppliers. Also, the clean mobility is on the rise.

Advanced Engineering

The engineering industry remains one of the cornerstones of the Czech economy. Stable economic environment, a high level of manufacturing technological maturity and cutting-edge R&D programs contribute to the creation of the optimal climate for business establishment and further development. The Czech Engineering sector employs over 126,000 workers and around 85% of manufactured products is being exported. More than 5200 machinery companies are manufacturing even the most sophisticated components, which makes the Czech Republic the second most specialized in industrial machinery, equipment, and tools in the world.

The macroeconomic forecast: Rebound of economy

The Czech Republic's economic output grew by 3.3% in 2021, with all components of domestic demand contributing positively, most notably the change in inventories and household consumption.

The outcome of 2022 will be affected by the effects of geopolitical development and a change in the setting of international trade relations. Amid uncertainty the full-year growth rate of the Czech economy should slow to 1.2%, driven by government and private sector investment and consumption.

Oil, electricity, and gas prices should contribute significantly to the exceptionally strong consumer price growth. Higher costs to firms will then be reflected in the prices of goods and services. Disruptions in supply chains and wage costs in the private sector will also be pro-inflationary. However, the increase in monetary policy rates will weaken domestic demand pressures and contribute to the appreciation of the koruna against the euro, which will have an anti-inflationary effect.

OPPORTUNITIES IN CHALLENGING TIMES

According to the European Economic Forecast, the Czech economy benefited from the easing of the pandemic-related restrictions and strong private consumption. Private consumption is expected to remain the main driver of the economic recovery, reflecting high employment levels, pent-up demand, and a declining savings rate of households.

Due to uncertainty and ongoing disruptions in supply chains, investment is expected to remain subdued during the first

half of the year. Afterwards, domestic demand is forecast to resume its robust expansion over the rest of the forecast horizon, also benefitting from public investment support through Next Generation EU.

A stable and healthy banking sector with excess liquidity is able to meet the financing needs of both domestic and foreign investors with a minimal risk of losses such as the pandemic or conflict.

Green and digital ambitions

The reforms and investments in the Recovery and Resilience Plan will help Czechia become more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. To this end, the plan consists of 91 investment measures and 33 reforms. They will be supported by €7 billion in grants. 42% of the plan will support climate objectives and 22% of the plan will foster the digital transition.

Ratings

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

Moody's

A1

Fitch

AA-

Standard and Poor's

AA-

Main macroeconomic indicators – 2021

3.3 Gross domestic product
(real growth in %)

3.8 Average inflation rate

2.8 Unemployment rate

-0.8 Current account
balance

25.6 Exchange rate
CZK/EUR

1.9 Long-term
interest rates

Main macroeconomic indicators – 2022 (forecast)

1.2 Gross domestic product
(real growth in %)

12.3 Average inflation rate

2.5 Unemployment rate

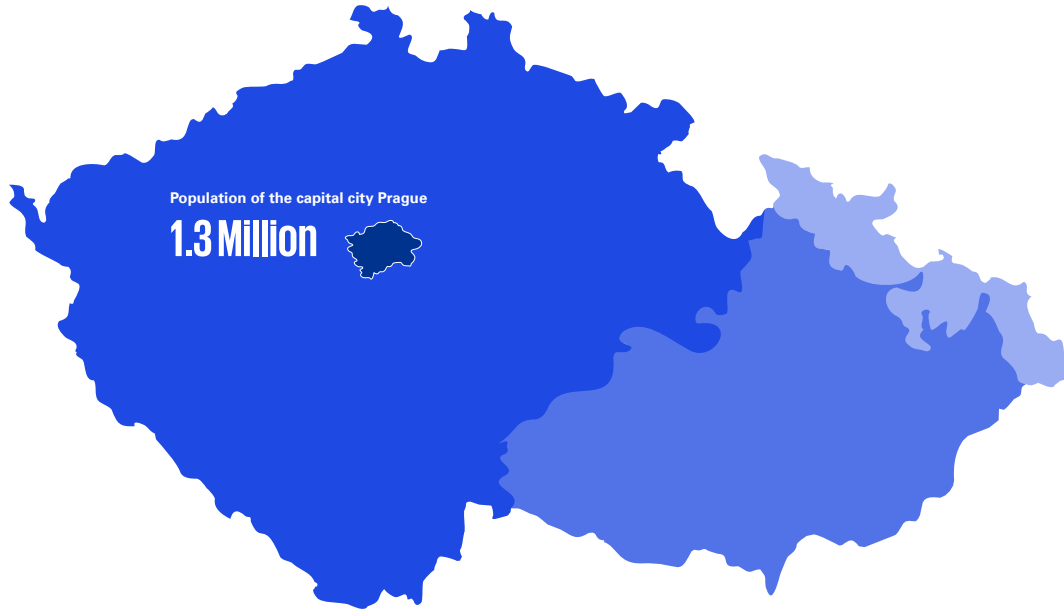
-2.2 Current account
balance

24.4 Exchange rate
CZK/EUR

3.9 Long-term
interest rates

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

10.7 Million

Working population

5.3 Million

Three distinct regions:

■ **Bohemia**

■ **Moravia**

■ **Silesia**

NATO member

1999

EU member

2004

Schengen member

2007



03 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 low unemployment and the focus on high-tech sectors the priorities for attracting new investors were recently redefined.

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 to a great extent in compliance with EU regulations. Over recent years there has been a structural change in the process of awarding the most significant form of state aid and investment incentives.

The amended law increases the focus on projects with a higher added value. Moreover, it is 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. We can expect that e.g., due to the economic slow-down or in order to tackle the impact of the COVID-19 pandemic the conditions will become more favourable again.



Investment Incentives

FORMS OF SUPPORT

Incentives are provided in the following forms:

- corporate income tax relief for 10 taxable periods;
- cash grants for job creation, training and staff retraining (only available in regions with high unemployment rates);
- cash grants for the acquisition of tangible and intangible fixed assets for strategic investment action;
- Transfers of land including related infrastructure at a discounted price;
- exemption from real estate tax in preferential industrial zones.

MAIN CONDITIONS

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

SUPPORTED ACTIVITIES

Manufacturing Industry:

- Launching new production
- Expanding existing production
- Expanding the product range by the introduction of new products or by fundamental changes in the production process

From 1 January 2022, it is no longer possible to support investment in the form of a simple expansion of activity (expansion of existing production or diversification of the product portfolio) for the Central Bohemian, Pilsen, South Bohemian, South Moravian, and Vysočina Regions. Support will continue to be possible in situations where the activity is completely new for the company (another four-digit NACEcode).

Technology Centres:

- launching, expanding an existing one, expanding by the introduction of new products

Strategic Services Centres:

- launching, increasing capacity, or launching new services covering:
 - software centres
 - data centres
 - repair centres or shared service centres

GENERAL CONDITIONS ACCORDING TO THE INVESTMENT INCENTIVES ACT

The company must fulfil several conditions in order to be eligible for the state support:

- Implementation of investment project in the Czech Republic
- Environment-friendly activities, buildings, or facilities
- The commencement of work on the investment project only after the date of submission of the application for investment incentives
- Fulfilment of all general conditions within 3 years from the date when the Decision on granting Investment Incentives was issued. Possibility to extend the period by up to 2 years if the applicant cannot meet the conditions due to the spread of COVID-19, an official request must be submitted to the Ministry at least one month before the original deadline elapses and the reasons must be properly explained and proven.
- Other conditions according to the Government regulation.

Only investment 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.

The condition of higher added value does not apply provided that the whole investment project will be implemented in the territory of the state supported region according to the law regulating the support of regional development according to the conditions for the manufacturing industry.

The condition of higher added value also does not apply if the project is a strategic investment project when the subject of production is a product with strategic importance for the protection of the lives and health of citizens in extraordinary situations.

STRATEGIC INVESTMENTS (LARGE PROJECTS)

Strategic investments are significant investments for which the state provides a more advantageous combination of investment incentives, primarily in the form of a higher proportion of cash grants. This type of investment is being changed as follows:

If a project meets the definition of a strategic investment, it can receive a subsidy for the acquisition of fixed assets of up to 10% of eligible costs, but not more than CZK 1.5 billion. Under the amendment, the state will favour the Karlovy Vary, Ústí nad Labem, and Moravian-Silesian regions, where a subsidy for the acquisition of fixed assets will increase to 20% of eligible costs, with no absolute value limit. The remaining part of the investment incentive will continue to be provided in the form of a tax credit.

All investments in:

- the manufacturing of products of a strategic importance for the protection of life and health
- high-tech manufacturing industries
- activities with a higher added value and research and development using key enabling technologies will be deemed strategic investments without any further restrictions.

According to the government, key technologies are, e.g., nanotechnology, biotechnology, photonics, microelectronics, nanoelectronics, artificial intelligence technologies, advanced materials technologies, and advanced manufacturing technologies.

For other industries, the government is reducing the required minimum number of new jobs that must be created from 500 to 250. In contrast, it increases the limit for the minimum investment in fixed assets from the current CZK 500 million to CZK 2 billion, while at least CZK 1 billion must be spent on the acquisition of machinery (previously, CZK 250 million was sufficient).

The amended decree is effective from 1 January 2022 and will apply to applications for investment incentives submitted after that date.

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.**

R&D Tax Allowance

Companies performing R&D activities may apply a special tax deduction. As the allowance may amount to up to 110 percent of eligible R&D cost, more than two times the amount can be deducted for tax purposes.

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.

EU Cash Grants

Additional cash grants are available from Czech and EU funds. However, individual EU cash grants programmes are usually only available for a limited time and require regular monitoring.

A **new programme period for 2021–2027** has started. In this period the Czech Republic will have one trillion Czech crowns available in programmes such as OP Technology and Application for Competitiveness (OP TAC), the Integrated Regional Operational Programme (IROP) and others.

Support will especially target the reduction of CO2 emissions, the circular economy, digitalisation, educational changes, and assistance to regions most affected by structural changes (e.g., the discontinuation of coal mining), etc.

First call was announced in March 2022 from the **National Recovery Plan** with more programmes to come. It is the key instrument to help EU member states emerge stronger and more resilient from the COVID-19 pandemic.

An aerial night photograph of a snowy town, likely in the Alps, with a prominent purple rectangular overlay on the left side. The town features a large church with a tall spire and several multi-story buildings with lit windows. The surrounding landscape is covered in snow and evergreen trees. The purple overlay contains the text '04 Business Structures' in white, bold, sans-serif font.

04 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 commercial companies and cooperatives.

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 the respective type of 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.
 - 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/director (jednatel) or executives/directors, who are legally responsible for the management of the company and whose details, including their address, date of birth and information on their authorisation to act on behalf of the entity, must be recorded in the Commercial Register.
 - 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.
 - Annual financial statements must be published.
 - Establishment will occur around one month after having provided all necessary documents and information.

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.

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.
- 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.
- 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).
- 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/directors 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/directors 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 or a notary issues a decision on the company registration and this decision enters into force, the process of the company's formation is complete.

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. A registration of a newly established company may also be undertaken by a notary.

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

05

Employment Policy





The Czech Republic has a skilled and educated labour force. 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, the minimum wage and the relevant lowest guaranteed wage, additional payment for overtime work, work during bank holidays, at night, in an unfavourable working environment or on a Saturday or Sunday, conditions of accommodation, if provided by the employer, compensation for travel expenses, and overtime rates, occupational health and safety, etc.

Long-term posted workers (working in the Czech Republic for more than 12 months or for more than 18 months if prolongation was requested by the employer via the competent Labour Office before the expiry of the 12

months posting period) will have to be provided with all the working conditions under the Czech law, except for rules regulating commencement, changes, and termination of the employment relationship.

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 is normally 65 years, however, with people born before 1971, the age may differ based on gender, the year 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 also terminates 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.

A photograph of a cobblestone path leading towards a building with a prominent tower. The scene is set during the day with a clear sky. A large blue semi-transparent rectangle is overlaid on the left side of the image, containing the text '06 Financial Services'.

06
**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 large class 1 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 an amendment to CRR and CRD IV (CRR 2 and CRD V) entered into the force to further implement the Basel III reform into EU law. Both CRR 2 and CRD V were applied during 2021.

All investment firms were previously subject to CRR and CRD, however, class 2 and 3 are now subject to a new prudential regime under the Investment Firms Regulation (IFR) and Investment Firms Directive (IFD), which entered into force in November 2019. While IFR is applicable from June 2021, IFD is still in the transposition process from EU law to national law.

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 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 a Deposit Insurance Fund (the Deposit Insurance Fund has become an internal unit of the Financial Market Guarantee System) and newly established Resolution Fund pursuant to the Banking Recovery and Resolution Directive (BRRD). In May 2019 amendment to BRRD (BRRD 2) entered into force. BRRD 2 was applied in August 2021.

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 that 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-sized banks have been able to strengthen their position on the Czech market in recent years.

As of 31 December 2021, 46¹ banks (including foreign branches and building societies) offered banking services to clients in the Czech Republic; 35 of them were controlled by foreign investors and 11 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 of 31 December 2021, their share of total banking assets equalled approximately 60 percent.

Net profits of the Czech banking sector for 2021 were almost CZK 71 billion. The level of non-performing loans was approximately 1.5 percent.

As a consequence of the rising inflation in the economy following the lifting of COVID 19 restrictions all over the world and the rising prices of commodities, the Czech National Bank started increasing the two-week repo rate throughout the year 2021. The two-week repo rate at the end of the year 2021 was 3.75% and the discount rate 2.75%.

¹ Both the amount of subjects on the financial market and the figures regarding the accounting data in this chapter were taken from the CNB ARAD database. (https://www.cnb.cz/docs/ARADY/HTML/index_en.htm)

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 of 31 December 2021, 41 insurers (including foreign branches) and one reinsurance company offered insurance services to clients in the Czech Republic. Local shareholders controlled 12 insurance companies, whereas the rest had mostly foreign owners. Gross written premium of 2021 reached CZK 179.6 billion. Overall market profitability is approximately a 22% return on equity (three-year average/2019–2021) and the market manages approximately CZK 526 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 of 31 December 2021, according to CNB statistics, the Czech market was represented by 466 investment funds domiciled in the Czech Republic. In addition, 1.934 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 the 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 a 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 trade 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, trade 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 initiated interventions to keep the CZK to the EUR above 27 CZK/EUR. This intervention affected the exchange rates of many other currencies to the CZK. The intervention was ended in April 2017 and the CZK started to appreciate to most other currencies. Due to the spread of the SARS-CoV-2 virus the Czech crown started to weaken in March 2020.

After the release of the interventions, the foreign exchange rate of the CZK started to appreciate to both EUR and USD. In the 1Q of 2018 CZK to USD reached its minimum at 20.163 and started to fluctuate between 22 and 23 CZK to the USD. Development of the CZK to EUR showed gradual appreciation that started at 27 CZK to the 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, the CZK to both the USD and the EUR suffered a depreciation. During the rest of the year 2020 and throughout the year of 2021, the CZK has been appreciating with some fluctuations compared to the EUR, however the appreciation of the CZK compared to the USD stopped mid-2021 and the exchange rate was hovering around 22 CZK for USD for the rest of the year.

As of 05 April 2022, the foreign exchange rate of the CZK to the EUR was 24.340; the exchange rate of the CZK to the USD was 22.191.

Sustainable finance and ESG

As a member of the EU, the Czech Republic is also subject to the new policies for sustainable finance introduced by the European Commission following the EU Green Deal (2019), fulfilling the commitments of the 2015 Paris Agreement.

As of 1 January 2022, the EU taxonomy is in force, defining a framework for environmental objectives and setting rules for mandatory disclosure. From 2023, the banking sector will be obliged, inter alia, to determine and disclose the ratio of financial assets including loans granted in accordance with the EU taxonomy (green asset ratio [GAR]), while the insurance sector will have to, among others, reveal the volume of insurance premiums written corresponding to activities in accordance with the EU taxonomy.

The obligation to disclose non-financial (ESG related) information is expected to be extended in connection with the harmonisation of the EU's Corporate Sustainability Reporting Directive (CSRD) into the Czech Accounting Act. Significant changes and extensions are to be expected starting from 2023–2024.

In the Eurozone, the European Central Bank is stress-testing climate risks in the banking sector. The results will affect numerous banking entities in the Czech Republic primarily through their parent banks. The Czech National Bank is currently not applying locally specific sustainable finance or ESG requirements.



07

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 2022, 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 which the Czech Republic has concluded a double tax treaty with and which has a corporate tax rate of at least 12 percent as long as the shares have been held for at least 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.

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 it 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 taxable 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 tangible fixed assets. For this purpose, assets are divided into several categories. Depreciation on most assets may be claimed on either a straight-line or an accelerated basis. Beginning from the 2021 taxable period, there are no intangible assets

for tax purposes and their tax depreciation corresponds to the accounting depreciation. The previous approach (i.e. tax depreciation regulated by ITA) is still applicable to intangible assets acquired prior 2021. To boost investment activities the Czech government introduced in 2020 an option to accelerate the tax depreciation of fixed assets, however, it concerns only tangible assets acquired from 1 January 2020 to 31 December 2021 which are categorised in the 1st and 2nd depreciation group.

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.

Tax losses may be also carried back. Taxpayers can claim a tax loss in two taxable periods preceding taxable period in which the tax loss was reported. It is possible to carry back a maximum of CZK 30 million out of the tax loss reported in any year.

Transfer pricing

Last few years, the transfer pricing has become one of the biggest priorities of the Czech tax authorities. Originally, the focus was driven by global BEPS (Base Erosion and Profit Shifting) initiatives. However, these days, it is the state administration's interest in compliance of companies with valid regulations and arm's length principles meaning that transfer pricing is now regular part of tax audits. Beside being part of regular tax audits, there are also many specialised TP audits which are focused mainly 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 under certain conditions required to disclose related party transactions sorted by type of transaction (e.g. tangible and intangible assets, goods, services, royalties, guarantees, interests etc.), including the volumes realized with each related party, in an appendix to the corporate income tax return.

There is currently no legal obligation to prepare a transfer-pricing documentation. However, during tax inspections, the tax authorities regularly require a 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 also additional rules concerning tax-deductibility are applicable. 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.

The capital gains from the sale of shares undertaken by an individual, if the shares are not part of the individual's business property, shall be tax exempt if:

- the overall gross income from sale of shares does not exceed CZK 100.000 annually, or
- the shares had been owned by the individual for a minimum period of 3 years (i.e., the period between the acquisition date and the date of the sale of shares).

It should be noted that the above tax exemption is applicable on the sale of shares in public joint stock companies (in Czech *akciová společnost*) only.

For tax exemption, a 5-year time test (no threshold applicable) is applied to sales of shares in other types of business corporations (e.g., limited liability companies in the Czech Republic). A 5-year time test also applies to equity certificates.

- 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 if the real estate was acquired before 1 January 2021. The gain from the sale of non-business real estate acquired from 1 January 2022 are tax exempt if held for at least ten years prior to the sale or if the time test of ten years is not met but the gains are to be used for the taxpayer's housing and the taxpayer notifies about such exempted income the relevant tax authority by the end of the deadline for filing personal income tax return for a taxable period in which the taxpayer such exempted income received.

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 and under a condition that the taxpayer notifies such exempted income to the tax authority by the end of the deadline for filing personal income tax return for a taxable period in which the taxpayer such exempted income received.

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 progressive tax rate schedule as follows:

- 15% income tax will be applied on income up to 48 times the average wage (CZK 1.867.728 in 2022), and
- 23% income tax will be applied on income exceeding 48 times the average wage (over CZK 1.876.728 in 2022)

Dividends and certain types of other Czech source income are taxed separately and are subject to a 15 percent withholding tax at their source.

As of January 2021, a special tax base with a rate of 15% has been introduced for selected types of non-Czech investment income (e.g., dividends and interest income from abroad).

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 or life insurance schemes up to CZK 50.000 per year 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 if the option is generally not transferable or tradable and the employee is not a legal owner of the underlying share.

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.

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.

Resident and non-resident individuals may claim a basic personal tax allowance of CZK 30.840 per year (limit applicable for 2022). 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 22.320 for the second-born and CZK 27.840 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 16.200 for 2022) 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.

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

Social security contributions, where payable, amount to (44.8 percent) of an employee's salary (for income up to an annual cap for social security). This consists of an employee contribution of 11 percent and an employer contribution of 33.8 percent made up as follows. The maximum annual assessment base for social security premiums in 2022 is CZK 1.867.728. 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 and employee should stop paying social security contributions. The assessment base is very similar to the tax base.

Tax on the acquisition of immovable property

Tax on the acquisition of immovable property was 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 progressive tax rates 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 of 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 m ²	CZK 1/m ²
Hard surface used in industry, building industry, transportation, energy industry, other agricultural production and other business activities	Area in m ²	CZK 5/m ²
Building site (land determined for construction of a future building subject to tax)	Area in m ²	CZK 2/m ²
Other areas	Area in m ²	CZK 0.20/m ²
Built-up area and courtyard	Area in m ²	CZK 0.20/m ²

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 up to 23% 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.

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.



08
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 place 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. accommodation services, catering services, essential baby nutrition, pharmaceuticals for human and veterinary purposes, books and newspapers, public transportation services, mill products, drinking water).

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 (without input VAT deduction), 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 under certain conditions.

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 8% 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 exporting goods to or receiving goods from other EU member states and exceeding relevant annual thresholds (CZK 12 million for exports or CZK 12 million for goods received) must complete and file Intrastat declarations.

Based on the turnover for Intrastat purposes in 2021, the company can file so called „simplified Intrastat report“ if its yearly turnover for arrivals and/or exports (calculated separately) ranges between CZK 12.000.000 and CZK 20.000.000.

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:

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

The mechanism shall be applied when the commodities under b),e and f) are supplied between two domestic VAT payers and if the total tax base for all of the selected goods supplies 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.

09

Immigration and stay in the Czech Republic





Foreigners who plan to stay and carry out work activities in the Czech Republic must comply with rules imposed on them by the Czech law. Different rules apply to EU and NON-EU nationals.

Residence & Work requirements

Foreign nationals who come to the Czech Republic are subject to the so-called Act on the Residence of Foreign Nationals in the Czech Republic, which establishes two categories of foreigners:

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

Immigration Compliance

EUROPEAN UNION (EU) NATIONALS

EU nationals, the EEA or Switzerland, and their EU family members are required neither to obtain a Work Permit nor a Visa/Residence Permit to work in the Czech Republic, regardless of whether they are employed by a local or foreign company. EU citizens may stay temporarily in the Czech Republic, without any permit, on the basis of a valid travel document. Under the Act on the Residence of Foreign Nationals in the Czech Republic, if their intended stay is longer than 30 days, they are required to register at the relevant Foreign Police Office within 30 days as of arrival.

If they intend to stay in the Czech Republic for longer than 3 months, they can apply for a Registration Certificate or Permanent Residence Permit if they meet relevant criteria.

A Registration Certificate provides EU citizens with proof of a residence address in the Czech Republic and benefits during their stay in the Czech Republic (possibility to obtain parking card, Czech driving license, etc.).

Family members of EU nationals who are third country/territory nationals are obliged to apply for a Temporary Residence Permit within 90 days as of their arrival to the Czech Republic. Once applied, free access to the Czech labour market is granted.

NON-EU NATIONALS

Third country/territory nationals are subject to a more complex Visa/Residence/Work policy.

Short-term stay in the Czech Republic (not exceeding 90 days)

For Short-Term stays in the Czech Republic, most are required to hold a Visa, while citizens of some third countries/territories are exempt from the Visa requirement (i.e., limited only for tourism/business meetings).

Visa-free countries: [Státy bez vízové povinnosti | Ministerstvo zahraničních věcí České republiky \(mzv.cz\)](#)

Long-term stay in the Czech Republic (exceeding 90 days)

To stay in the Czech Republic for more than 90 days, citizens of third countries/territories require a Long-Term Visa or a Long-Term or Permanent Residence Permit. The type of Visa/Permit depends on the intended length and purpose of stay in the Czech Republic.

Third country/territory national may be recruited and employed provided that he/she:

- Holds an Employee Card (a Long-Term Residence Permit for employment purposes in the Czech Republic); or
- Holds a Blue Card (a Long-Term Residence Permit for the purpose of employment for foreigners with a duly completed university/higher vocational education for performance of highly skilled job positions in the Czech Republic); or
- Holds a Permanent Residence Permit or any other residence permission granting free access to the Czech labour market under the conditions of the Act on Employment in the Czech Republic

Further, the assigned individuals may be in some cases holders of an ICT card (Intra Corporate Transfer) either issued by the Czech authorities or another EU country.

Government programs for economic migration

As one of ways to support the development of international business, the Czech Ministry of Trade introduced three types of so-called government programs for economic migration. They are divided by the character of work performed by the employee, salary conditions and country of origin as follows: *Qualified Worker, Highly Qualified Personnel* and *Key and Research Staff*. Every company must comply with certain rules and conditions set forth by the Czech government to be successfully enrolled and benefit from it.

Participation in any of the existing government programs significantly facilitates the overall process of relocation to the Czech Republic. Being enrolled into one of the government programs guarantees that the applicant is granted with the option of submitting the Visa/Residence Permit application at Czech consulates and in some cases can significantly shorten the approval period.

Changes due to Brexit

Since 1 January 2021, the rights and benefits conferred by European Union legislation, and guaranteed by the Withdrawal Agreement, no longer apply for U.K. nationals and their family members, unless their stay in the Czech Republic commenced before 2021. U.K. nationals and their family members entering the Czech Republic after the transition period with no history of previous stay in the country are treated as third country/territory nationals.

U.K. nationals assigned to work in the Czech Republic even prior this date were also affected given that they were not covered by the Withdrawal Agreement. Newly, they are required to hold a valid Work Permit for the performance of working activities in the Czech Republic as of January 2021.

10

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 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 language.
- 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 in Czech.
- 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.

Non - Financial Reporting

MAIN FEATURES OF NON - FINANCIAL REPORTING

- Czech Republic is a member of EU and thus the non financial reporting rules are mainly governed by EU.
- Currently the requirements for non financial reporting are set in the Act on Accounting and in fact these rules are in line with EU regulation – Non financial Reporting Directive.
- Nowadays, EU is significantly focusing on preparation of new legislation relevant for the non financial reporting, eg. CRSD or EU taxonomy. we recommend following the EU legislation and monitor its implementation to CZ law for cases where the local implementation is required, mainly the Directives.

A scenic view of a historic town, likely Český Krumlov in the Czech Republic, featuring a river in the foreground and a prominent church tower with a green roof and golden accents in the background. The town is built on a hillside with red-tiled roofs. A semi-transparent purple rectangle is overlaid on the left side of the image, containing the text.

11 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

Generally, for foreign individuals and legal entities, no restrictions apply to owning a business or holding shares in Czech companies.

Nevertheless, certain potentially risky investments made by individuals or entities from outside the EU are subject to screening as described below.

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 (CNB) 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 part, with the buyer acquiring the rights, assets and liabilities connected with a going business concern. The sale and purchase agreement associated with the acquisition of an enterprise or a set of assets that would constitute a material change in business activities 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 to the company's registered capital. For this purpose, the general meeting of the company must decide on a new share issue. The increase of 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 Czech legislation on the screening of foreign investments, which is based on the regulations of the European Union, the Czech authorities should carry out monitoring of potentially risky investments to the Czech Republic and eventually impose restriction on them. This legislation applies to investors from non-EU countries and also investments made by EU entities controlled by a third-country investor. Foreign investments to specified sectors such as businesses involved with military material and critical infrastructure require prior approval from the authorities. Other investments potentially able to endanger the security or internal order could be checked ex post by the authorities if the investment was not consulted with them.

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. Mergers and in some cases also other transformations can be undertaken also as 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 the formation of a new company: all of the participating companies cease to exist, and their assets are transferred to a newly established successor company.

From a financial point of view, 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.

A company can be demerged (divided) through:

- demerger by the formation of new companies;
- demerger by acquisition;
- spin-off connected with new company formation;
- spin-off by acquisition;
- a combination of the options mentioned under either the first two or the following two.

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 the consideration offered for the trade is adequate.

Takeover bids

VOLUNTARY TAKEOVER BIDS

For joint-stock companies traded on the regulated market, investors can make a 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 and 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 to the majority shareholder, resulting in a squeeze-out of minority shareholders.

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.

12

How KPMG
can help:





Welcome to Czechia!
We are by your side.

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 you throughout the life cycle of your investment:

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:

INVESTMENT INCENTIVES AND OTHER SUBSIDIES

Both newly founded and long-established companies can apply for investment incentives. Production companies may apply for incentives in the form of complete or partial corporate tax relief for up to five years. Companies can also apply for support to create new job opportunities or to requalify employees.

Some projects may apply for support from European Funds. Well-qualified candidates for European support are shared service or research and development centres, as well as technological incubators and training centres. Concrete research and development projects can also apply for support.

- Assessing projects and determining the most suitable support system
- Designing an appropriate investment structure
- Preparing your application for investment incentives or EU fund subsidies
- Representing in negotiations with public offices
- Compliance with subsidy or incentive conditions or conduct regular audits
- Advisory on legislative compliance
- Inspections by government offices

TAX

KPMG's tax team will help you mitigate tax risks, identify opportunities, and cut costs. We will assess your business's entire context using detailed industry knowledge and data analyses.

With us, you gain a respected and experienced partner for dealings with both businesses and the state administration.

- Corporate tax
- Indirect tax
- International executive services
- International tax
- Investment incentives and subsidies
- Transfer pricing
- Tax inspections and tax disputes
- Tax services for the financial sector
- Tax outsourcing
- Immigration services

LEGAL

Our legal firm is focusing on corporate law, transactions, regulation, labour law, litigation and technology. We offer our services to both Czech and international clients.

- Corporate law
- Transactional counselling
- Law and technology
- Public procurement / PPP
- Court proceedings and arbitration
- Real estate
- Compliance
- Labour law and immigration services
- Family businesses and succession planning
- Tax litigation

Radek Halíček

Managing partner in charge of Tax and Legal Services

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AUDIT

KPMG's audit provides a trustworthy and comprehensible report on the company's shape. Our specialised teams use data analysis and in-depth knowledge of various industry sectors to your advantage. We see audit as an opportunity to discover untapped potential.

- 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

Jindřich Vašina

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ADVISORY

We provide management consulting, risk consulting and deal advisory services across all sectors. We are also able to provide consulting services in the area of accounting and payroll. We support our clients in everyday operational work, as well as in strategic long-term tasks. We help our clients when selling or buying entities, but also in situations when their companies go through hard times and they need to increase their productivity.

- Corporate strategy
- Agile transformation
- Digital transformation
- Enterprise architecture
- Finance, capital and profit management
- Programme and project management

- IT advisory
- Export advisory
- Customer experience (CX)
- Business intelligence (BI) and data management
- Operations management
- Data and analytics
- Corporate finance
- Restructuring and M&A
- Transaction services
- Forensic
- Management reporting

Petr Bučík

Partner in charge of Management Consulting

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ACCOUNTING AND PAYROLL SERVICES

Our offices in Prague, Brno and České Budějovice can provide financial, managerial and payroll accounting services as well as any related advisory services.

- Financial accounting
- Payroll outsourcing
- Administrative support

Alena Hatalová

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KPMG in the Czech Republic

KPMG Czech Republic is a member of global network of independent firms offering audit, tax, legal and advisory services. We employ over 1000 specialists and are one of the largest providers of consulting 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 200.000 experts working in 154 countries.



Our priority sectors:

- banks, insurance companies, and other financial institutions
- real estate companies
- energy companies
- production companies in the manufacturing and processing industry
- e-commerce
- commercial businesses
- the public sector.

Our foreign desks:

- Chinese Desk
- German Desk
- Japanese Desk
- Korean Desk

KPMG Czech Republic has been supporting the development of significant companies and hence of the entire economy of the Czech Republic.

Our expertise Your benefit

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About the publication

This rough guide 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 our experts.

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

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice and after a thorough examination of the particular situation.

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