



Invest in Czechia

Meet the Heart of Europe

2024

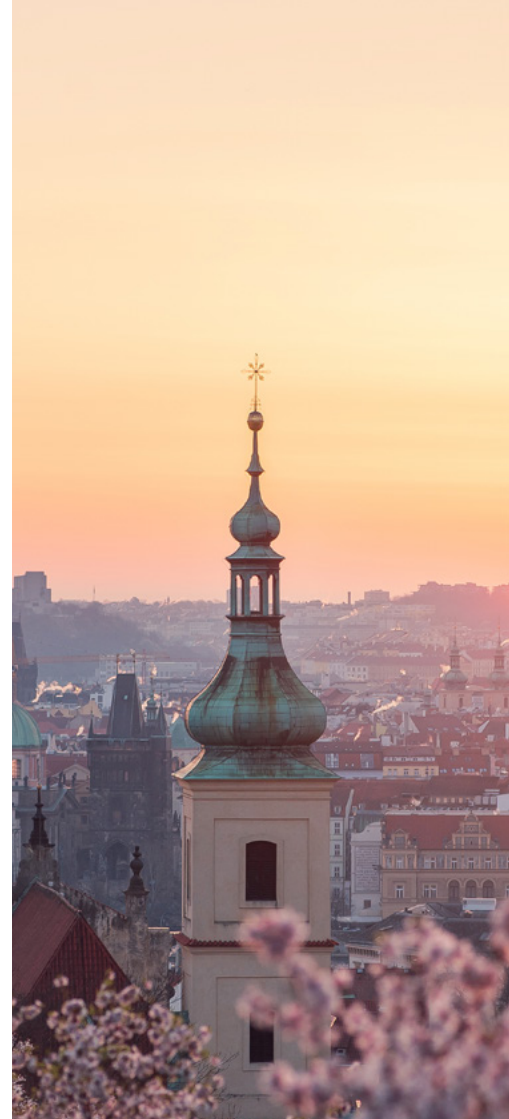




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An aerial photograph of a city, likely Prague, showing a river (the Vltava) winding through the urban landscape. The city features a mix of historic buildings with red-tiled roofs and modern structures. A large, semi-transparent blue rectangle is overlaid on the left side of the image, containing the text '01 Welcome'.

01 Welcome

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 also appreciate favourable costs as well as the educated workforce and advanced digitalisation. A 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 Republic faced major challenges represented by the consequences of the pandemic and the unprecedented energy crisis, continued disruption in the global energy supply chain and raising costs, the characteristic features, such as low unemployment, remain optimistic. Last year, the Czech economy teetered on the edge of recession. For the

entire year of 2023, gross domestic product had fallen by 0.4%, but is forecast to grow by 1.2% in 2024 driven by government and private sector investment and consumption. Inflation has already fallen considerably and is expected to remain around 2% for most of the year. The impact of weak economic dynamics on the labour market should not be significant given the persistent imbalances.

The number of employees in the Czech industrial sector has reached 1.3 million while 3,500 highly educated experts graduate at technical and economical universities each year. In such environment the added value of Czech industry has been steadily increasing. The economy is benefitting from public consumption and public investment support – e.g., through the plan Next Generation EU.

The success story can be demonstrated in hard data and statistics that you can find in this publication.

GREEN TECHNOLOGIES: OPPORTUNITIES ARE RISING

The 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 the use of renewable energy will create additional complexities for firms. However, we believe that opportunities will prevail. And those who will stay one step ahead will be the winners.

Significant opportunities can be found for example in the automotive industry which is undergoing a transformation (Czechia is home to key vehicle manufacturers and it also has excellent business opportunities for suppliers) and electromobility is experiencing an upswing. The Czechs are ready to embrace green technologies and are standing at the forefront of advancement, with governments incentivizing firms and individuals to make smarter choices that consider the environmental impact of their actions.

CARVING A NEW DIGITAL PATH

The global pandemic acted as a catalyst for many innovative offerings and accelerating their uptake. The pace of change is faster than before. It is a challenge to understand the future trends and set a vision that will enable organizations 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 economy to find out how these new trends are influencing their strategies and investments. We want to share good news: the future remains exciting in our region. These words are marked with many examples of product and service innovations recently undertaken in Czech industry. So, the ambition of the country is clear: to become one of Europe's innovation leaders.

YOUR TIME TO SHAPE THE FUTURE

This year is full of challenges but opportunities prevail. Overall, there has been persuasive optimism driven by a focus on innovation, digitisation, 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 this call and offer you our partnership when starting your successful adventure in the heart of Europe.



02

Invest in Czechia



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

Meet a regional champion

WHERE THE CZECHS SCORE THE BEST.

Czechia clearly stands out as a regional champion for the inflow of foreign direct investment. What are the main reasons to invest in the country?

- 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

AMONG BEST COUNTRIES FOR PRODUCTION IN EUROPE

Czechia ranked eighth globally in the list of 47 countries most suitable for manufacturing. Within Europe, it is the second. This is according to the Manufacturing Risk Index by Cushman & Wakefield.

Source: <https://www.cushmanwakefield.com/en/czech-republic/news/2022/12/best-manufacturing-destinations>

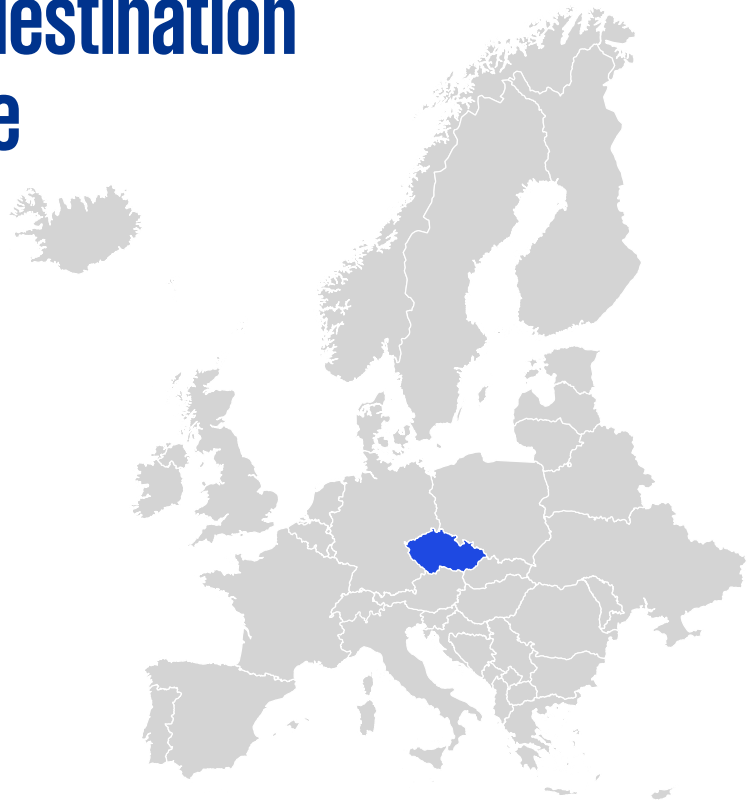
WORD COMPETITIVENESS RANKING 2023

Czechia maintained the excellent 18th position in global ranking in the annual Manufacturing Risk Index (MRI), which assesses criteria such as operating costs, labour, and economic and political risk.

Source: <https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking>

Meet your business destination in the heart of Europe

Czechia 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 country has become an attractive market for foreign investors as they can benefit from the geographic location, economic stability and high level of industrialisation. Business leaders also appreciate favourable costs as well as the educated workforce and advanced digitalisation.

A very supportive business environment and incentives for both R&D and manufacturing are also advantages. An open investment climate is a key element of Czechia's economy. This makes the country one of the biggest recipients of foreign direct investments, making it the most successful CEE country in terms of FDI per capita. These advantages have been acknowledged by the world's major players who have invested in various facilities throughout the country.

Meet the financial support for your investment

The fact that the country is interested in attracting foreign investors is demonstrated in concrete steps. On of the recent positive shift is the government regulation pertaining to investment incentives. These new measures are aimed at supporting key sectors with high value added that bring innovation and development to our economy.

Generally, Czechia has prepared generous offers to both new and existing investors. You can use them for activities such as introduction or expansion of a production business, launching or expanding a technology centre or a new strategic services centre (e.g., software or data centres). There are several very useful forms of state aid for investors such as tax incentives, cash grants for capital investment and cash grants for new jobs.

Source: <https://www.czechinvest.org/getattachment/23872b72-f00c-47d7-8edc-98f23e6e5fa1/Investment-Climate-in-Czechia>

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

Innovation 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, clean mobility is on the rise.

Advanced Engineering

The engineering industry remains one of the cornerstones of the Czech economy. A 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 are exported. More than 5200 machinery companies are manufacturing even the most sophisticated components, which makes the Czech Republic the second most specialized country in industrial machinery, equipment, and tools in the world.

The macroeconomic forecast: Rebound of economy

The Czech economy is in a good shape, despite recent pressures. Among the most significant issues is the high inflation that has continued to slow economic growth recently. Not only food, electricity and natural gas, but also other categories of goods and services are contributing significantly to the exceptional rise in consumer prices. Strong domestic demand pressures are already being dampened by higher monetary policy rates. The outcome of 2023 was also affected by the effects of geopolitical development and a change in the setting of international trade relations.

In 2024, the economy's output could increase by 1.9% according to the official forecast, mainly thanks to renewed growth in household consumption. Private investment and growth in export markets will also support economic activity. Further, the Government has undertaken significant reforms (the so-called consolidation package) that will also help to reduce inflationary pressures.

Despite recent challenges such as raising costs and pressures to increasing salaries to top the inflation, the

characteristic features, e.g., low unemployment, remain optimistic. The unemployment rate should not increase much in 2024; it could rise to 2.8%.

The successful integration of government-led initiatives with private sector interests underscores the strategic vision driving Czechia's economic trajectory. A notable transformation is underway in the Czech accounting landscape, aligning it seamlessly with international accounting standards. The ongoing reform ensures that Czech accounting practices are fully synchronized with international benchmarks. Businesses now have the flexibility to maintain their accounts not only in the local currency but also in Euros, US dollars, or British pounds. Furthermore, the integration of the Euro into business transactions has made significant strides and it underscores the Czech Republic's dedication to creating a business-friendly environment.

Source: <https://www.mfcr.cz/cs/rozpocetova-politika/makroekonomika/makroekonomicka-predikce/2024/makroekonomicka-predikce-leden-2024-54583>

Green and digital ambitions

The reforms and investments in the Recovery and Resilience Plan is helping Czechia become more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The transition is supported by €8.4 billion in grants and €818 million in loans in the period until August 2026.

Ratings

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



Main macroeconomic indicators – 2023

-0.6

Gross domestic product
(real growth in %)

10.7

Average inflation rate

2.6

Unemployment rate

-0.2

Current account
balance

24.0

Exchange rate
CZK/EUR

4.4

Long-term
interest rates

Main macroeconomic indicators – 2024 (forecast)

1.2 Gross domestic product
(real growth in %)

3.3 Average inflation rate

2.8 Unemployment rate

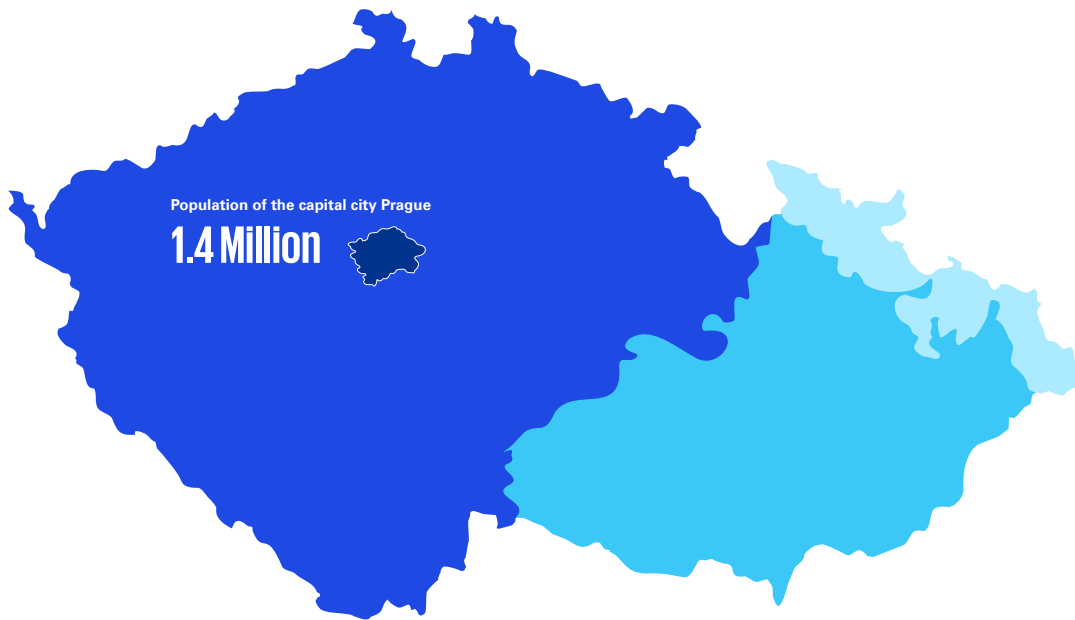
0.4 Current account
balance

24.4 Exchange rate
CZK/EUR

3.8 Long-term
interest rates

The Czech Republic in numbers

The country is an advanced parliamentary 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
10.9 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



Czechia has prepared generous offers to both new and existing investors covering up to 25% of costs associated with investment projects.

At the beginning of 2024 significant changes in the legislation on investment incentives occurred. The Czech Government intends to reach out to potential investors either already established in the Czech Republic as well as foreign investors and focus on strategic investments especially in the production of goods with strategic importance, among others designed to produce or store energy from renewable sources, to improve energy efficiency, those related to electromobility, or protection of life and health, etc.

EU cash grants in the current programming period until 2027 are focused toward rather the opposite trend which aims to support mainly small and medium-sized enterprises, but exceptions apply and some programmes are still available for large enterprises. For strategic projects large enterprises might also apply for subsidies directly on the European Commission level.

Support for research and development is still fundamental for the Czech Republic and is supported across all areas and sizes of enterprises.

INVESTORS CAN OBTAIN THE FOLLOWING FINANCIAL BENEFITS:

- Investment incentives – tax holiday + cash grants;
- Subsidies from EU funds – cash grants;
- R&D tax allowances;

All benefits are provided according to the law and transparency rules, which are to a great extent in compliance with EU regulations. There has been also a structural change in the approval process of granting the most significant form of state aid and investment incentives.

The amended changes in law are particularly in the area of approval of investment incentives. The Ministry of industry and trade became again responsible for the granting of investment incentives for standard projects. The Government remains responsible for approving strategic investment projects applying for a cash grant for the acquisition of fixed assets. This change should reduce delays in approvals and increase transparency of the whole process for investors.



Investment incentives

FORMS OF SUPPORT

Incentives are provided in the following forms:

- Corporate income tax relief for 10 taxable periods;
- Cash grants for the acquisition of tangible and intangible fixed assets for strategic investment action;
- Cash grants for job creation, training and staff retraining (only available in regions with high unemployment rates);
- 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

Due to changes of EU regulations, it is no longer possible to grant incentives for a simple expansion of existing production for the Central Bohemian, Pilsen, South Bohemian, South Moravian, and Vysočina Regions. Support will continue to be possible in situations where there is a new activity (type of production) or the project is located in other regions (mainly northern regions). The Prague region is not eligible for incentive support.

Technology Centres:

- Launching, expanding an existing one, expanding by the introduction of new products, where the focus of the technology centre is applied research, development and innovation.

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.

GENERAL CONDITIONS ACCORDING TO THE INVESTMENT INCENTIVES ACT

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

- 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
- 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 and certain strategic investment projects).

The following projects will qualify as higher added value:

- The total average monthly gross wages of the employees performing work at the place of the investment project's implementation earns at least the average monthly gross 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 (for 2 years before submitting the application the company should spend at least the amount of 2% of the expected 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 3% 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 in the following situations:

- The whole investment project will be implemented in the territory of the region where the unemployment rate is at least 7.5%, whereas the rate is by at least 50% higher than the average unemployment rate in the Czech Republic, or
- The whole investment project is implemented as a part of a major project of common European interest which has been notified and approved by the European Commission, or
- 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 and products designed to produce or store energy from renewable sources (photovoltaic systems, solar/wind/water systems, chosen products related to electromobility), products to improve energy efficiency or to reduce the energy consumption of buildings etc.

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 proportion of cash grants. The definition of Strategic Investments has been expanded over time and it is also expected that further types of investment will be added to the list of Strategic Investments.

The main benefit for a project meeting the definition of a strategic investment is the possibility to obtain cash grant for the acquisition of fixed assets of up to 20% of total eligible costs. The remaining part of the investment incentive will continue to be provided in the form of a tax credit

The following projects can be considered as Strategic Investment:

- The manufacturing of products of strategic importance for the protection of life and health, or products for the

production or storage of energy from renewable sources, for improving energy efficiency or for the reduction of the energy consumption of buildings;

- Activities with a higher added value and research and development using key enabling technologies, and high-tech manufacturing industries;

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 required minimum number of new employees is 250. The limit for the minimum investment in fixed assets is CZK 2 billion, while at least CZK 1 billion must be spent on the acquisition of machinery.

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;
- Negotiations with the government on extraordinary incentives;
- Site selection analysis;
- Preparation of applications for investment incentives;
- Full support during the approval process;
- Full support during the implementation phase.

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

R&D tax credit

Companies performing R&D activities may apply a special tax deduction. As the credit may amount to up to 110 percent of eligible R&D cost, the amount of costs related to R&D, such as material, salaries, depreciation etc. can be deducted for tax purposes more than two times. This enables companies to make net savings equivalent to the R&D tax / credit multiplied by the corporate tax rate.

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

- Eligible activity definition;
- Calculation of the deduction;
- Preparation of required documentation;
- Preparation of an application for a binding assessment from the tax authority;
- Issuance of a certified expert opinion.

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.

We are currently in the **programme period for 2021–2027**. In this, enterprises can apply for support in the Czech Republic especially through programmes such as the OP Technology and Application for Competitiveness (OP TAC), the National Recovery Plan (NRP), the Modernization Fund, the Operational Programme Just Transition (OP Just Transition) or programmes announced by the Technology Agency of the Czech Republic (TACR). Compared to the previous programme period, the cash grants possibilities for large enterprises are rather limited, especially regarding investment grants. Cash grants for operating costs related to research and development activities remain available with a similar extend as before focusing on net zero initiative, automatization, digitalization, etc.

The OP TAC and Modernization Fund will especially support projects focusing on the reduction of CO2 emissions, energy savings, circular economy and water savings, building of photovoltaic power plants, renewable energy sources, research and development activities and the building of innovation infrastructure. The OP Just Transition is designed for regions most affected by structural changes (e.g., the discontinuation of coal mining), etc.

The programmes of the TACR supports research, development and innovation activities, for example research in transportation or industrial research and experimental development across industries.

Regarding the NRP, first call was announced in March 2022 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. The NRP supports a number of activities, such as the acquisition of photovoltaic power plants or electric vehicles etc.

In addition to grants announced locally by individual ministries, number of programmes are also launched directly by the European Commission. For enterprises potential programmes which support activities related to the decarbonisation of production, hydrogen production and storage, research and innovation etc. are for example the Innovation Fund focused on highly innovative projects in energy-intensive industries and chosen areas of transport, Horizon Europe for research and development activities, or the Connecting Europe Facility supporting transportation and related infrastructure.



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.), a 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 bodies and representatives, including their rights, obligations, and conditions for liability for a breach of due care. Further, it sets out the rules for holding companies and the liability for damage caused within company groups.

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.

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 take part in establishing a Czech legal entity or become a shareholder 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 company to have a sole founder or a sole shareholder.

Foreign companies typically establish a subsidiary in the Czech Republic in the form of a limited liability company or pursue their activities directly via a branch of the foreign company. Generally, the limited liability company is the most common form of business corporation in the Czech Republic.

The main characteristics of the most common legal entities are the following.

LIMITED LIABILITY COMPANY

společnost s ručením omezeným – spol. s r. o. or s. r. o.

- The registered capital must be at least CZK 1.
- The bodies of the limited liability company are the general meeting (shareholders) and at least one executive director (*jednatel*). The establishment of a supervisory board is optional.
- Executive directors are responsible for the business matters and proper management of the company and representing the company vis-à-vis third parties. Non-Czech citizens may be appointed as executive directors. A residency permit or visa is not required for their registration in the Commercial Register.
- Identification details 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 represent a single 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 public markets.
- The shareholders are liable for the debts of the limited liability company only up to the amount of the unpaid contribution to the registered capital recorded in the Commercial Register. Once all the contributions are paid up, the shareholders are not liable at all for the limited liability company's debts.
- The financial statements of limited liability companies which are large or medium-sized enterprises must be audited. Financial statements of the limited liability companies that fall into the category of "small enterprises" 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.
- The whole process of the establishment of a limited liability company may take approx. 4 – 8 weeks, depending on the cooperation of the client and the complexity of the company structure.

JOINT-STOCK COMPANY

akciová společnost – a. s.

- Registered capital has to be at least CZK 2 million or EUR 80,000.
- A joint stock company is a company whose registered capital is divided into a certain number of shares (either with or without nominal value). The shareholder's participation in the joint stock company is thus represented by shares held by the relevant shareholder. Shares are securities that carry the shareholder's right to participate, according to the law and the company's articles of association, in the management of the company, its profits, and the liquidation balance. Shares may be issued in either book-entry or certificated form.
- Non-cash contributions into the registered capital of a joint stock company are generally subject to a valuation by an independent expert.
- A joint-stock company can be established by a sole founder.
- A joint stock company can have a monistic or dualistic corporate governance structure. In a dualistic structure, the board of directors (představenstvo) is the executive body responsible for the business management of the company, whereas the supervisory board (dozorčí rada) supervises the activities of the board of directors and the operations of the company. Under the monistic structure, the joint stock company establishes only an administrative board (správní rada).
- The shareholders are not liable for the company's obligations.
- Unlike other types of legal entities, the shareholders of a joint stock company are not directly registered in the Commercial Register, save for cases in which the joint stock company has a sole shareholder.
- Requirements for financial statement audits are analogous to those for a limited liability company.

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.

BRANCH OF A FOREIGN PERSON

pobočka zahraniční osoby/odštěpný závod

- The establishment of a branch is one of the options for starting a business in the Czech Republic without establishing a company. A branch has no legal capacity and cannot acquire rights and obligations for itself. A branch is established by a simple resolution of the founder of the branch, which may also be a foreign company, and incorporated by a registration in the Commercial Register.
- The entry in the Commercial Register must include details about the founder company including information about its executive body as well as the scope of business activities.
- The branch founder must appoint a head of branch, who is authorised to act in all matters relating to the branch operation. He or she acts as a representative of the founder and is therefore not an independent body. The head of branch is registered in the Commercial Register and is not required to be a Czech citizen.

- The liability of a founder of a branch is not limited since a branch is not a separate entity.
- Requirements for financial statement audits are the same as for a limited liability company.
- The whole process of branch establishment may take approx. 3 – 6 weeks, depending on the cooperation of the client.

COMPANY FORMATION PROCEDURE:

- Company establishment by adopting a memorandum of association
- Securing a registered office for the new company (can be virtual)
- Obtaining a trade license
- Payment of contributions into the registered capital
- Company incorporation by a registration in the Commercial Register
- UBO registration

The formation of a new company in the Czech Republic is a two-step process. First, the company must be established by the execution of a memorandum of association by all its founders (or a foundation deed in the case of a single founder). Limited liability companies and joint-stock companies must adopt these documents before a Czech notary in the form of a notarial deed.

The company must choose an address of its registered office and secure the consent of the owner of the relevant premises with the location of its registered office at his or her premises.

The company must also obtain trade licenses issued by the Trade Licensing Office for all business activities which the company intends to carry out in the Czech Republic (some exceptions apply).

The company founders also need to appoint a contribution administrator responsible for the collection and administration of contributions into the registered capital of the company, whereby a declaration of a contribution administrator evidencing that the relevant founders have paid up their contributions into the registered capital of the company must be provided to the Commercial Register. The contribution administrator will usually open a special bank account for the purposes of the payment of contributions into the registered capital of the company.

Following the steps above, the company must be incorporated by a registration in the Commercial Register.

Legal entities are obliged to identify their ultimate beneficial owner (UBO) and arrange for the entry of the relevant information about their UBO into the (publicly available) UBO register without undue delay from the occurrence of a relevant event (e.g., the incorporation of the company or a change of the ultimate beneficial owner).

THE COMMERCIAL REGISTER

The above-mentioned legal entities as well as branches must be registered in the Czech Commercial Register prior to commencing their business activity. Courts shall register a newly established company in the Commercial Register within five business days after the delivery of a duly filed application. A registration of a newly established company may also be undertaken by a notary in a much shorter timeframe.

The companies are obliged to file certain documents, such as financial statements, reports on relations, notarial deeds, etc., in the Collection of Deeds maintained by the Commercial Register. The branch is only obliged to file its financial statements and the financial statements of its founder (some exceptions apply).

Access to the Commercial Register is freely available on the internet (<https://or.justice.cz/ias/ui/rejstrik>).

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 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 levels, 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 Czech law, except for rules regulating the commencement, changes, and termination of the employment relationship.

The standard full-time working hours are 40 hours per week with the working week from 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 (with certain specific exceptions).

The retirement age is normally 65 years.



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 the place of work.

Probationary periods may generally not be longer than three months, or no longer than six months in case of managerial positions.

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 or by a judgment imposing the penalty of expulsion from the Czech Republic.

The notice period must be the same for both employer and employee and must be at least 2 months. The employer and the employee may agree on a longer notice period.

The employee can give notice for any reason or 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.
- The employee seriously breached the specified regime of an employee who is temporarily incapable to work.

Where an employment contract is terminated for any of the reasons under points 1 to 3 above, the employer is obliged to pay the employee up to three months' severance pay depending on the duration of employment. 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 employees temporarily incapable to work, 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.

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 generally more expensive, it provides greater flexibility in the allocation of human resources.

Collective dismissals

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 collective dismissal and special conditions, such as a notification obligation to the Labour Office and negotiation duty towards 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 aim of collective bargaining is to conclude a collective bargaining agreement with the employer guaranteeing the employees certain rights.

Annual leave

The statutory minimum annual leave is four weeks, unless increased by a collective bargaining agreement, employment contract or internal regulations. Holiday pay is calculated from the 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 managing body and employment

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

An aerial photograph of a European town, likely in Central Europe, featuring a large square with a fountain and a church with a tall spire. The town is surrounded by green fields and forests. A large blue overlay covers the left and center of the image, containing the text '06 Financial Services'.

06 Financial Services



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

Regulation and supervision

The Czech National Bank (CNB) is the central bank of the country. It determines the 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.

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 CRD IV directive (Basel III requirements) into Czech legislation. An amendment

to CRR and CRD IV (CRR 2 and CRD V) was applied during 2021, further implementing Basel III reform into EU 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). An amendment to BRRD was applied in August 2021.

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 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 2023, 46¹ banks (including foreign branches and building societies) offered banking services to clients in the Czech Republic; 32 of them were controlled by foreign investors and 14 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 30 September 2023, their share of total banking assets equalled approximately 62 percent.

Net profits of the Czech banking sector for the year 2022 were almost CZK 103 billion and for the first three quarters of 2023 were almost CZK 83 billion. The level of non-performing loans was approximately 1.3 percent as of 30 September 2023.

As a consequence of the rising inflation in the economy and the rising prices of commodities, the Czech National Bank started increasing the two-week repo rate throughout the year 2022. The maximum level of repo rate was 7.00% and remained valid until December 2023. The two-week repo rate at the end of the year 2023 was 6.75% and the discount rate 5.75%. A further decrease is expected during the year 2024 as a response to the decreasing inflation rate and attainment of the targets of the Czech National Bank.

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 2023, 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 premiums of 2022 reached CZK 200.0 billion and for the first three quarters of 2023 the premium was CZK 160.8 billion. Overall market profitability is approximately a 19% return on equity (three-year average/2021–2023) and the market manages approximately CZK 498 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 2023 according to CNB statistics, the Czech market was represented by 577 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. Non-qualifying funds are taxed at the standard 19% income tax rate.

The stock exchange

Trading on the Prague Stock Exchange (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). 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

During the year 2022, the CZK has been appreciating with some fluctuations compared to the EUR, however this trend ended in the first quarter of 2023. In 2022 the depreciation of the CZK compared to the USD stopped in the last quarter of 2022 and the exchange rate appreciated to the level of 22 CZK for USD and stayed within a narrow fluctuation range during the year 2023.

As of 1 January 2024, 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).

As of 1 January 2022, the EU taxonomy has been in force, defining a framework for environmental objectives and setting rules for mandatory disclosure. From 2024 for the preceding financial year (2023), the banking sector is 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. The reporting requirement for large PIE entities for the year 2024 was already adopted into the Czech Accounting Act without significant modifications compared to the CSRD directive.

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.

An aerial photograph of a European town, likely in Central Europe, featuring a river winding through the center. The town is characterized by dense, multi-story buildings with red-tiled roofs. A prominent church with a tall, dark spire is visible in the middle ground. The surrounding landscape includes rolling hills and trees with autumn foliage. A large, semi-transparent purple rectangle is overlaid on the left side of the image, containing the text '07 Direct Taxes'.

07

Direct Taxes



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

Taxation of legal entities

CORPORATE INCOME TAX

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 a 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 2024, the corporate income tax rate is 21 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

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-months 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).

HYBRID MISMATCHES

Rules designed to counteract so-called “hybrid mismatches” between associated entities or arising from “structured arrangements” apply. 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 the tax base.

MERGERS

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 the creation of 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

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.

Fixed assets used for producing solar energy must be depreciated on a straight-line basis over 240 months. Extraordinary tax depreciation is available for electric vehicles acquired from 1 January 2024 to 31 December 2028. Such assets will be depreciated over 24 months. The tax-deductible depreciable value of a passenger car has been newly limited to CZK 2 million from 1 January 2024.

TAX LOSSES

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 the 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

In the last few years, transfer pricing has become one of the biggest priorities of the Czech tax authorities. The state administration is actively pursuing companies' compliance with existing regulations and arm's length principles meaning that transfer pricing is now a regular part of tax audits. Besides being part of regular tax audits there are also many specialised TP audits. Irrespective of the fact, whether it is a regular or specialized audit, the overall volume of additionally assessed tax has grown significantly over the years. The most significant assessments have been based on re-characterisation of loss-making Czech companies to limited risk entities with expected minimal profitability. Strong focus is also on documentation of intra-group services and proof of benefit of purchased services for the Czech recipient. As a trend of the last years, a closer investigation of financial transactions and a parent company's orders has also been observed.

Czech legislation is relatively simple in this area. Transfer pricing is dealt within 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. This applies to cross border transactions as well as to domestic transaction. 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. These are not legally binding but given that the tax authorities follow them, they represent important guidance for taxpayers.

Provided that certain conditions are met, companies are also 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 transfer-pricing documentation. However, during tax inspections, the tax authorities regularly require such 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, credits, and other debt instruments (e.g., cash-pooling) 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, credits and other debt instruments 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

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 percent 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).

EXIT TAXATION

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

CFC RULES

If a foreign subsidiary qualifies as a controlled foreign company (CFC), 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, dividends, royalties).

WINDFALL TAX

Windfall tax applies to selected taxpayers from the fossil fuel energy and banking sectors in the period for 2023 to 2025.

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

The windfall tax is applied on top of statutory corporate income tax (21 percent on the entire tax base).

A 60 percent tax is levied on excess profits, determined as the difference between the tax base in a given year and the average of the tax bases for the last 4 years (i.e., 2018–2021) increased by 20 percent.

GLOBAL MINIMUM TAX

Global minimum tax rules have been implemented in line with the EU Minimum Tax Directive and OECD global rules. These rules should 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 apply at least 15 percent effective tax in all jurisdictions where they operate.

If the effective tax rate in any jurisdiction is below 15 percent, they will be obliged to collect the top-up-tax in the amount of the difference between the 15 percent 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-up-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)

Implementation of EU Directive 2015/514 introduced the obligation of platform operators to provide information on income derived by sellers through these platforms and allowed tax authorities of EU member states to collect and automatically exchange such information. It applies to platforms that facilitate performance of selected activities for consideration (provision of immovable property, provision of means of transport, personal services and sale of goods).

Personal income tax

Individuals are subject to personal income tax. The taxation of individuals primarily depends on their tax 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 (i.e., calendar year).

Personal income tax is charged on:

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

EXEMPTIONS FROM TAX

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.

With effect from 1 January 2025, income from the sale of securities and shares will be exempt from tax if the time test of three years or five years (see above) is met, but only up to CZK 40 million per taxpayer per taxable period. Taxpayers will be able to include the acquisition cost of non-exempt securities in their expenses on a proportionate basis. Special rules will be laid down for determining the acquisition cost of securities and shares acquired before 31 December 2024.

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 Czech tax authority by the end of the deadline for filing Czech personal income tax return for a taxable period in which the taxpayer received such exempted income.

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

Exempt income exceeding CZK 5 million must be declared to the Czech tax authorities within the deadline for filing a personal income tax return.

PROGRESSIVE TAX RATE

The income of individuals is subject to a progressive tax rate schedule as follows:

- 15 percent income tax will be applied on income up to 36 times the average wage (CZK 1,582,812 in 2024), and
- 23 percent income tax will be applied on income exceeding 36 times the average wage (over CZK 1,582,812 in 2024)

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

SPECIAL TAX RATE

As of January 2021, a special tax base with a rate of 15 percent was 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.

TAXATION OF BENEFITS

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 tax efficient insurance products (supplementary pension insurance with state support, private pension insurance,

additional pension savings, private life insurance, long-term investment product and long-term care insurance) and donations can be deducted up to certain limits if certain conditions are met. Employer contributions to defined tax efficient insurance products up to CZK 50,000 per year are tax-free for the employee.

PENSION SYSTEM

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

ACQUISITION OF SHARES OR A TRANSFERABLE OPTION IN A BUSINESS CORPORATION

The amendment of Income Tax Act effective from 1 January 2024 newly introduces the rules applying to income flowing to employees from the acquisition of an shares or a transferable

option in a business corporation that is their employer or its parent, subsidiary, or affiliated corporation. Starting from 1 January 2024, such income will be taxed at the time when:

- the employee ceases to carry out employment for the employer, its parent, subsidiary or capital related person or its legal successor;
- the employer enters into liquidation;
- the employee or employer ceases to be a Czech tax resident;
- the share or option is transferred;
- the option is exercised;
- a share exchange occurs in which the total nominal value of the employee's shares changes; no later than 10 years after the acquisition of the share or option.

Employees are now required to inform their employers of the transfer of a share or an option before the end of the calendar month in which the transfer took place so that employers can make relevant monthly payments.

PERSONAL TAX ALLOWANCE

Resident and non-resident individuals may claim a basic personal tax allowance of CZK 30,840 per year (limit applicable for 2024). 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 is also caring for a child under the age of three living in a jointly managed household and tax allowances for dependent 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).

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

INCOME FROM INHERITANCE AND GIFTS

The taxation of such income is 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 rate for individuals. No tax is payable on inherited property.

SOCIAL SECURITY AND HEALTH INSURANCE

Czech health insurance contributions (an employee part of 4.5 percent and an employer part of 9 percent) should be calculated from the monthly gross employment income of the employee. Please note that Czech health insurance contributions are not capped. If the monthly gross employment income is lower than the monthly minimum wage of CZK 18,900 (the limit applicable for 2024), the Czech health insurance contributions should be withheld at least from this monthly minimum wage.

Czech social security contributions (an employee part of 7.1 percent and an employer part of 24.8 percent) should be calculated from the monthly gross employment income of the employee. Czech social security contributions are capped; the maximum assessment base for Czech social security contributions amounts to CZK 2,110,416 for 2024 (the "Cap"). Czech social security contributions must be paid until the aggregate of the monthly assessment base exceeds the Cap. Once the Cap is reached, no further social security insurance contributions (both for the employer and the employee) are due in the Czech Republic.

EMPLOYER (%)	EMPLOYEE (%)	
Pension	21.5	6.5
Sickness insurance	2.1	0.0
Unemployment insurance	1.2	0.6
Health insurance	9.0	4.5
Total	33.8	11.6

Social security and health insurance contributions must be paid on a monthly basis.

Tax on immovable property

Immovable property tax consists of land tax and tax on buildings and units. Generally, it is payable by the owners of immovable property located in Czechia, and 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 land property tax. Some plots are exempt from the tax, e.g., plots of land with taxable buildings or land used for various purposes as defined in the Real Property Tax Act (the “Act”).

LAND SUBJECT TO TAX	TAX BASE	TAX RATE
Agricultural land (i.e., arable land, hop fields, vineyards, gardens, orchards) - A	The area of the land multiplied by the average price determined in the decree	1.35%
Permanent herbage - B	The area of the land multiplied by the average price determined in the decree	0.45%
Forest land with agricultural forest - C	The area of the land multiplied by the average price determined in the decree	0.45%
Built-up area and courtyard - E	Area in m ²	CZK 3.5/m ²
Building sites (land determined for construction of a future building subject to tax) - F	Area in m ²	CZK 2/m ²
Other areas with types of usage other than under letters Q and W - G	Area in m ²	CZK 0.35/m ²
Other areas with other types of usage; barren land, outskirts, hillsides, marshy land and greenery - Q	Area in m ²	CZK 0.35/m ²
Other areas with types of different usage - W	Area in m ²	CZK 0.08/m ²
Paved areas of land, included or used within the business property of entrepreneurs		
<ul style="list-style-type: none"> • primarily used for agricultural production, forestry and water management or owned by a company doing business in these areas 	Area in m ²	CZK 1.8/m ²
<ul style="list-style-type: none"> • used in industry, building industry, transportation, the energy industry, other agricultural production and other business activities or owned by a company doing business in these areas 	Area in m ²	CZK 9/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. As with land, some buildings or units used for various purposes defined in the Act are tax exempt.

The tax base is the surface area of the built-up area in square metres. The rates for buildings and units used to carry out 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 - M/S	CZK 3.5/m ²
Building/unit used for business activities in industry, building industry, transportation, the energy industry or other agricultural production - N/T	CZK 18/m ²
Building/unit used for other business activities - O/U	CZK 18/m ²

An additional charge of CZK 1.40 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.

COEFFICIENTS

For some types of immovable property, the rates are multiplied by a coefficient ranging from 1 to 4.5 depending on the location of the property. In addition, the tax can be increased by another coefficient varying from 0.5 to 5 based on the decision of the relevant municipality. Finally, after 2025, the tax on immovable property except for agricultural land will be multiplied by an inflation coefficient that will be announced by the Ministry of Finance in the preceding year.

08 Indirect Taxes





The Czech VAT system is based on the harmonised principles of the EU Directive.

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 reduced rate is 12 percent and applies to basic foodstuffs (except most drinks), certain pharmaceutical products, certain medical equipment, social housing, essential baby nutrition, newspapers, heating and supplies of tap water. Newly, from 2024 the supply of books and their rent is zero-rated.

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, leases of safe deposit boxes and leases of machinery or other fixed equipment).

VAT registration

VAT registration is obligatory for taxable persons established in the Czech Republic whose turnover for the preceding 12 consecutive months exceeded CZK 2 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 15 million for exports or CZK 15 million for goods received) must complete and file Intrastat declarations.

Based on the turnover for Intrastat purposes in 2021, the company can file a “simplified Intrastat report”, if its yearly turnover for arrivals and/or exports (calculated separately) ranges between CZK 15,000,000 and CZK 30,000,000.

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.

For selected passenger cars (category M1 with a purchase price of more than CZK 2 million), which are part of the taxpayer's fixed assets, the right to deduct input VAT is limited to CZK 420,000.

A partial VAT deduction may be claimed in respect of taxable inputs related to both types of supplies, i.e., those qualifying for a deduction of input VAT and those not qualifying for a 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;
- telecommunications 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 supplied exceeds CZK 100,000. The reverse-charge regime could be applied also to supplies below CZK 100,000, if the contracting parties agree to this treatment in writing.

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

BAD DEBT RELIEF

A VAT payer is allowed to claim a VAT refund for uncollectible receivables (bad debts) if the debtor is under bankruptcy proceedings, execution or has died. 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 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)

According to the EU environmental strategy, the Carbon Border Adjustment Mechanism (CBAM) is being applied on given sets of commodities, for example goods made of steel and iron, fertilizers, electricity or cement. CBAM is applied on given CN (combined nomenclature) codes of goods that are imported to the EU customs territory from 3rd countries. The subject of the CBAM are direct and indirect emissions that occurs during the manufacturing process.



09

Immigration and Stay in the Czech Republic



Foreign nationals planning to work in the Czech Republic must adhere to the country's legal requirements, which vary for EU and non-EU citizens.

Immigration compliance

EU/EEA/SWISS CITIZENS

EU citizens, including those from the European Economic Area (EEA) and Switzerland, are governed by the Foreigners Act. This law does not require EU nationals to obtain a work permit or visa to work in the Czech Republic, regardless of their employer's origin. However, if their stay exceeds 30 days, their Czech residential address must be registered with the Foreign Police Department.

For stays longer than three months, they can apply for a Registration Certificate or Permanent Residence Permit, provided they meet the necessary criteria. This certificate or permit provides proof of residence and offers certain benefits. Family members of EU nationals from third countries must apply for a Temporary Residence Permit within 90 days of arrival, which grants them free access to the Czech labour market.

NON-EU CITIZENS

Non-EU or third country nationals, face more complex visa and residence policies.

Most short-term stays (less than 90 days) require a visa, with exceptions applied to certain countries and activities.

For stays exceeding 90 days, a Long-Term Visa or Residence Permit is necessary. Employment is possible if the individual holds an Employee Card, Blue Card, Permanent Residence Permit, or other permission granting labour market access. For intra-company transferred employees, i.e., assignees between capital linked companies, the ICT card may also be an option.

Government programs for migration

The Czech Ministry of Trade offers three government programs for economic migration to support international business development:

- Qualified Workers
- Highly Qualified Workers
- Key and Research Staff

These programs are categorized by the type of work, salary conditions, and country of origin, aim to facilitate the relocation process to the Czech Republic. Participation in these programs can expedite the visa and residence permit application process and grant priority submission appointments at Czech embassies/consulates.



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 IFRS Accounting Standards, as adopted by the EU (further “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 on cash rather than accrual basis (so-called “tax evidence”).
- All corporations recorded in the Commercial Register are obliged to publish their statutory financial statements in the Commercial Register; all data about all Czech corporations disclosed in financial statements and other mandatory reports 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 (full-time equivalent). 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 the Czech language.
 - Accounts are kept in CZK or selected foreign currencies – EUR, USD, GBP, if they can be considered the entity's functional currency.
 - The general structure of accounts must be in accordance with the standard chart of accounts.
 - Statutory financial statements' structure is prescribed by relevant Decrees and consist of a balance sheet, an income statement, 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 disclosure scope of Czech accounting legislation is considerably less demanding than that of IFRS.
 - A separate report on payments to governments must be compiled by large entities and public interest entities that are active in extractive industries or in the logging of primary forests.
- All accounting units with shares or bonds publicly listed on an EU regulated market must maintain books and formulate their financial statements in accordance with IFRS.
 - All other accounting units may choose to maintain books and formulate 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 compiled 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 other specific prescribed conditions have been met. However, this rule does not exempt 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.
- As an adaptation of the amendment to the EU directive concerning disclosure of income tax information, accounting units with annual net turnover exceeding a certain threshold are obliged to publish a Report on income taxes. This applies for accounting periods starting after 22 June 2024.
- The requirement to publish the Report on income taxes also applies to accounting units established outside the jurisdiction of any EU member state if its annual revenue exceeds EUR 750 million while simultaneously its Czech branch's net turnover exceeds CZK 200 million.
- The Act on Corporations requires that all corporations that are part of a group prepare a report on relations between related parties.

Non - financial reporting

MAIN FEATURES OF NON - FINANCIAL REPORTING

- The current requirements for non-financial reporting are set in the Act on Accounting which transposes the EU Non-financial Reporting Directive (NFRD).
- Public interest entities with more than 500 employees should report non-financial information on environmental, social and employee-related matters, respect for human rights, anti-corruption and bribery matters.
- In 2022, the EU introduced new non-financial reporting legislation, the Corporate Sustainability Reporting Directive (CSRD), which is also linked with the EU Taxonomy Regulation.
- The CSRD was partly transposed into Czech law in the Consolidation package which establishes the obligation for business corporations, public interest entities and large companies with more than 500 employees per accounting period at the balance sheet date to publish sustainability report prepared in accordance with the European Sustainability Reporting Standards (ESRS) as part of their annual report for FY 2024 (starting no earlier than 1 January 2024).
- CSRD also contains obligations for companies which comply with at least 2 out of 3 following criteria: have more than 250 employees, their net turnover exceeds EUR 50 mil. and/or their net total assets exceed EUR 25 mil. The full transposition of CSRD with an extended scope is expected to be done through the revision of the Act on Accounting during 2024.
- According to the CSRD, a sustainability report needs to contain among others: description of the time-bound sustainability-related targets (2030, 2050), sustainability due diligence policies, adverse impacts associated with entity's own operations and value chain and description of the main risks associated with sustainability.
- An accounting unit that is a consolidated accounting unit included in the consolidation unit of another consolidating entity from the EU, is not an issuer of investment securities admitted to trading

on a European regulated market can issue the Sustainability statement through a consolidated Sustainability statement (its information should be included in the consolidated Sustainability statement) but it shall state in its annual report the name and registered office of the other consolidating person from the European Union, a link to the website on which the consolidated annual report and reports on its verification are published, information that this accounting entity is not required to supply a sustainability report.

- Companies shall also disclose information required by the EU Taxonomy - a classification system defining economic activities that can be considered

environmentally sustainable. The Regulation mandates disclosure of the percentage of companies' turnover, CapEx and OpEx associated with environmentally sustainable activities.

- Large companies shall collect appropriate data and publish a report in line with CSRD for the fiscal year 2025.
- Sustainability reports will be subjects to limited assurance and shall be tagged according to the EU common electronic format.

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 exceeding CZK 80 million per annum;
 - total assets exceeding CZK 40 million;
 - the average number of employees exceeding 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.

The auditor also expresses an opinion on whether the annual report is materially consistent with the financial statements for the same financial year and whether it was compiled in accordance with legal requirements.

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 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.

A scenic view of a hillside town with a prominent church spire, partially obscured by a blue gradient overlay containing text. The town is built on a hillside, with a large white church with a tall, pointed spire and a red roof. The houses are white with red roofs. The foreground is filled with lush green trees and a river or lake reflecting the scene. The sky is blue with some light clouds.

11 Corporate Transactions



Corporate transactions have become an important feature of the Czech legal environment, enabling entrepreneurs to expand or restructure their business activities in Czechia.

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 numerous special regulations applicable to specific sectors, such as banking, insurance, and other financial services.

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 common 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 another entity authorised to maintain records of investment instruments. Regarding 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 possibility to acquire a share in a business is through a financial or non-monetary contribution to the company's registered capital, while, 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 must be evaluated by an independent and registered expert.

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 monitor 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 third-country investors. Foreign investments to specified sectors such as the defence industry or 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 is not consulted with them in advance.

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 also be undertaken as cross-border transactions with legal entities registered in other EU or EEA countries, including European Companies (Societas Europaea). Moreover, it is possible to relocate (transfer a company's registered office and change its legal form) a company to a third country outside EU and EEA.

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 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 based on merger projects, subject to approval by the general meetings.
- Mergers have two distinct sets of effects, each occurring on a different date. The effective date corresponds to the legal effects of the merger and takes place as at the registration of the merger to the commercial register, while the decisive date corresponds to the accounting effects of the merger.
- The merger date can be determined either retrospectively or prospectively.
- In some cases, the merger procedure can be significantly simplified as the approval of certain subsidiaries and their shareholders does not require the approval of the companies' shareholders.

- In 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;
- separation connected with new company formation;
- separation by acquisition;
- a combination of the options mentioned above.

In the event of a demerger or spin-off, shareholders of the demerged company have the right to acquire shares in the successor company. In a separation, a part of the company's assets and liabilities are separated from the company, and the demerged company acquires a shareholding in the successor company.

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 other participating securities owned by minority shareholders to the majority shareholder, resulting in a squeeze-out of minority shareholders.

Regulations

In all mergers and acquisitions, the interests of minority shareholders are protected as companies are obliged to ensure early notification and, for most 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 or the Protection of Competition.

Ownership of real estate

Czechia does not place any restrictions on real estate ownership.

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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 Czechia.

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

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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

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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

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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

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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
- 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

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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

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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 Czechia.

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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