Doing Business in the Czech Republic

2022

mazars

Mazars in the Czech Republic presentation and figures

Mazars in the Czech Republic offers complex solutions and financial consulting tailor made to large multinational corporations. Thanks to the complete, adaptable and flexible range of services, Mazars is capable of being a corresponding partner in the areas of accounting and consultancy even for smaller directly-owned companies and enterprises as well as for high-net-worth individuals.

Mazars is a leading international audit, tax and advisory firm. Operating as a united partnership, we work as one integrated team, leveraging expertise, scale and cultural understanding to deliver exceptional and tailored services in audit and accounting, as well as tax, financial advisory and consulting.

Founded in Europe, we opened our first office in 1945. Since then, we have grown into a global, connected partnership of over 44,000 professionals - 28,000 in our integrated partnership, 16,000 via the Mazars North America Alliance. Operating in 91 countries and territories Mazars professionals can assist to major international groups, SMEs, private investors and public bodies at every stage in their development.

250
professionals

9
partners

12.6 M EUR
turnover

1
office in Prague

Key figures about the Czech Republic

Time zone:

Central European Time UTC+1 during winter; Central European Summer Time UTC+2 during summer

Size:

78 871 Km^2

Population:

10.7 million inhabitants (end of 2020)

Language:

Czech

European Union Member since:

1. 5. 2004

Capital:

Prague, 1.3 million inhabitants

Other major cities:

Brno, Ostrava, Plzen, Liberec, Olomouc ...

Currency:

Czech crown – Koruna – CZK

FX rates (3.1.2022):

EUR/CZK = 24.82
USD/CZK = 21.86

Unemployment rate (12.2021):

3,5 %

Average monthly salary (01.2022):

38 911 CZK CZK (1 568 EUR)

Median monthly salary (09/2021):

men, 34 461 CZK (1 388 EUR)
women, 30 036 CZK (1 210 EUR)

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Establishing an entity

Both individuals and legal entities may engage in business practice in the Czech Republic under one of the following available legal forms.

Generally, there is **no limitation on the level of foreign participation** in a Czech legal entity. Foreigners/foreign companies can establish both joint-ventures and wholly-owned subsidiaries in the Czech Republic.

The types of companies include a joint-stock company, a limited liability company, a limited partnership and an unlimited partnership.

Joint-stock and **limited liability companies** are the most common types used for business purposes; both of these legal forms must fulfil the minimum capital requirements.

A joint-stock company can be set up by one or more legal entities or individuals. The minimum registered capital requirement is CZK 2 million or EUR 80 000.

A limited liability company can be set up by one or more legal entities or individuals. The minimum contribution into the registered capital of a limited liability company is CZK 1.

The restriction on the "chaining" of sole-member companies was cancelled as of 1 January 2014 (The chaining of sole-member companies is a situation where a limited liability company with a sole shareholder is the sole founder or sole shareholder of another limited liability company).

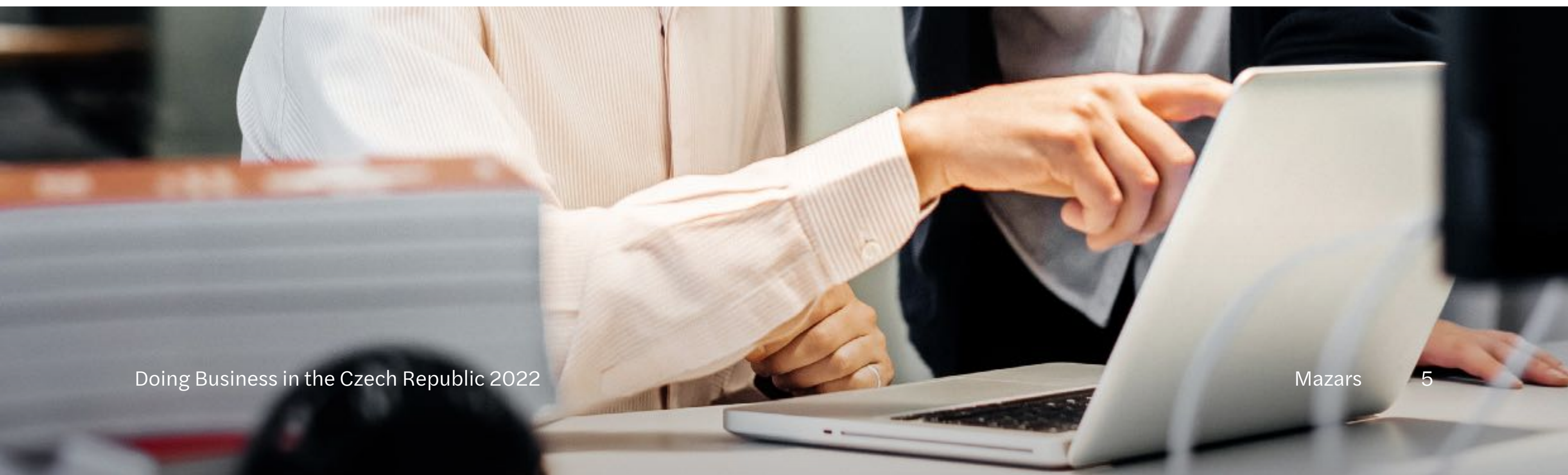
Besides companies, **business may be conducted by means of the following legal forms: a co-operative, a branch, a silent partnership, a European Company (Societas Europaea) and a European Economic Interest Grouping. An association can also do business, but only in the framework of its secondary activity.**

Business can be also conducted directly in the Czech Republic by a foreign entity. The foreign entity may register a branch (of a legal entity) which does not form a separate legal entity, and thus any actions by the branch are seen as actions of the entity registering the branch. A registered branch may generally undertake the same scope of business activities as a Czech legal entity.

The authorisation of a foreign entity to carry out business activities in the Czech Republic takes effect on the date that such an entity or its branch is registered in the Commercial Register and corresponds to the scope of business activities of such an entity or branch registered in the Commercial Register. Companies, co-operatives, as well as branches and foreign non-EU or non-EEA sole proprietors are required to be registered in the Commercial Register.

Prior to being registered in the Commercial Register, a Czech legal entity or a branch of a foreign entity must follow certain procedures which include, in particular, **obtaining a trade license or other business authorisation, appointing statutory representatives and satisfying the minimum capital requirements** (if applicable).

Special authorisation may be needed to carry out activities in certain areas that are not governed by the general trade licensing regime. Such industries that are subject to regulation by special legislation include, inter alia, certain financial services (such as banks, security brokers, insurance companies, investment funds, investment companies/unit trusts and pension funds), telecommunications, utilities, pharmaceuticals, broadcasting, gaming and employment mediation (recruitment, executive searches, etc.).



Foreign business restrictions

The Czech Republic doesn't apply any restrictions to entrepreneurs based in the EU area. Foreign investors especially appreciate the Czech Republic's unique central location in Europe, its infrastructures, economic stability and flexible labour force.

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The Czech law, investment protection treaties and the Treaty establishing the European Community (in relation to EU Member States) guarantee the right to repatriate profits abroad.

Bilateral investment promotion and protection agreements have been signed with a wide range of countries (a list of bilateral agreements is available at **www.mfcr.cz**).

Investment incentives

The system of investment incentives is incorporated in the Czech legal system. The Act on Investment Incentives (Act No. 72/2000 Coll.) was discussed with the European Commission and is in compliance with European regulations on state aid.

Businesses set up in the Czech Republic can also obtain financial support from EU structural funds.

For detailed information, please see **www.czechinvest.org** or contact Mazars.

Incentives under the act on investment incentives

Investment incentives are available for manufacturing industries, technology centres, business support services centres and manufacturers of special medical products.

The Czech entities can receive:

- corporate income tax relief for 10 taxable periods
- financial support for newly created jobs in selected regions
- financial support for the training and retraining of employees in selected regions
- financial support for strategic investment (including production of medical device protective aids) in selected regions
- transfer of land with technical infrastructure at a specially reduced price
- exemption from immovable property tax in selected industrial zones for 5 years

The maximum amount of the state aid granted under the Investment Incentive Act could reach up to 40% for large enterprises, 50% for medium enterprises and 60% for small enterprises, depending on the investment location.

State aid is generally not available in the Prague region.

Three VAT rates are applied in the Czech Republic in 2022 – the standard VAT rate (21%) and two reduced VAT rates (15% and 10%).

For 2022, the standard VAT rate is 21%, while the reduced rates are 15% (applicable, for example, on foodstuffs, non-alcoholic beverages and selected medical/sanitary goods, municipal waste collection & recycling) and 10% (applicable, for example, on baby formula and children's food, certain pharmaceuticals, certain printed books, newspapers, magazines, music sheets, food for gluten-intolerant persons, public transport, heat and cold, accommodation, food-serving services including the serving of non-alcoholic beverages or keg beer; e-books and audiobooks, including lending; tap water, water and sewer charges; the repair of shoes, leather products, clothing and textile products, repairs of bicycles; hairdresser and barber services; home care for children, the elderly, ill and disabled people; services for cleaning and washing windows in households; entrance to sports and cultural events).

Corporate Tax Rates

Statutory (%)	Surtax	Local	Effective (%)	Branch Tax (%)
19	–	–	19	19

Branches are taxed at the same rates as domestic companies.

Tax losses

Tax losses may be carried forward for up to 5 taxable periods.

From 2020, tax losses may be carried back for 2 taxable periods. The maximum amount that may be carried back from one taxable period is limited to CZK 30 million (approx. EUR 1.2 million).

Tax consolidation is not possible.

Dividend Withholding Tax Rate: 0% / 15% / 35%

Dividends paid to both residents and non-residents are subject to a final withholding tax of 15%, unless the rate is reduced under an applicable tax treaty. A special 35% rate is applicable to residents of states that are not EU tax residents or with which the Czech Republic has not concluded a double tax treaty or a contract for the exchange of tax information.

Under the EU Parent-Subsidiary Directive, dividends paid by a Czech company to a parent company (as defined in the directive) located in other EU Member States are exempt from withholding tax if the parent company holds at least 10% of the distributing company for an uninterrupted period of at least 12 months. Since 2009, the exemption applies to dividends paid to parent companies from Iceland, Norway and Switzerland. Furthermore, dividends are exempt if paid to a parent company that:

- Is a tax resident in a non-EU country with which the Czech Republic has concluded a tax treaty;
- Has a specific legal form;
- Satisfies the conditions for exemption under the EU Parent-Subsidiary Directive; and
- Is subject to a home country tax similar to Czech income tax at a rate of at least 12%. The exemption on dividends is not applicable if the subsidiary or the parent company:
- Is exempt from corporate income tax or a similar tax;
- Can choose exemption or a similar concession from corporate income tax or a similar tax;
- Is subject to corporate income tax or a similar tax in the amount of 0%.

Royalties and Interest Withholding Tax Rate: 0% / 15% / 35%

A 15% withholding tax is imposed on interest and royalties paid to non-residents unless the rate is reduced under an applicable tax treaty or the payment is made to a qualifying associated company under the EU Interest and Royalties Directive. If special conditions under the EU Interest and Royalties Directive are met, the taxpayer can ask for exemption. The exemption is not automatic. The special ruling issued by the tax authorities based on the written application is needed. A special 35% rate is applicable to residents of states that are not EU tax residents or with which the Czech Republic has not concluded a double tax treaty or an exchange of tax information treaty.

Transfer pricing

The Czech Tax Authority is currently increasing the focus on transfer pricing audits, and this topic is currently included in every tax audit of large taxpayers. During the tax audit, the taxpayers must prove the prices are applied at arm's length, which is commonly done by an adequate transfer pricing documentation. While not specifically required by tax legislation, it is expected in practice to demonstrate compliance. The transfer pricing documentation should be in line with Decree D-334 issued by the Czech Ministry of Finance, which is actually reflecting the OECD and EU recommendations.

In the light of the pandemic situation the Czech tax authority is paying attention to whether the transfer pricing methodology correctly considers all relevant costs or losses caused by the pandemic, as well as any potential financial support granted by the government.

Personal Tax Rates

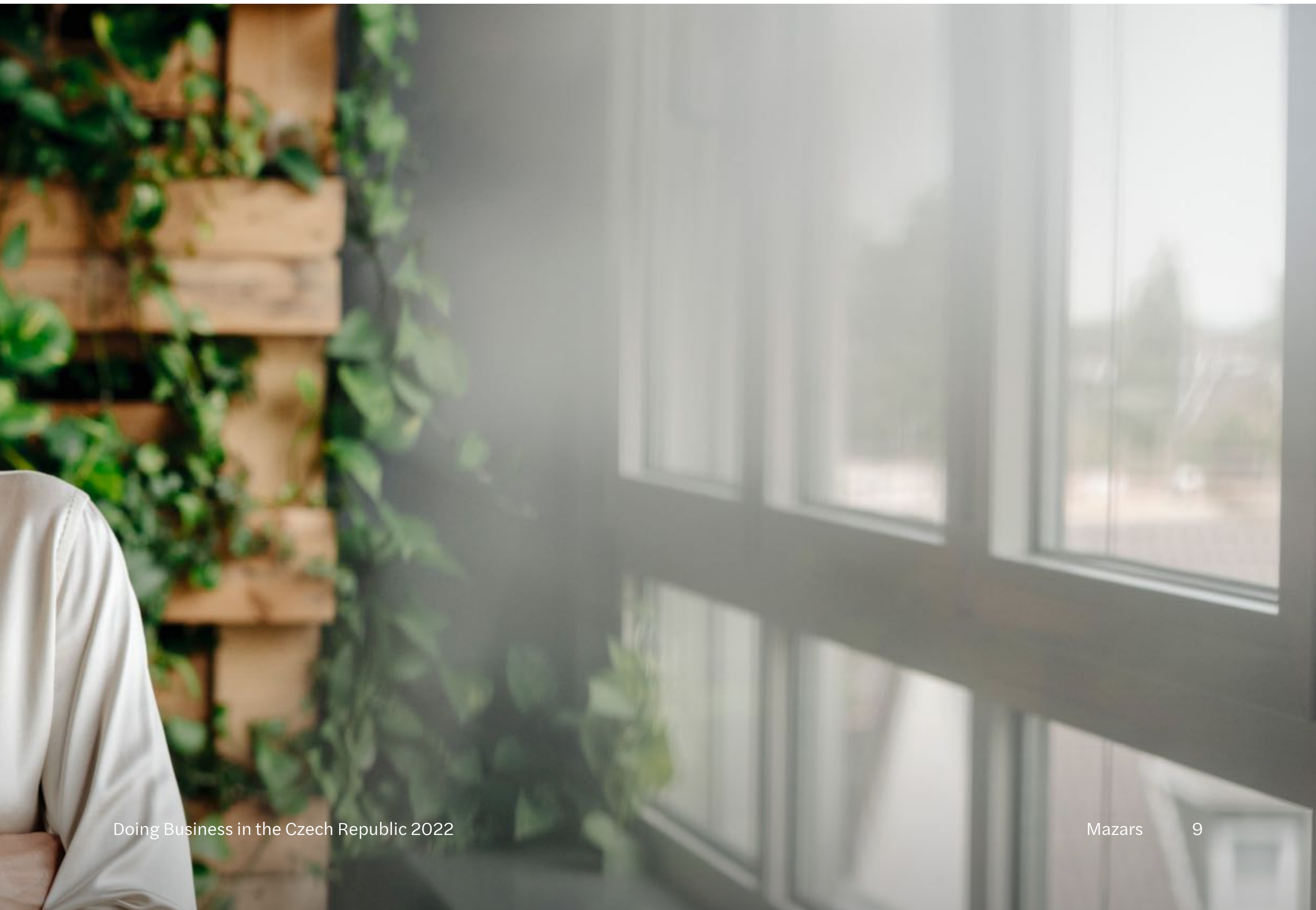
Effective from 1 January 2021, the employment tax base is newly calculated as gross employment income (till the end of 2020 the tax base was increased by the Czech social security and health insurance contributions paid by the employer).

In the case of the self-employed, the tax base is calculated as the amount of income decreased by the actual or lump-sum expenses. The lump-sum expenses amount to from 30% to 80% of the income depending to the type of the activity (up to an absolute limit corresponding to each category of income).

In 2022, the following progressive tax rate is applied on the Personal Tax Base, which consists of five partial Tax Bases (employment, self-employment, capital gain, lease income, other income):

Tax rate (%)	Tax base
15	up to 48 times the average wage (i.e. up to CZK 1,867,728 which is CZK 155.644 per month)
23	above 48 times the average wage

In 2021 the Flat-rate Tax regime was introduced for self-employed taxpayers. The amount of the Flat-rate Tax equals to CZK 5,994 per month for the year 2022 and consists of advance payments on Personal Income Tax, and payments of Social Security and Health Insurance.



Social security and health insurance contributions rates

The rates applied on gross employment income are as follows:

	Social security (%)	Health insurance (%)	Total (%)
Employer	24.8	9	33.8
Employee	6.5	4.5	11
Total	31.3	13.5	43.8

The rates applicable for self-employed individuals are as follows:

	Social security (%)	Health insurance (%)	Total (%)
Self-employed	29.2	13.5	42.7

For the self-employed, the rates are applied on the assessment base that is generally calculated as 50% of the tax base, i.e. income decreased by the expenses.

The social security contributions are not paid on the income exceeding the maximum assessment base. In 2022, the maximum assessment base amounts to CZK 1,867,728.

Anti-avoidance rules

The EU Anti-Tax Avoidance Directive (ATAD) was transposed into Czech tax law in the form of:

- Limitation of financing expenses by restricting the tax deductibility of excessing borrowing cost.
  - The threshold is CZK 80 million or 30% of EBITDA
- Control foreign entity rule (CFC)
  - Under special condition the income of this foreign company is attracted to the tax base of the Czech controlling company
- Exit taxation
  - Relocation of assets without a change in ownership is subject to taxation in the Czech Republic
- Hybrid mismatch rules
  - This rule neutralizes the effects of hybrid mismatch arrangements

DAC6 Directive (Council Directive (EU) 2018/822/EU) was implemented into the Czech legislation into the Act No. 164/2013 Coll., on International Cooperation in Tax Administration. This legislation implies a mandatory reporting/disclosure obligation in relation to selected cross-border arrangements.

Work permits and visas

Visas:

EU citizens with a valid passport or national ID card do not need a visa to enter the Czech Republic and to stay there. If, however, their stay exceeds thirty consecutive days, they have to register with the Czech Foreigner's Police. Non-EU citizens from particular countries may be obliged to apply for a visa before entering the Czech Republic and, even if there might be no visa duty for visiting the Czech Republic for tourist purposes stipulated for the citizens of a particular non-EU/EEA country, in most cases they need to have the relevant visa in order to be entitled to work here.

Work permit:

EU and EEA citizens do not need a work permit to work in the Czech Republic.

UK citizens who newly arrive to work in the Czech Republic after 31 December 2020 are subject to the conditions which apply to Non-EU/EEA citizens.

Non-EU/EEA citizens generally need to obtain a work permit (with certain exemptions such as a spouse of an EU/EEA citizen, a holder of master's degree from a Czech university, etc.). Nevertheless, the Czech employer has a reporting duty towards the Czech Labour Office regarding the employment of foreigners entitled to work without a work permit. Such a report must be filed no later than on the date of the commencement of employment. For the employment by Czech employers, the work permit has been replaced by an "Employee Card", or a "Blue Card", a dual permit combining the work and residency permit in one document. While the Employee Card represents the standard permit obtainable by all employees, the Blue Card has been designed for highly qualified employees who reach a certain minimum level of salary. The Czech legislation has also introduced such a dual permit, an "Intra Company Transfer Card", also for the employees and executives who are assigned by their foreign employers to perform their activity in a Czech company belonging to the same group.

Residency permits:

EU/EEA citizens have to register at the Foreigner's Police if their stay in the Czech Republic exceeds thirty consecutive days. Alternatively, they can apply for a Residency Confirmation for an EU/EEA citizen, which is valid for a longer period.

UK citizens who first start to reside in the Czech Republic after 31 December 2020 are subject to the conditions which apply to Non-EU/EEA citizens.

From the beginning of their stay in the Czech Republic non-EU/EEA citizens must have a short-term (up to 90 days of stay) or long-term (up to six months of stay) residency visa according to their purpose of stay, which is issued by a Czech embassy in the country of their residence or in certain cases by any Czech embassy. The long-term residency visa can subsequently be extended and converted into a non-dual Employee Card issued by the Czech Ministry of Interior or into any of the above mentioned dual permits in case of employees, or into a long-term residency permit for the individuals residing in the Czech Republic for different purpose.

Audit and accounting

The area of accounting is governed in the Czech Republic by Act No. 563/1991 Coll., on Accounting which also specify entities with an obligatory statutory audit.

The Act on Accounting is supplemented by the following regulations:

- Decree implementing the Act on Accounting for entrepreneurs using double-entry book-keeping
- Decree on the implementation of the Act on Accounting for banks
- Decree on the implementation of the Act on Accounting for insurance companies
- Decree on the implementation of the Act on Accounting for health insurance companies
- Czech Accounting Standards.

The obligation to keep accounts in line with Czech accounting legislation applies to **accounting units**, as legal entities having a registered office in the Czech Republic, foreign entities, if they are doing business in the Czech Republic or carrying on another activity under specific legislation, organisational elements (establishments) of the state, physical persons - entrepreneurs specified in the law, trust funds and other investment funds.

The entities with securities traded on a regulated market within the European Union must use International Financial Reporting Standards as adopted by the EU (IFRS) for bookkeeping and the preparation of financial statements instead of Czech accounting rules. Consolidating entities and their subsidiaries can voluntarily use IFRS for bookkeeping and the preparation of their individual and consolidated financial statements.

The amendment to the Accounting Act effective from 1 January 2016 introduces a new division of accounting units into micro, small, medium and large accounting units. This division has an impact on the different obligations when maintaining the accounting, preparing the financial statements or publishing financial information.

Category of accounting unit	Criteria to fulfil	Total assets in TCZK	Total annual net turnover in TCZK	Average number of employees during
Micro	As at the balance sheet date it does not exceed at least two of the specified limits	9 000	18 000	10
Small	It is not a micro accounting unit and as at the balance sheet date it does not exceed at least two of the specified limits	100 000	200 000	50
Medium	It is neither a micro or small accounting unit and as at the balance sheet date it does not exceed at least two of the specified limits	500 000	1 000 000	250
Large	As at the balance sheet date it exceeds at least two of the specified limits	500 000	1 000 000	250

A public-interest entity, among others, is always considered to be a large accounting unit. A public-interest entity is considered to be an accounting unit with its seat in the Czech Republic, which is an issuer of securities accepted for trade on the European regulated market, bank or a savings and credit cooperative, insurance or reinsurance company, pension company or health insurance company.

The Act also defines categories of groups of accounting units:

Category of group of accounting units	Criteria to fulfil	Total assets in TCZK	Net turnover in TCZK	Average number of employees during accounting period
Small	As at the balance sheet date it does not exceed at least two of the specified limits on a consolidated basis	100 000	200 000	50
Medium	It is not a small group and as at the balance sheet date it does not exceed at least two of the specified limits on a consolidated basis	500 000	1 000 000	250
Large	As at the balance sheet date it exceeds at least two of the specified limits on a consolidated basis	500 000	1 000 000	250

Financial statements under Czech accounting regulations are compiled at the balance sheet date which could be a calendar or business year and consist of:

- A balance sheet,
- A profit and loss statement,
- The notes explaining and supplementing the information contained in the balance sheet and the profit and loss statement,
- Medium and large entities must also include a cash-flow statement and statement of changes in equity.

Accounting units that are obliged to have their accounts verified by an auditor must also prepare an **annual report**.

The financial statements and the annual report must be published in the **Commercial Register**. Accounting units must archive financial statements and annual reports for at least ten years and other accounting records for five years. Documentation related to payroll must be archived up to 30 years.

The following entities must have the regular or extraordinary financial statements verified by an independent auditor which must be appointed by the General Meeting:

a) large accounting units (except selected accounting units that are not public-interest entities),

b) medium accounting units,

c) small accounting units which are joint-stock companies or trust funds and exceed one of the following criteria as of the balance sheet date and the accounting period immediately preceding, must have financial statements audited:

- Net Assets totalling CZK 40 000 000,
- A total annual net turnover of CZK 80 000 000,
- An average of 50 employees during the accounting period,

d) other small accounting units, if at least two of the aforementioned criteria have been exceeded or at least reached as of the balance sheet date and the accounting period immediately preceding must be audited too.

The audit profession in the Czech Republic is regulated by the Act on Auditors and all statutory auditors must be certified and registered by the Chamber of Auditors of the Czech Republic. The Public Audit Oversight Board is the independent institution which supervises the Chamber of Auditors of the Czech Republic and the activities of auditors.

The verification of accounts is carried out in accordance with the **International Standards on Auditing (ISA)** and application guidelines issued by the Chamber of Auditors.

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