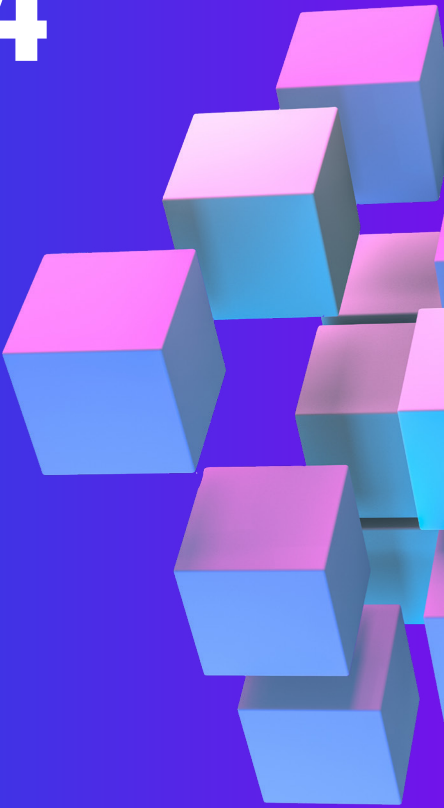
Tax Card 2024

Tax Services



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Corporate Income Tax

Standard rate	21%
Qualified investment funds	5%
Pension funds	0%

Corporate income tax is based on the Czech statutory accounting result adjusted according to specific corporate income tax rules (e.g., difference between the tax and the accounting value of reserves, provisions, depreciation). Accounts are kept in Czech crown or selected foreign currencies - EUR, USD, GBP, if they can be considered the entity's functional currency. Optionally, under certain conditions, unrealised foreign exchange differences recorded in the accounting as at the balance sheet date might be excluded from the tax base.

Tax depreciation periods

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

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

Moreover, taxpayers may apply extraordinary tax depreciation for electric vehicles acquired in the period from 1 January 2024 to 31 December 2028. Such assets will be tax-depreciated for 24 months.

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

The tax-deductible depreciable value of a passenger vehicle has been limited to CZK 2 million.

Tax depreciation of intangible assets

The tax depreciation of intangible assets corresponds with their accounting depreciation. They may be depreciated by either method, depending on the taxpayer’s decision.

Loss utilisation

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

Withholding taxes on income of non-residents

For example:

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

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

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

Participation exemption

Dividends received from EU or EEA or Switzerland subsidiaries and from non-EU subsidiaries if a double tax treaty is in force are tax exempt provided that certain conditions are met.

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.

Companies are exempt from capital gains tax on the sale of shares in a subsidiary resident in the EU, EEA, or a country with which the Czech Republic has concluded a double tax treaty and which has a corporate tax rate of at least 12 percent provided that certain conditions are met.

Intercompany interest and royalties

Interest and royalties paid by a Czech resident company or a Czech permanent establishment of a company registered in another EU member state to an associated company resident in another EU or EEA member state or Switzerland are not subject to withholding tax in the Czech Republic provided that certain conditions are met. The application of the exemption must be confirmed by the tax authority based on the application of the taxpayer.

Transfer pricing

The arm’s length principle generally applies to transactions between associated companies (both cross-border as well as domestic transactions). OECD Transfer Pricing Guidelines and OECD recommendations/papers are followed in the application of domestic transfer pricing legislation.

Transfer prices are among the top priority areas of the Czech tax authorities. The volume of additionally assessed tax has grown significantly over the years. The most significant assessments have been based on the re-classifications of loss-making Czech companies to limited-risk entities where a certain minimum profitability is expected. Heightened focus has been placed on intra-group service documentation and proof of purchased service benefits by Czech recipients. As a trend of the last years, detailed investigations of financial transactions and parent company orders have also been observed.

Transfer pricing documentation is not obligatory – there is no penalty for not providing the documentation per se. However, during a tax inspection, companies are practically expected to provide it upon request, usually within 15 days.

Within the filing of the corporate income tax return, taxpayers are in certain cases obliged to report related party transactions in a special annex to the tax return. The tax authorities use the collected data to pre-select taxpayers for tax inspections, while also looking at other risk indicators, e.g., reported losses, transactions with counterparties based in countries with very low effective tax rates like Cyprus, Malta, etc.

Country-by-country-reporting and public country-by-country reporting applicable to all accounting periods starting on or after 22 July 2024 has been fully implemented.

To adequately manage risk, a proper evaluation of related party transactions and up-to date transfer pricing documentation is recommended. It is also possible to request uni- or bilateral advance pricing agreements with the tax authority on the transfer pricing methods applied in intra-group transactions, including a tax base assignment method to permanent establishments or branches.

Thin capitalisation

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

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

Deductibility of borrowing costs

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

Exit tax

The transfer of assets abroad without a change in ownership (i.e., a transfer of assets from the head office in the Czech Republic to a permanent establishment abroad or vice versa or a transfer of tax residence abroad) might be subject to taxation.

CFC rules

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

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

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

Treatment of hybrid mismatches

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

Taxable period

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

Reporting duty relating to payments abroad

Taxpayers should report payments to foreign entities from which tax was withheld but also transactions generally liable to withholding tax but exempt from tax in particular cases, either under national legislation or the relevant double taxation treaty.

A notification of foreign income not subject to withholding tax or exempt from withholding tax applies only for income from royalties, dividends and interest. Payments of interest should be reported only if they exceed CZK 300 000.

Windfall tax

Windfall tax applies to selected taxpayers in the fossil fuel energy and banking sectors for 2023 to 2025. A 60 % tax is levied on excess profits, defined as the general tax base in the given year which exceeds the average of the tax bases or losses increased by 20%. For taxable years beginning and ending between 1 January 2018 and 31 December 2021. This tax is applied on top of statutory corporate income tax (21% on the entire tax base).

Payers of this tax are generally payers of corporate income tax generating income that qualifies for the windfall tax and exceeds CZK 50 million in a taxable period falling at least partially within the windfall tax application period (2023-2025).

Global minimum tax

Global minimum tax rules have been implemented in the Czech Republic in line with the EU Minimum Tax Directive and OECD global rules. These rules apply to groups with consolidated revenues of at least EUR 750 million for at least two of the four previous periods. Czech ultimate parent entities will be subject to Income Inclusion Rules (IIRs), ensuring that they will apply at least 15 % effective tax in all jurisdictions where they operate. If the effective tax rate in any jurisdiction is below 15 %, they will be obliged to collect the top–up–tax in the amount of the difference between the 15 % and the actual effective tax rate. The supplementary Undertaxed Payment Rule (UTPR) ensuring that the top–up–tax is collected on the Czech subsidiary level, if the state of the parent company does not apply IIRs will be effective from 2025.

The Czech Republic has used the option given by the EU Minimum Tax Directive to implement qualified domestic minimum–top–tax (QDMTT) for taxable periods starting from 31 December 2023 ensuring that any top–up–tax which arises will be collected in the Czech Republic and not on the level of the ultimate parent entity of the group based on the Income Inclusion Rules.

Mandatory disclosure requirements (DAC 6)

The obligation to report cross-border arrangements meeting hallmarks defined in EU Directive 2018/822 (e.g., certain arrangements meeting characteristic hallmarks together with the main benefit test where obtaining a tax advantage is the main or one of the main benefits of such arrangements) to the tax authorities was implemented. The reportable cross-border arrangements must be reported within 30 days of the relevant event.

Reporting obligation of platform operators (DAC 7)

The implementation of Council Directive (EU) 2021/514 (DAC7) into Czech law introduces the obligation of platform operators to provide information on income derived by sellers through the platform and allows tax authorities of EU member states to collect and automatically exchange such information. T It applies to platforms that facilitate the performance of selected activities for consideration (provision of immovable property, provision of means of transport, personal services, and sale of goods).

Personal Income Tax

Rate

Progressive taxation with two tax bands applies in the Czech Republic. A first tax rate of 15% is applied to income up to 36 times the average monthly wage; a second tax rate of 23% is levied on income above this limit.

Annual income (applicable for 2024)	Monthly (employment) income (applicable for 2024)	Tax rate
up to CZK 1,582,812	up to CZK 131,901	15%
exceeding CZK 1,582,812	exceeding CZK 131,901	23%

Remuneration for the performance of a statutory representative function in a Czech company (Czech-sourced income) received by a Czech tax non-resident is subject to 15% withholding tax.

Tax base for employees

The tax base for employees is the gross salary amount.

Taxable benefits

Examples:

- cost of living allowance
- home leave allowance
- one percent per month of the purchase price of a company car used for both business and private purposes (0.5% per month for a low emission vehicle or 0.25% per month for a zero-emission vehicle)
- private fuel paid by employer
- private medical insurance paid by employer
- stock option income
- reimbursement of foreign and/or domestic taxes.

Tax free benefits/allowances

Examples:

- pension and life insurance premiums up to CZK 50,000 per year
- housing provided by employer under certain conditions (subject to a monthly limit of CZK 3,500)
- meal allowances and meals provided in non-cash form if employees work at least 3 hours during a shift, up to the statutory limit (CZK 116.20 per shift in 2024).

Taxation of non-cash benefits

A limit for the exemption of non-cash (leisure-time) benefits amounting to half the average wage has been introduced in 2024. Thus, it will be possible to exempt up to CZK 21,983.50 of benefits per year.

Examples:

- use of sport, cultural or educational facilities
- school fees in non-cash form.

Personal tax reliefs

Examples:

Basic allowance	CZK 30,840
Child allowance for first child	CZK 15,204
Child allowance for second child	CZK 22,320
Child allowance for third and any subsequent children	CZK 27,840
Spouse allowance (applicable only for a spouse caring for a child under three years of age and annual income not exceeding CZK 68,000)	CZK 24,840

Social and health insurance

Type of insurance	Paid by		Total
	Employer (%)	Employee (%)	(%)
Social security:			
Pension insurance fund	21.5	6.5	28.0
Sickness insurance fund	2.1	0.6	2.7
Employment insurance fund	1.2	0	1.2
Health insurance	9.0	4.5	13.5
Total (%)	**33.8**	**11.6**	**45.4**

The annual cap on the calculation base for social security equals 48 times the average wage (CZK 2,110,416 in 2024). No cap applies to health insurance.

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

Tax base for self-employed persons

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

An option to apply a lump sum tax also covering social security and health insurance was introduced for self-employed persons a not registered for VAT and with an annual income not exceeding CZK 2 mil.

Investment income

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

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

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

VAT

Three VAT rates apply in the Czech Republic:

Standard VAT rate – 21 percent: most products and services

Reduced VAT rate – 12 percent: basic foodstuffs (except of most of drinks), certain pharmaceutical products, certain medical equipment, social housing essential baby nutrition, newspapers, heating and supplies of tap water, A VAT exemption for books has been introduced in 2024.

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

A local reverse-charge regime applies to certain supplies effected between Czech VAT payers – e.g., supplies of gold, scrap materials and waste, construction and assembly works, emission rights, cereal and technical crops, metals, mobile phones, integrated circuits, tablets, laptops, videogame consoles, sugar beets, supplies of gas and electricity, selected telecommunication services for entities operating on a wholesale basis (and the provision of labour for construction and assembly work or various forms of forced delivery of property).
The reverse-charge applies also on local supplies of goods to Czech VAT payers by non-established entities not registered for VAT in the Czech Republic.

Input VAT refund for personal cars is limited by CZK 420 (corresponding to a purchase price of up to CZK 2 million).

VAT group registration is available.

Excise Duties

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

Energy Taxes

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

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

Carbon Tariff Reporting (CBAM)

The CBAM Directive entered into force in 2023, starting a transitional period running until the end of 2025. From 1 October 2023, companies importing selected products from non-EU countries whose production is CO2-intensive are required to report the import of these products and the related carbon emissions for their production (carbon footprint). The administrator of the carbon tariff is the Czech Ministry of the Environment. Taxpayers must file their CBAM reports on a calendar quarter basis, registration on the trader portal is necessary for this reporting.

Real Estate Tax

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

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

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

Most real estate tax rates have been increased by approximately 80 % as of 1 January 2024.

Real Estate Transfer Tax

The real estate transfer tax was abolished in 2020.

Road Tax

Road tax is generally payable by the operator of a vehicle included in category N2 and N3 and their trailers in categories O3 or O4.

The tax varies from CZK 400 to CZK 24,200.

Passenger vehicles including buses, vans, or medium trucks up to 12 tonnes and their trailers are not subject to road tax.

Double Tax Treaty Network

As of 1 January 2024, treaties with the following countries are in force:

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

*Note: In 2023, Russia announced it was unilaterally suspending the implementation of the double tax treaty with the Czech Republic. Subsequently, the Ministry of Finance of the Czech Republic confirmed the suspension of the implementation of the provisions of the treaty.

Tax Incentives

Main activities that can be supported:

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

Main incentives (forms of state aid):

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

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

Limits on the incentives depend on the location of the investment. For new projects, the total value of state aid can be up to 40 percent of the investment amount for large companies (50 percent for medium-sized and 60 percent for small enterprises).

Main conditions:

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

R&D allowance:

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

EU Cash Grants

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

The new programme period for 2021–2027 is running. Calls have been announced from the National Recovery Plan (NRP) and Operational Programme Technologies and Applications for Competitiveness (OP TAC). Other funds are available under calls announced by the Technology Agency of the Czech Republic and from the Modernisation Fund.

For more information, please contact:

KPMG Česká republika, s.r.o.
Pobřežní 1a
186 00 Praha 8
T: +420 222 123 111
www.kpmg.cz
www.kpmg.com
Danovky.cz

Daniel Szmaragowski
Partner in charge of Tax and Legal Services
dszmaragowski@kpmg.cz

Pavel Gorel
Partner
pgorel@kpmg.cz

Tomáš Kroupa
Partner
tkroupa@kpmg.cz

Patrick Leonard
Partner
pleonard@kpmg.cz

Jan Linhart
Partner
jlinhart@kpmg.cz

Ladislav Malůšek
Partner
lmalusek@kpmg.cz

Pavel Otevřel
Director
potevrel@kpmg.cz

Pavel Rochowanski
Partner
prochowanski@kpmg.cz

Petr Toman
Partner
ptoman@kpmg.cz

This card has been prepared as a quick reference tool for the most common tax rates and amounts and represents the status as at 1 January 2024.