

# Czech Republic Country Profile

EU Tax Centre

June 2017

Key tax factors for efficient cross-border business and investment involving Czech Republic

|  |  |                        |              |              |  |
|--|--|------------------------|--------------|--------------|--|
| <b>EU Member State</b>                   | Yes  |                        |              |              |  |
| <b>Double Tax Treaties</b>               | With:  |                        |              |              |  |
| Albania                                  | Denmark  | Jordan                 | Morocco      | South Africa |  |
| Armenia                                  | Egypt  | Kazakhstan             | Netherlands  | Spain        |  |
| Australia                                | Estonia  | Rep. of Korea          | New Zealand  | Sri Lanka    |  |
| Austria                                  | Ethiopia   | People's Rep. of Korea | Nigeria      | Sweden       |  |
| Azerbaijan                               | Finland  | Korea                  | Norway       | Switzerland  |  |
| Bahrain                                  | France   | Kuwait                 | Pakistan     | Syria        |  |
| Barbados                                 | Georgia  | Latvia                 | Panama       | Tajikistan   |  |
| Belarus                                  | Germany  | Lebanon                | Philippines  | Thailand     |  |
| Belgium                                  | Greece   | Liechtenstein          | Poland       | Tunisia      |  |
| Bosnia & Herzegovina                     | Hong Kong  | Lithuania              | Portugal     | Turkey       |  |
| Brazil                                   | Hungary  | Luxembourg             | Romania      | UAE          |  |
| Bulgaria                                 | Iceland  | Macedonia              | Russia       | Ukraine      |  |
| Canada                                   | India  | Malaysia               | Saudi Arabia | UK           |  |
| China                                    | Indonesia  | Malta                  | Serbia       | USA          |  |
| Colombia                                 | Ireland  | Mexico                 | Singapore    | Uzbekistan   |  |
| Croatia                                  | Israel   | Moldova                | Slovakia     | Venezuela    |  |
| Cyprus                                   | Italy  | Mongolia               | Slovenia     | Vietnam      |  |
|  | Japan  | Montenegro             |              |              |  |
| <b>Forms of doing business</b>           | Limited Liability Company (s.r.o.), joint-stock company (a.s.), European Company (SE), Limited Partnership (k.s.), General Commercial Partnership (v.o.s.), Cooperative.   |                        |              |              |  |
| <b>Legal entity capital requirements</b> | s.r.o. - minimum registered equity is CZK 1<br>a.s. - minimum registered equity is MCZK 2<br>SE - minimum registered equity is TEUR 120<br>v.o.s. - minimum registered equity is not set<br>k.s. - minimum registered equity is TCZK 5 |                        |              |              |  |

cooperative - minimum registered equity is not set

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| <b>Residence and tax system</b>                 | A company is resident if it has been incorporated in the Czech Republic or if its management and control are exercised in the Czech Republic.<br><br>Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Czech source income.  |
| <b>Compliance requirements for CIT purposes</b> | A standard form is used for CIT compliance purposes. The tax return must be filed within three months of the end of the taxable period (or six months if the company is audited/the tax return is filed by a registered tax advisor based on a power of attorney). The tax return has to be filed electronically under penalty of TCZK 2.   |
| <b>Tax rate</b>                                 | The standard corporate income tax rate is 19 percent.   |
| <b>Withholding tax rates</b>                    | <b>On dividends paid to non-resident companies</b><br><br>35 percent for countries where no DTT or Tax Information Exchange Agreement has been concluded, otherwise 15 percent.<br><br>Exemption from WHT on dividends* to an EU, Icelandic, Norwegian, Swiss or Liechtenstein parent: <ul style="list-style-type: none"><li>■ Participation requirement: 10 percent of the share capital;</li><li>■ Minimum holding period: 12 months (or commitment) – can be met ex post;</li><li>■ Taxation requirement: No.</li></ul><br><b>* Implementation of Parent-Subsidiary Directive Amendment, i.e. no exemption if the dividend may be considered as an item decreasing tax base in the paying country.</b><br><br><b>On interest paid to non-resident companies</b><br><br>35 percent for countries where no DTT or Tax Information Exchange Agreement has been concluded, otherwise 15 percent.<br><br>Exemption from WHT on interest paid to EU, Icelandic, Norwegian, Swiss or Liechtenstein affiliated companies: <ul style="list-style-type: none"><li>■ “affiliated companies”: 25 percent of the share capital or voting rights are held directly; or indirectly if common 25 percent parent;</li><li>■ Minimum holding period: 24 months (or commitment) – can be met ex post;</li></ul><br><b>On patent royalties and certain copyright royalties paid to non-resident companies</b><br><br>35 percent for countries where no DTT or Tax Information Exchange Agreement has been concluded, otherwise 15 percent. |



Exemption from WHT on royalties paid to EU, Icelandic, Norwegian, Swiss or Liechtenstein affiliated companies:

- “affiliated companies”: 25 percent of the share capital or voting rights are held directly; or indirectly if common 25 percent parent;
- minimum holding period: 24 months (or commitment) – can be met ex post.

#### On fees for technical services

No

#### On other payments

Under Czech law, Czech-sourced income paid to a non-resident is generally subject to either 15 percent withholding tax or the non-resident must file a tax return. The WHT rate is increased to 35 percent if the income is paid to residents of countries which have not signed a DTT with the Czech Republic or where no arrangement is in place for the exchange of information on tax matters. Czech source income taxed through tax return:

- income from a permanent establishment;
- income from the sale and/or use of immovable assets;
- income from the sale of movable assets of a permanent establishment, investment instruments under the special regulation of capital market business, property rights registered in the Czech Republic;
- income from settlement of a receivable acquired by assignment;
- income from a transfer of shares in a company seated in the Czech Republic;
- income from a sale of business located in the Czech Republic.

Czech source income taxed at 15 percent:

- income from employment;
- income from provision of services\*;
- income from an independent activity\*;
- income of entertainers and sportsmen\*;
- income from the use of movable assets\*;
- remuneration of members of statutory bodies;
- winnings from lotteries and other games of chance;
- pensions;
- contractual fines;
- income from trust;
- gratuitous income;
- rental income from movable property located in the Czech Republic;
- income received by a shareholder of a company in connection with a registered capital reduction.

\*performed/exercised/located in the Czech Republic.

#### Branch withholding taxes

No



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| <b>Holding rules</b>                              | <b>Dividend received from resident/non-resident subsidiaries</b>   |
|   | <p>In principle, subject to 15 percent tax. An exemption (100 percent) applies to dividends from domestic and EU subsidiaries if the following requirements are met:</p> <ul style="list-style-type: none"> <li>■ Participation requirement: 10 percent of the share capital;</li> <li>■ Minimum holding period: 12 months (or commitment) – can be met ex post.</li> </ul> <p>For dividends received from subsidiaries resident in non-EU countries that have entered into a DTT with the Czech Republic, the exemption can be applied if the minimum holding conditions are met and the subsidiary is subject to a minimum 12 percent tax rate. The exemption cannot be applied if the parent company or the subsidiary: are exempt from corporate income (or a similar) tax; or may claim some corporate income tax exemption or relief; or are subject to corporate income tax at a rate of 0 percent.</p> |
|   | <b>Capital gains obtained from resident/non-resident subsidiaries</b>  |
|   | <p>Exemptions may apply to:</p> <ul style="list-style-type: none"> <li>■ gains derived by a domestic company from the sale of shares in a domestic, EU or non-EU subsidiary under the same conditions as apply to dividends.</li> </ul>  |
| <b>Tax losses</b>                                 | Losses can be carried forward for 5 years.   |
| <b>Tax consolidation rules/Group relief rules</b> | No   |
| <b>Registration duties</b>                        | <p>For corporate income tax purposes, a taxpayer must register with the tax authorities:</p> <ul style="list-style-type: none"> <li>- in the case of residents: within 15 days after the incorporation of a company;</li> <li>- in the case of non-residents conducting business through a permanent establishment: within 15 days after the set up of the permanent establishment;</li> <li>- in the case of non-residents: within 15 days after the receipt of certain types of Czech-sourced income or after obtaining the business permission.</li> </ul>  |



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| <b>Transfer duties</b>                     | <p><b>On the transfer of shares</b></p> <p>No. The definition of real estate company is based on the particular DTT.</p> <p><b>On the transfer of land and buildings</b></p> <p>The buyer is responsible for paying the real estate transfer tax at a rate of 4 percent.</p> <p><b>Stamp duties</b></p> <p>No</p> <p><b>Real estate taxes</b></p> <p>Yes: computed based on the area of land occupied, category of land and other variables (number of floors, local coefficients determined by the local authorities).</p>  |
| <b>Controlled Foreign Company rules</b>    | No   |
| <b>Transfer pricing rules</b>              | <p><b>General transfer pricing rules</b></p> <p>OECD Transfer Pricing Guidelines.</p> <p><b>Documentation requirement?</b></p> <p>The Czech Ministry of Finance has issued guidelines covering recommended documentation.</p>  |
| <b>Thin capitalization rules</b>           | <p>Interest and other expenses on credits and loans (e.g., loan arrangement fees, guarantee fees) from related parties and from unrelated parties where a related party is a guarantor are subject to thin capitalization rules, as follows:</p> <ul style="list-style-type: none"> <li>■ Debt-to-equity ratio of 4:1 (6:1 for banks and insurance companies) on loans or credits granted by related parties: Excess expenses (including interest) are non-deductible.</li> <li>■ Interest on “back-to-back” loans is treated as interest on related-party debt.</li> <li>■ Any upward adjustment of profit resulting from a thin capitalization or transfer pricing adjustment relating to a non-EU or non-EEA resident counterparty may be treated as a dividend, i.e., is subject to dividend withholding tax and reduced by the provisions of any applicable DTT, if such reclassification is allowed by the DTT.</li> </ul> |
| <b>General Anti-Avoidance rules (GAAR)</b> | Yes  |



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| <b>Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions</b> | Restrictions on loss utilization in corporate reorganizations and changes in ownership if there is also a change in the business ("same activities test").<br>"Subject to tax" requirement for the exemption of dividends and capital gains.<br>Where the interest rate or the interest payment is dependent on the borrower's profit, the related expense is non-deductible.  |
| <b>Advance Ruling system</b>   | Binding rulings can be obtained for the following: <ul style="list-style-type: none"> <li>■ The apportionment of costs that cannot be allocated solely to taxable income;</li> <li>■ The calculation of the proportion of expenses connected with the operation of real estate used partly for business or lease purposes and partly for private purposes (for sole traders);</li> <li>■ Improvement of an asset;</li> <li>■ Deductibility of expenses incurred on R&amp;D projects;</li> <li>■ Loss carry-forward on a change of ownership (but only after the event);</li> <li>■ Transfer pricing;</li> <li>■ The applicable VAT rate;</li> <li>■ Application of local VAT reverse charge mechanism on sale of scrap;</li> <li>■ Situations where it is unclear whether the taxpayer has an obligation to register/report sales electronically;</li> <li>■ The amount of profit allocated to the permanent establishment of a foreign entity in the context of transfer pricing arrangements.</li> </ul> |
| <b>IP / R&amp;D incentives</b>                                       | Yes.   |
| <b>Other incentives</b>  | Investment incentives can be granted if the particular conditions and all the administrative requirements are met.   |
| <b>VAT</b>   | The standard rate is 21 percent, with two reduced rates: 15 percent and 10 percent.  |
| <b>Other relevant points of attention</b>                            | "Substance over form" rule; however, in practice, "form" tends to be more important.   |

Source: Czech tax law and local tax administration guidelines, updated 2017.



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