Doing Business in the Czech Republic

2023

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.

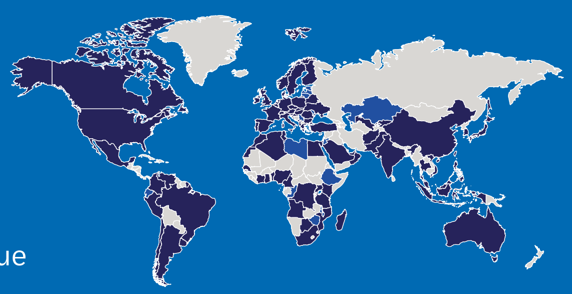
Founded in Europe, we opened our first office in 1945. Since then, we have grown into a global, connected partnership of over 47 000 professionals – 30 000 in our integrated partnership, 17 000 via the Mazars North America Alliance. Operating in 95 countries and territories Mazars professionals can assist to major international groups, SMEs, private investors and public bodies at every stage in their development.

250
professionals

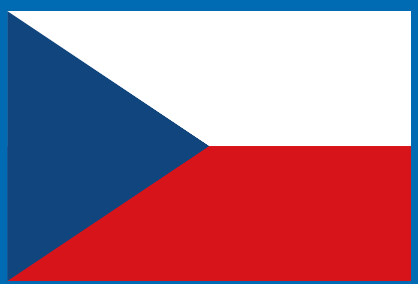
9
partners

EUR 12.8 M
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
Population: 10.5 million inhabitants (2020, including 7.26 million working people)
Language: Czech
Capital: Prague, 1.33 million inhabitants
Other major cities: Brno, Ostrava, Plzen, Liberec, Olomouc ...
Currency: Czech crown – Koruna – CZK
Foreign Direct Investment: EUR 132 billion (2021)

Table of Contents:

Country profile

Economic overview

Among Central and Eastern Europe countries, the Czech Republic offers today **the most industrialized and developed economy**.

The Czech Republic was the first country in the CEE zone to be admitted to the OECD (1995). It became a member of the EU in 2004.

The country has **a solid growth of its economy** based on innovation and skills, **a stable political system**, a healthy banking sector, as well as **a modern and flexible labor market**.

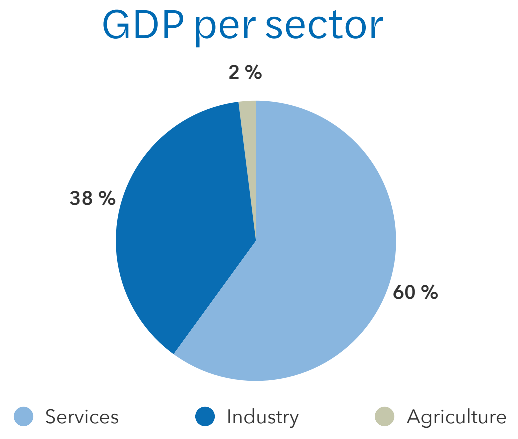
Czechia reached 93% of the average GDP per capita of the EU-27 in 2020. The performance of the Czech economy has therefore more than doubled compared to the 90s.

GDP per capita PPP	**91%** (EU-27 average 100%) (2021)	Distribution of GDP	**Services 60%** **Industry and construction 38%** **Agriculture 2%**
GDP	EUR **238 billion** (2021)	Currency	1 EUR = 24 CZK (2022)
GDP growth	**+2,5%** (2022) **+2,8%** (2021) **-5,6%** (2020)	Current account balance/GDP	**-4,1%** (2022)
Average gross salary **Minimum salary**	**CZK 39 858** (EUR 1 660) **CZK 16 200** (EUR 675)	Financial account balance/GDP	**0,2%** (2022)
Unemployment rate (ILO)	**3,9%** (2022)	Government debt	EUR **107 billion** (2022)
Annual inflation rate	**15,1%** (2022)	Government debt/ GDP	**43,1%** (2022)
Exports/GDP	**81%** (2021)	Fiscal deficit/GDP	**5,5%** (2022)
Trade balance	EUR **8 billion** deficit (2022)	Household savings/ disposable income	**15,2% (2021)** 18% (2020) 13,2% (2019) 10,9% (2018)

Economic trends

The most industrialized country in Europe

Despite continued tertiarization, the Czech economy remains highly industrialized. **Industrial production and construction represent 38% of the GDP and 40% of jobs in the country.** This figure ranks the Czech Republic first in Europe in terms of industrial sector importance. The tertiary sector generates 60% of GDP and employs 56% of the active population. The rest is represented by agricultural production.



Growth, stability and openness to international markets

During the pre-Covid decade, Czech Republic **showed one of the strongest GDP growth rates in Europe**, due to its good economic health. However, during 2020 the Czech economy recorded a 5.6% drop in GDP, in line with the EU members' average.

Czech Republic is also one of the most open countries in the European Union with an export rate representing 81% of its GDP, of which approximately 90% is directed towards Europe.

Another strength of the Czech Republic is the stability of its exchange rate. At the beginning of 2022, 1 EUR was worth approximately 24.0 CZK according to the CNB (Czech National Bank). Thanks to the strong liquidity of its banks and its low sovereign debt (43% of GDP), it also benefits from the confidence of the rating agencies, which allows it to have one of the best ratings in Europe and thus to borrow a low rate.

Financial rating

Agencies	Notation 2022	Comparables
Moody's	Aa3	Belgium, UK, Taiwan
Standard & Poor's	AA-	Ireland, Israel, Estonia, Slovenia
Fitch	AA-	Belgium, South Korea, UK

Source : Czech National Bank

The lowest unemployment rate in Europe

The Czech working population represents 69% of the total population i.e. 7.26 million people. **It is one of the most educated working populations in Europe** with 93% of people who have at least reached secondary level. The employment rate reaches 70%, which ranks the Czech Republic among the European countries with **the highest employment rate.**

The unemployment rate is one of the lowest in Europe. Despite the energy crisis, it remained below 4% in January 2023 and the number of open vacancies barely caught up with the number of job seekers. The cost of labor includes wages and other employer charges (social charges and others). It is one of the lowest in Europe with an hourly cost of €15.3 in 2021, when the European average is €29.1. This low labor cost and the quality of its workforce makes the country very attractive and represents a real opportunity for foreign companies.

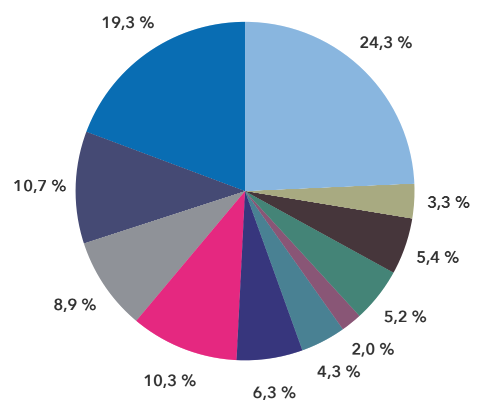
Trades exchanges

More than 80% of the Czech GDP in export

The Czech Republic is one of the most open countries in Europe. Its exports account for 81% of the Czech GDP.

Commercial exchanges

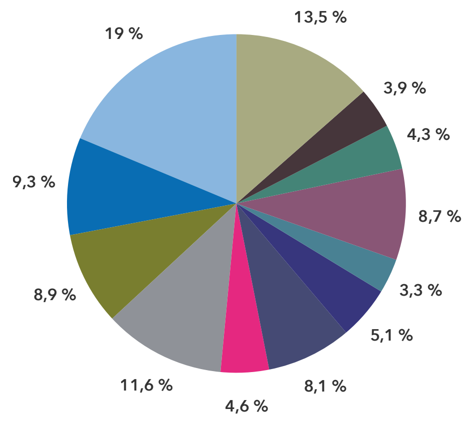
Structure of exports (2021)



- Motor vehicles
- Food products
- Chemicals and derivatives
- Rubber and plastic derivatives
- Non-metallic mineral products
- Basic/Raw materials
- Manufactured metal products
- Computers and electronic components
- Electrical equipment
- Miscellaneous machines and their equipments
- Others

Commercial exchanges

Structure of imports (2020)



- Motor vehicles
- Crude oil and natural gas
- Food products
- Chemicals and derivatives
- Pharmaceutical products
- Rubber and plastic derivatives
- Basic/Raw materials
- Manufactured metal products
- Computers and electronic components
- Electrical equipment
- Miscellaneous machines and their equipments
- Others

Main customers (2021)

1.	Germany	31.0%
2.	Slovakia	9.7%
3.	Poland	7.1%
4.	France	4.7%
5.	Austria	4.5%
6.	UK	3.6%
7.	Italy	3.8%
8.	Netherlands	3.4%

Main suppliers (2021)

1.	Germany	23.3%
2.	China	12.2%
3.	Poland	7.9%
4.	Slovakia	5.1%
5.	Italy	4.5%
6.	Russia	3.8%
7.	France	3.0%
8.	Austria	3.1%

Main investors (2019)

1.	Netherlands	18.3%
2.	Luxemburg	17.1%
3.	Germany	14.9%
4.	Austria	10.6%
5.	France	7.0%
6.	Switzerland	3.9%

Source: Czech statistical office, 2020

Promising sectors

Automotive

1st automotive producer in Central and Eastern Europe

The automotive sector, with more than 180 000 employees, is a powerful engine of the Czech economy. Indeed, this sector represents 26% of the country's total industrial production and almost 23% of the Czech Republic's exports.

Car manufacturers present in the Czech Republic – Škoda Auto, TPCA, Hyundai, Iveco, SOR, Avia, Tatra – produced 1.1 million vehicles in 2021 (99.5% of them cars) and 1.2 million in 2022, which corresponds to 7.8% of the European production and 1.5% of the world production, much more than the combined production of Poland, Hungary and Romania over the same year.

26% of industrial production
+ 180 000 employees

Informations & communication technology

One of the leading countries in IT transformation

According to Infosys BPO data, the Czech strategic services sector already employs about 30,000 people and is worth $2 billion.

The Czech Republic has become one of the most successful European territories for the relocation and outsourcing of ICT services. This is confirmed by a large influx of high added-value projects from the main ICT world players, supported by a traditi-on of excellence in the technical field. The country has the highest density of strategic service centers in Central and Eastern Europe. According to data from Infosys BPO, the Czech strategic service sector already employs around 30 000 people and is worth $2 billion.

35 000 ICT students
6 universities
Birthplace of the companies AVG, AVAST, SEZNAM.CZ.

Electronics

30% of world production of electron microscopes

The Czech electrotechnical sector is based on its seniority and the extensive skills of its employees. Indeed, from the beginning of the 20th century, the production of electronic products took an active part in Czech industry (Czechoslovakia at this time). Currently, this branch accounts for about 15% of Czech industrial production. Of all foreign investments in the Czech Republic, 25% go to the electronics and electrical engineering sector.

In recent years, the Czech Republic has welcomed many investors, such as Panasonic, Siemens, Bosch, TYCO Electronics, Celestica, Honeywell, ABB, Mitsubishi Electronic, Daikin, LG Philips, Pickering, ST Microelectronics, Hitachi, Foxconn, BenQ, Bang & Olufsen, etc.

Most of these investors are not only interested in the creation of production sites, but also in local skills in the field of R&D.

15% of industrial production
2nd sector within Industry
+ 3 000 companies
+ 40 000 employees

Promising sectors

Mechanical engineering

A long metallurgical tradition

Despite the difficulties of the early 90s, the metal and steel industry remains one of the most important branches of Czech industry.

Thanks to a successful restructuring, its long tradition, its know-how and numerous foreign investments (ArcelorMittal, Evraz), this sector still accounts for 12% of Czech industrial production and almost 15% of all jobs in Czech industry.

+ 46 000 active companies within the sector
+ 115 000 highly qualified professionals

Agri-food

Agrifood receptive to Foreign companies

This traditional industry retains a significant economic weight in Czech industry as a whole and employs around 9% of employees in the industrial sector.

Foreign capital has a significant share in certain production sectors.

+ 100 000 employees
+ 10 000 companies

Aerospace

+ 32 000 aircraft and + 37 000 aircraft engines produced in 90 years of experience

The Czech aeronautical sector can count on its long experience, on the quality of its producers as well as on its R&D. Indeed, for more than 90 years, the Czech Republic has been building entire aircraft or structural elements. In total, more than 32 000 aircraft have been produced and 37 000 engines supplied. The sector is made up of 130 companies that employ 6 500 people and generate a turnover of 490 million euros.

All sectors related to aeronautics are present in the Czech Republic. As far as R&D is concerned, the country has several clusters specialized in aerospace, which are mainly located in Prague and Brno.

+ 130 companies
+ 10 000 employees

E-commerce

One of the countries that uses the most online sales

In recent years, the number of online purchases has increased remarkably. The Czech Republic ranks 5th among the countries with the highest number of sales on Internet compared to total sales volumes. It places itself alongside the most developed European countries.

Online Shopping is common for Czechs aged 25-34, where almost 70% of them are online shopping at least once a month.

54% of online payments are made on cell phones, which ranks the Czech Republic in the first position in Europe.

E-commerce represents 10% of retail turnover
+ €9.18 billion in 2021
+ 43 000 e-shops

To sum-up: why choose the Czech Republic?

- A strong industry : the most industrialized country in Central and Eastern Europe
- Qualified manufacturers and subcontractors in all industrial sectors
- A strategic geographical position offering privileged access to all of Eastern Europe
- Economic openness to all of Europe
- Stable economy and politics

Establishing an entity

Both individuals and legal entities may engage in business in 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 also be 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 authorization 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 authorization, appointing statutory representatives and satisfying the minimum capital requirements** (if applicable).

Special authorization 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.).

Once the company is registered in the Commercial Register, it is necessary to open a business (bank) account which has to be published and used to all tax liabilities payments.

All entities established in the Czech Republic have their own databox created by the Czech government. This databox is used for sharing all official documents as unique government communication channel.

Foreign business restrictions

The Czech Republic doesn't apply any restrictions on 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 labor force.

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.mpo.cz** or contact Mazars.

Incentives under the Act on Investment Incentives

Investment incentives are available for manufacturing industries, technology centres, business support service 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.

Taxation

Corporate taxes and other direct taxes

The Czech Republic has a flat **corporate income tax rate** of 19% applied on the general tax base, i.e. branches are taxed at the same rates as domestic companies. Basically, the tax base is represented by an accounting profit or loss modified by certain increasing and decreasing items.

The tax base may be reduced by **tax losses** carried forward within five subsequent 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.

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%.

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.

Road motor vehicles used in connection with business as well as trucks with a maximum gross weight exceeding 3.5 tonnes regardless of their use, are subject to a **road tax** if registered in the Czech Republic.

A **real estate tax** is applied in relation to land and buildings, with tax rates generally depending on the type of the property, while the final amount of tax may also be influenced by local ratios (as applied by local authorities).

The real estate transfer tax was abolished on 25 September 2020 and is not currently applied.

The inheritance tax and gift tax are incorporated into the income tax, with the application of standard income tax rates.

A new type of corporate tax referred to as a **windfall tax** or an extraordinary tax was introduced in connection with the energy crisis in the Czech Republic.

This new tax applies to selected taxpayers in the fossil fuel sector, in the energy sector and banks, which exceptionally profit from increased prices, or in case of banks from increased interest rates.

The windfall tax rate is 60% and it is applied on a specifically calculated tax base. Even though it will be valid only in the calendar years 2023-2025, the advances on this tax will be due as early as in 2023.

VAT and other indirect taxes

For 2023, 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 draft 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).

From 1 January 2023 an annual turnover for mandatory VAT registration of Czech based entities has been increased from CZK 1 million to CZK 2 million (approx. EUR 80 000). VAT payers are obliged to submit VAT returns, EC Sales Lists and Control Statements (detailed evidence for selected transactions) on a monthly or quarterly basis (depends on the VAT payer´s status).

Transfer pricing

Recently, transfer pricing has been a very hot topic in the field of the Czech corporate income taxation and the financial administration is extensively focused on scrutinizing it. There are a lot of tax audits fully concentrated on transfer pricing, which are often lengthy and end up with significant tax assessments.

In the case of a tax audit, the taxpayer is typically asked to provide evidence confirming the compliance of transfer prices with the arm's length principle in realized intra-group transactions. The recommended scope of transfer pricing documentation is specified in Guideline D-334 issued by the Ministry of Finance and is generally in compliance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

The Czech financial administration currently pays considerable attention especially to the following aspects:

- Consistency of the functions performed with the risks assumed; i.e. the taxpayer should not bear the risk in areas over which it has no control and where it is bound by the decision of another related entity; or if so, it should be adequately compensated by the group.
- Economic substance (including the so-called benefit test) of management fees, royalties and interest payments for intragroup loans.
- Whether the taxpayer is correctly remunerated by the group for its own contribution to development, enhancement, maintenance, protection and exploitation of intangible assets used (the so-called "DEMPE" function).
- Whether the taxpayer has received appropriate compensation from the related parties in the event of a business restructuring.
- Whether the taxpayer received adequate compensation for the so-called "parent company's instruction", which is defined as any infuence of an independent transaction effectuated by the taxpayer by a decision of the parent company.
- Whether the costs or losses caused by the COVID-19 pandemic were correctly reflected in the transfer pricing methodology applied by the taxpayer; and whether these costs do not incorrectly reduce the arm's length profit margin of the taxpayer.
- Last but not least, in the period of the current energy crisis, whether the increased costs incurred by the taxpayer are correctly reflected in the taxpayer´s cost basis; and whether these costs do not incorrectly reduce the arm's length profit margin of the taxpayer.

Personal Income Tax / Social security system

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 2023, 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 1 935 552 which is CZK 161 296 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 CZK 6 208 per month for the year 2023 and consists of advance payments on personal income tax, and payments of social security and health insurance.

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 2023, the maximum assessment base amounts to CZK 1 935 552.

Wage related taxes in Czech Republic	Minimum wage		Average wage in private sector	
Exchange rate CZK/EUR 23.73	in EUR	in CZK	in EUR	in CZK
	729	17 300	1 699	40 324
Total wage cost	976	133.80%	2 273	133.80%
Social security contribution – employer	181	24.80%	421	24.80%
Health insurance – employer	66	9.00%	153	9.00%
Gross salary	729	100.00%	1 699	100.00%
Personal income tax before standard tax deduction*	109	15.00%	255	15.00%
Personal income tax after standard tax deduction**	1		147	
Employees' contributions	81	11.00%	188	11.00%
Net salary	647	88.75%	1 364	80.28%

* The 15% tax rate is applied on the gross salary up to an annual income of EUR 81 566 (or EUR 6 797 EUR monthly), income above is taxed at 23%.
** Each individual is entitled to deduct a lump sum of CZK 2 570 (app. EUR 108) per month from his tax liability (so called "standard tax deduction").

Taxation

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 costs.
  - The threshold is CZK 80 million or 30% of EBITDA
- Control foreign entity rule (CFC)
  - Under a special condition, the income of this foreign company is subject 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

The DAC6 Directive (Council Directive (EU) 2018/822/EU) was implemented into the Czech legislation in 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.

Nationals from non-EU/EEA countries must have a short-term (up to 90 days of stay) or long-term (up to six months of stay) residency visa covering the purpose of their stay from the beginning of their presence in the Czech Republic , 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 a different purpose.

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 based on the rules described in the law.

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 accounting period
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.

All entities have to perform the annual General Meeting of shareholders where the entity closing is approved and shareholders decisions about accounting result and other topics are fixed. The shareholders are also responsible to prepare the related parties report, where a comprehensive presentation of the controlled entity's position in the structure of the group of related parties has to be described.

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,

>>

Audit and accounting

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.

ESG reporting

The Corporate Suistanability Reporting Directive came came into force on 5 January 2023, so Czech companies will be obliged to Czech entities to report their sustainability activities. Large companies (> 250 employees, >€40M net turnover or >€20M balance sheet total) will be under this obligation in 2025 (2024 sustainability report). In the following years, listed medium/small companies or groups (above 500 employees, €40M net turnover or €20M balance sheet total) will also have to prepare and submit this report.

Mazars s.r.o.
International Business Center
Pobřežní 3
186 00 Prague 8
Tel. +420 224 835 730

Vendula Pešková
Outsourcing Leading Partner
Tel. +420 224 835 730
Mob.: +420 721 438 771
vendula.peskova@mazars.cz

www.mazars.cz
www.mazars.com

mazars