



Tax Card 2018

Tax Services

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Corporate Income Tax

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

Tax depreciation periods

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

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

Fixed assets used for the production of solar energy must be depreciated on a straight-line over 240 months.

Tax depreciation of intangible assets

	Months
• Audio-visual work	18
• Software and R & D results	36
• Incorporation expenses	60
• Other intangible assets	72
• Goodwill	180

Only straight-line depreciation is available.

Loss utilisation

- Tax losses may be carried forward for up to 5 years.
- The carry back of tax losses is not allowed.
- Tax consolidation is not possible.

Withholding taxes on income of non-residents

For example:

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

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

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

Participation exemption

Dividends received by a Czech parent company or a permanent establishment of an EU company from subsidiaries registered in EU and EEA countries, and Switzerland are tax exempt provided that certain conditions are met (e.g., specific legal form, minimum 10-percent shareholding, 12-month uninterrupted holding of 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).

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

Intercompany interest and royalties

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

Transfer pricing

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

Transfer prices are one of the priority areas of the Czech tax authorities. The volume of additionally assessed tax has grown significantly over the years. In 2017, the tax authorities reported additionally assessed tax of CZK 886 million and reduced tax losses of more than CZK 8.5 billion.

The focus of the tax authorities is on the value chain within the group and proofs of service charges, while they also tend to investigate financial transactions more closely.

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

To manage transfer pricing risks, available transfer pricing documentation, supporting calculations, as well as cooperative and active management during tax inspections is recommended. To further reduce the risk, it is also possible to request uni- or bilateral advance pricing agreements on the transfer pricing methods applied in intra-group transactions. Since January 2018, permanent establishments or branches can also ask for such a ruling.

Thin capitalisation

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

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

Taxable period

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

Personal Income Tax

Rate

15%

Solidarity tax surcharge

7%

Employment and/or business taxable income in excess of 48 times the average wage (annual income of CZK 1,438,992 in 2018) is subject to a 7 percent solidarity tax.

Tax base for employees

The tax base for employees is calculated as the gross salary increased by the employer's health insurance and social security contributions.

The tax base for any non-Czech employees who are not subject to Czech social security and health insurance is calculated as the gross salary plus

a notional amount corresponding to the Czech social security and health insurance contributions that a Czech employer would have to pay if the salary was subject to the normal Czech regime.

The effective tax and social security rate for a person who is subject to Czech social and health insurance earning CZK 1,200,000 (EUR 47,000) per year is 29 percent.

Taxable benefits

Examples:

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

Tax free benefits/allowances

Examples:

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

Personal tax reliefs

Examples:

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

Social and health insurance

Type of insurance	Paid by		Total
	Employer (%)	Employee (%)	(%)
Social:			
• Pension insurance fund	21.5	6.5	28.0
• Sickness insurance fund	2.3	0	2.3
• Employment insurance fund	1.2	0	1.2
Health	9.0	4.5	13.5
Total (%)	34.0	11.0	45.0

The annual cap on the calculation base for social security equals 48 times the average wage (CZK 1,438,992 in 2018). No cap applies to health insurance.

Employers are obliged to pay their employee's salary from the third to the 14th day of illness. Statutory sick pay is paid from the 15th day.

Tax base for self-employed persons

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

Investment income

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

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

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

VAT

Three VAT rates apply in the Czech Republic:

Standard VAT rate – 21 percent: most products and services;

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

Reduced VAT rate – 10 percent: essential baby nutrition, certain pharmaceuticals, books, mill products and other products suitable for a gluten-free diet and newspapers;

Zero rate: exports of goods, intra-community supplies, international transport and related services, services on goods subsequently dispatched outside the EU and other supplies defined in the VAT Act.

Certain supplies (e.g., financial services, real estate) are exempt.

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

As of 1 July 2017, input VAT claimed in connection with the purchase of assets (i.e., long-term assets, low-value assets and inventories) has to be returned (partially) if the asset is destroyed, lost or stolen and such a fact is not properly documented.

VAT group registration is available.

Excise Duties

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

Energy Taxes

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

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

Real Estate Tax

Tax on buildings is based on the area of land occupied. The rates range from CZK 2 to 10 per square metre for buildings. Increased rates apply in certain circumstances. Real estate tax on agricultural land is 0.75 percent of the deemed value. Special rates apply for forests, lakes and ponds. For other types of land, tax is based on the area. For building plots, the rate is CZK 2 per square metre, CZK 5 per square metre for improved land surface used for business and CZK 0.20 per square metre in other cases.

Real estate tax is deductible for corporate income tax purposes.

Tax on the Acquisition of Real Estate

This tax is payable by the buyer of real estate. The rate of tax is 4 percent of the higher of the sale price and the reference value of the property. The reference value is calculated by the tax authorities based on prices for similar transactions. If the tax authorities cannot calculate a reference value, the tax base is the higher of the agreed price and 75 percent of the value assessed by an expert.

Gift and Inheritance Taxes

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

Road Tax

Road tax is generally payable by the operator of a vehicle registered in the Czech Republic. The tax rate varies from CZK 1,200 to CZK 4,200 in the case of passenger vehicles and from CZK 1,800 to CZK 50,400 for other vehicles.

Double Tax Treaty Network

Treaties with the following countries were in force as at 1 January 2018:

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

Tax Incentives

The main activities that can be supported are:

- Launching a new production facility or expanding an existing production business (production capacity enhancement, production portfolio diversification, significant changes of the whole production process) in the sector of the manufacturing industry;
- Launching a new technology centre (i.e., R & D or innovation centre) or expanding an existing one;
- Launching a new strategic services centre or expanding an existing one (e.g., centre for software development, high-tech repair centre, data centre or customer support centre).

The main incentives (forms of state aid) are:

- corporate income tax relief (tax holiday) for up to 10 taxable periods;
- job creation grants of CZK 100,000–300,000 in selected regions;
- financial support for employee training and retraining in selected regions;
- grants of up to 12.5 percent of the cost of fixed assets relating to an approved investment in the manufacturing and the technology sectors;
- exemption from tax on immovable property in selected industrial zones.

The limit on the incentives depends on where the investment is located. For new projects the total value of public support can be up to 25 percent of the investment amount in the case of large companies (35 percent for medium-sized and 45 percent for small enterprises). Financial support for employee training is limited to 25 percent of training costs (35 percent for medium-sized and 45 percent for small enterprises).

Work related to an investment project can start only after having submitted an application for investment incentives to the CzechInvest agency.

An amendment to the Investment Incentives Act is being drafted by the Ministry of Industry and Commerce and should come into effect during 2019.

R&D deduction

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

EU Cash Grants

Additional cash grants are available from Czech and EU funds. However, individual EU cash grant programmes are usually available for a limited time only and require regular monitoring. The EU budgetary period 2014–2020 is running and the next calls for the selected programmes are expected to be published during spring and summer 2018.

For more information, please contact us:

KPMG Česká republika, s.r.o.

Pobřežní 1a

186 00 Praha 8

T: +420 222 123 625

F: +420 222 123 446

www.kpmg.cz

or **www.kpmg.com**

Radek Halíček

Partner in charge of Tax
and Legal Services

E: rhalicek@kpmg.cz

Jana Bartyzalová

Partner

E: janabartyzalova@kpmg.cz

Aleš Krempa

Director

E: akrempa@kpmg.cz

Tomáš Kroupa

Director

E: tkroupa@kpmg.cz

Patrick Leonard

Partner

E: pleonard@kpmg.cz

Jan Linhart

Partner

E: jlinhart@kpmg.cz

Ladislav Malůšek

Partner

E: lmalusek@kpmg.cz

Pavel Rochowanski

Partner

E: prochowanski@kpmg.cz

Daniel Szmargowski

Partner

E: dszmaragowski@kpmg.cz

Petr Toman

Partner

E: ptoman@kpmg.cz

This card was prepared as a quick-reference tool for the most common tax rates and amounts and represents the status at 1 January 2018.

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