Thinking beyond borders: Management of extended business travelers - Czech Republic

January 2024

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Key message

Personal income tax is imposed on the income of individuals. Those who have a permanent residence in the territory of the Czech Republic or who usually reside in the Czech Republic are liable to pay tax on their worldwide income, unless a double taxation treaty stipulates otherwise. The aggregate income is taxed at progressive tax rate of 15 and 23 percent, discussed below.

1 Key message

Extended business travellers are likely to be taxed on employment income relating to their Czech workdays. Non-residents are liable to pay tax on income generated from sources in the Czech Republic.

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Income tax

2 Income Tax

2.1 Liability for income tax

A person's liability to Czech income tax is determined by the individual's tax residence status. A person can be a resident, non-resident, or split resident for part of the year for Czech tax purposes.

An individual will be considered a Czech resident for tax purposes if:

- the individual's permanent residence is in the Czech Republic
- the individual usually resides in the Czech Republic.

Individuals who usually reside in the Czech Republic are understood to be persons who stay in the Czech Republic for at least 183 days in a given calendar year, either continuously or intermittently.

The general rule is that a person who is a tax resident of the Czech Republic is liable to declare and pay tax in the Czech Republic on the individual's worldwide income, which includes employment income, income from self-employment, rental income, investment income and capital gains, and other taxable income from whatever source.

Individuals who are Czech non-residents for tax purposes are subject to tax only on income from Czech sources.

2.2 Tax trigger points for employment income

The taxpayer must file an annual income tax return for all resident years. The taxpayer must also file an annual income tax return for the year in which the assignee leaves the Czech Republic, provided that in the year concerned, the taxpayer performed activities in the Czech Republic and is not protected by a double tax treaty. The tax return is to be filed within the statutory deadline(s) for filing.

In the years following the year of expatriation, the assignee does not generally have any filing requirements provided that the assignee is treated as a tax non-resident and has no Czech-sourced income.

If, however, the assignee receives Czech-sourced income related to the individual's prior work in the Czech Republic, the assignee may be liable to declare and pay tax in the Czech Republic on a proportionate part of the income.

2.3 Types of taxable income

For extended business travellers, the types of income that are generally taxed are employment income, Czech-sourced income, and gains from taxable Czech assets (such as real estate).

2.4 Tax rates

The aggregate income is subject to income tax which is calculated by applying a progressive tax rate schedule as follows:

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

In addition, there is a 15% flat income tax applicable on defined capital income from abroad which is taxed in so called the separate tax base unless such income is included in the aggregate income.

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Social Security

3 Social Security

3.1 Liability for social security

Treaty countries

Extended business travellers employed by an employer located in a European Economic Area (EEA) member state or Switzerland can remain, in most cases, subject to their home country/territory's social security scheme. This exemption is based on the EEA/Swiss rules with respect to postings and/or simultaneous employment.

Other extended business travellers, in some cases, may stay in their home countries/territories' social security systems and obtain an exemption from paying Czech social security based on the provisions of social security totalization treaties signed between their home countries/territories and the Czech Republic.

If no continued home country/territory social security coverage and no subsequent exemption from social security contributions are available, an extended business traveller will be subject to Czech social security.

Non-treaty countries/territories

An employee who works in the Czech Republic for an employer with a registered office outside the Czech Republic is exempt from the social security scheme, provided that the employer's registered office is in a country/territory that has not concluded a totalization agreement on social security with the Czech Republic, and provided that the employee is not considered an economic employee of a Czech entity.

If the individual is considered an economic employee of a Czech entity, the employee shall be subject to Czech social security scheme.

Social security rate

The employer's social security rate is 33.8 percent, consisting of 24.8 percent for the social insurance scheme and 9 percent for the health insurance scheme.

The employee's social security rate is 11.6 percent, consisting of 7.1 percent for the social insurance scheme and 4.5 percent for the health insurance scheme.

Cap for social security

For social security payments, both the employee´s and employer´s portions, the maximum assessment base is set (for 2024, the cap for social insurance scheme is CZK 2,110,416), The health insurance contributions, both the employee's and employer's portion are uncapped. Once the cap for social insurance payments is reached, no more social insurance contributions are due from either the employee or employer during that year.

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Compliance obligations

4 Compliance obligations

4.1 Employees' compliance obligations

Tax returns must be submitted by 1 April of the following year or 1 May of the following year providing that the tax return is submitted by the taxpayer electronically (i.e., signed with the certified electronic signature or submitted through the electronic data box). In case that the tax return is prepared by a certified tax adviser, the deadline is extended to 1 July of the following year.

4.2 Employers reporting and withholding requirements

Withholdings from employment income are covered under the Pay-As-You-Go (PAYG) system. The income of an individual paid by a Czech entity (this includes also Czech branch of a foreign entity) based on a local contract with a Czech entity or working in the Czech Republic under the economic employer structure, is subject to monthly wage tax withholdings. The withholdings are made by the employer or economic employer through payroll deductions. Similarly, also a foreign entity having its permanent establishment (PE) in the Czech Republic (except the service PE) or employing in the Czech Republic employees for a period of more than 183 days is obliged to make withholdings through payroll deductions.

In other cases, there are no withholding requirements, and the tax is reflected fully through the personal income tax return.

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Immigration

5 Immigration

5.1 Residence & Work requirements

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

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

5.2 Immigration Compliance

European Union (EU) nationals

EU nationals, the EEA or Switzerland, and their EU family members are not required to obtain either Work Permit or Visa / Residence Permit to work in the Czech Republic, regardless of whether a local or foreign company employs them. EU citizens may stay in the Czech Republic on the basis of a valid travel document. Under the above Act they are required to register at the relevant Foreign Police Office within 30 days as of the arrival if their intended stay is longer than this period. Alternatively, they can apply for a Registration Certificate (recommended for those staying over 3 months) or Permanent Residence Permit if they resided in the Czech Republic for 5 years. Family members of EU nationals who are third country/territory nationals are obliged to apply for a Temporary Residence Permit within 90 days as of their arrival in the Czech Republic. Once applied, a free access to the Czech labour market is granted.

Non-EU nationals

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

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

- For short-term stays in the Czech Republic, it is necessary either to hold a Visa, or be listed among the nationals who are visa exempted or apply any other of available exemptions.

Visa-free countries are listed on the website of the Ministry of Foreign Affairs under the link below:

Státy bez vízové povinnosti | Ministerstvo zahraničních věcí České republiky (gov.cz)

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

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

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

- holds a valid Employee Card or
- holds a valid Blue Card or
- holds a Permanent Residence Permit or any other residence permission granting the free access to the Czech labour market under the conditions of Act on Employment in the Czech Republic.

Changes due to Brexit

Since 1 January 2021, the rights and benefits conferred by European Union legislation, and guaranteed by the Withdrawal Agreement, apply only to U.K. nationals and their family members, whose stay in the Czech Republic commenced before 2021. Otherwise, they are treated as third country/territory nationals.

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

Ukrainian citizens fleeing from the war conflict in Ukraine

Citizens of Ukraine with valid biometric passport may stay in the Czech Republic for 90 days without a visa. Should they intend to stay in the Czech Republic longer than for 90 days they must apply for the Temporary Protection status. If they do not meet the conditions for being granted with the Temporary Protection, they may apply for a standard residence permit type, such as Employee, Blue or ICT card. By having the Temporary Protection status, the individual is granted with a free access to the Czech labour market and access to the public health insurance system for the first 150 days. These benefits are valid only in the Czech Republic.

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Other issues

6 Other issues

6.1 Double taxation treaties

In addition to Czech domestic arrangements that provide relief from international double taxation, the Czech Republic has also entered into double taxation treaties with more than 90 countries/territories to prevent double taxation and allow cooperation between the Czech Republic and overseas tax authorities in enforcing their respective tax laws.

6.2 Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of longer-term activities of extended business travellers, but this would be dependent on the type of services performed, the length of stay in the Czech Republic, the structure under which the extended business travellers work in the Czech Republic, and the level of authority the employees have.

6.3 Indirect taxes

There are three types of indirect taxes: value-added tax (VAT) – charged on most supplies of goods and services; and excise duties – charged on supplies of specific goods such as fuels, beer, wine, spirits, and tobacco.

6.4 Transfer pricing

A transfer pricing implication could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in another jurisdiction, in other words, a cross-border benefit is being provided. This would also be dependent on the nature and complexity of the services performed.

If the companies are regarded as related through equity/capital, or as otherwise related persons, there may be a transfer pricing issue as market prices should be used.

6.5 Local data privacy requirements

The Czech Republic has data privacy laws.

6.6 Exchange control

There are no extraordinary exchange controls placed on individuals that restrict the transfer of money into or out of the Czech Republic.

6.7 Non-deductible costs for assignees

Generally some benefits provided by the employer are regarded as non-deductible on the employer side, such as school fees or medical care provided in kind, but these are tax exempt on the side of the assignee up to the amount of half of average wage (given for the relevant year) per calendar year (CZK 21,983.50 in 2024).

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