

A scenic view of a city, likely Prague, featuring a prominent church with a large green dome and golden spires. The foreground is dominated by numerous red-tiled roofs with white chimneys. The background shows a cityscape under a blue sky with light clouds. The image is framed by dark silhouettes of tree branches in the corners.

Pocket Tax Book

Czech Republic 2010 edition

PRICEWATERHOUSECOOPERS 

Pocket Tax Book

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A summary of the Czech tax legislation

The information in this book is based on taxation law, legislative proposals and current practice, up to and including measures passed into law as of 1 January 2010. Tax amendments currently in Parliament will be introduced in the future.

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Personal Income Tax

GENERAL PRINCIPLES

- The tax year is the calendar year.
- The flat income tax rate is 15%.
- Czech tax residents are taxable on their worldwide income, subject to exemptions according to applicable double-taxation treaty (if any).
- Czech tax non-residents are generally taxable only on their Czech-source income.

TAX RESIDENCY

Czech tax residents

An individual is a Czech tax resident if he:

- Has a permanent home in the Czech Republic, or
- Is present in the Czech Republic for 183 or more days in a calendar year.

An individual's permanent home is the place where he has a permanent residence and circumstances indicate his intention to dwell there permanently.

Tax non-residents

A tax non-resident is only subject to Czech income tax on his Czech-source income, which are especially:

- Income for work physically performed in the Czech Republic including income from employment and performance of activity as member of company's statutory bodies.
- Income from independent activity (e.g., by architect, physician, engineer, teacher, artist, tax or accounting advisor and similar professionals), if such activity is performed in the Czech Republic.
- Income from an activity performed personally in the Czech Republic, or remunerated there, when such activity concerns a publicly performing artist, sportman, entertainer and co-performing persons, irrespective of who receives such income (or through whom such income is received) and under what legal relationship.
- Dividends, interest, licence fees, rental payments, service fees and other income received from an entity resident or domiciled in the Czech Republic.

EMPLOYMENT INCOME

Salary

- Taxable income includes all monetary and non-monetary remuneration and certain in-kind benefits. Statutory health insurance and social security contributions paid by the employer are part of the employee's taxable income.
- If an employee participates in a foreign social security system, his tax base will increase by the amount of deemed health insurance and social security contributions which his employer would have paid if he paid into the Czech system, instead of the actual social security contributions paid by the employer abroad.
- Salary payments to an employee of a Czech company or a Czech branch of a foreign company are generally taxed by monthly payroll withholding. Also, the health insurance and social security contributions are withheld and paid on monthly basis.
- Executives of a Czech limited liability company are subject to the same taxation as employees. Executives also participate in the Czech social security system as employees (with exception for sickness insurance).

Directors' fees

Remuneration paid to an individual in his capacity as a member of the Board of Directors or Supervisory Board of a Czech joint-stock company is taxed as follows:

- Payroll tax must be withheld.
- Where the fee is paid to a tax non-resident, a 15% final tax must be withheld. If the individual is a tax resident of an EU Member State, Norway, Liechtenstein or Iceland, the tax withheld from the director's fee can be regarded as a tax advance and may be credited against the Czech tax liability in individual's Czech tax return.
- The remuneration is tax non-deductible for the company.
- The fees are subject to Czech health insurance contributions.
- The fees are not subject to Czech social security contributions.

Travel expenses and travel allowances

- The reimbursement of actual and documented travel expenses (e.g., hotels and fuel) and reimbursement for the use of a personal car for business trips are not included in the individual's tax base.
- The minimum statutory rate for reimbursement for the use of a personal car on business trips is CZK 3.90 per kilometre travelled.
- Meal allowances are non-taxable for employees provided they are up to the Czech statutory limits. The minimum statutory limits for meal allowances for business trips in the Czech Republic depend on the duration of the business trip:

- 5-12 hours	–	CZK 73
- 12-18 hours	–	CZK 112
- Over 18 hours	–	CZK 174

- The basic daily meal allowance for business trips outside the Czech Republic is regulated separately for each visited country.
- Travel allowances in excess of the statutory limits are taxable income for employees.

Non-monetary benefits

Generally, non-monetary benefits received in the form of recreation, use of sport, educational, healthcare and culture facility are non-taxable for the individual provided they are:

- Paid for from the employer's tax non-deductible costs.
- Truly non-monetary, i.e., no cash is provided to the employee.

Otherwise, the value of the benefit is included in the employee's tax and social security base.

Non-monetary benefits in form of personal development of employees (e.g. trainings) are non-taxable for the employee provided that they relate to the scope of employer's business.

Company cars and fuel

- Private use of company car for free or discounted price is employee's benefit subject to tax and social security. In case of provision of the car for free, the benefit for tax and social security purposes equals to 1% of the car's purchase price per each month (minimum monthly taxable benefit is CZK 1,000).
- Fuel costs paid by the employer for an employee's private use are a taxable benefit for the employee.

Share option schemes

- In general, an individual pays tax on the exercise of share options when he/she is deemed to receive actual benefit.
- A positive difference between the acquisition price and the market price of a share is treated

as employment income subject to income tax and social security provided that the benefit is provided directly by the employer.

- The employee must declare the income in his annual tax return (according to individual plan conditions) provided that the benefit is provided by third party without his/her legal employer's participation.
- There are no specific legal provisions governing the taxation of share schemes, so each must be considered based on its own facts.

INCOME FROM BUSINESS ACTIVITIES

- Individuals having income from their business income pay income tax on their business profits.
- The tax base is calculated as difference between income and costs.
- There are three alternative ways for determination of tax-deductible costs and individual may choose any of them:
 - Deemed costs determined as percentage of revenues (between 40 – 80% depending on the type of business activity).
 - Actual expenses accounted for in individual's books kept using cash-flow principle.
 - Actual costs accounted for in the individual's books kept using accrual principle.
- Individual with business income must file annual income tax return and is subject to tax advances, depending on the amount of the previous year's tax liability.
- Individual with business income is generally subject to Czech social security and health insurance contributions and must pay social security and health insurance advances.

RENTAL INCOME FROM MOVABLE AND IMMOVABLE PROPERTY

- Taxable income is the difference between rental income and related tax-deductible expenses or a flat 30% deduction from rental income – tax base is determined in similar way as for income from business activities.
- Rental income is declared in the annual income tax return.
- Rental income is not subject to social security contribution.

DIVIDEND INCOME

- Dividend income from Czech companies is subject to final withholding tax of 15% and is excluded from the general personal income tax base. Dividend income is not subject to the social security contribution.
- Dividend income from abroad is taxed in its gross amount in the general tax base. Credit relief is available under double-taxation treaties.

INTEREST INCOME

- An individual is generally taxed on interest income on cash-flow basis and interest income is included in individual's general tax base (e.g., interest income from loans).
- In certain cases, interest is subject to final 15% withholding tax (e.g., bonds issued after 1 January 1998, bank promissory notes, bank accounts, certificates of deposits and similar deposits).
- Interest income from abroad is taxed (in its gross amount) in individual's general tax base.
- Interest and interest-like income is subject to the EU Savings Directive provisions.

CAPITAL GAINS

- There is no special tax treatment for capital gains in the Czech Republic.
- Gains on sale of property are exempt if the conditions for given type of property are met and the individual has owned the property for longer than the specified time limit.

The time limits for tax exemption are as follows:

- Shares in a joint-stock company or fund (acquired before 1 January 2008) – six months.

- Shares in a joint-stock company or fund (acquired after 1 January 2008) – six months provided the seller holds up to 5% stake in equity of the company within 24 months before the sale of the shares. If the seller holds more than 5% stake within 24 months before the sale then the limit is 5 years.
- Participation interest in other companies (e.g. limited liability company) – five years.
- Real estate – two years (individual's house residence), five years (other cases).
- Cars, ships and planes - one year.

Note: The above tax exemption applies to gains on property that do not form part of the individual's business property (i.e., the property was not included in the individual's accounting books and was not used for business purposes).

INDIVIDUAL TAX BASE, TAX LOSSES

- Individual income from different sources, e.g., employment income, entrepreneurial income, rental income, etc., is consolidated to form an individual's overall tax base.
- Other income not mentioned above is also generally subject to personal income tax (unless expressly exempted) and there are restrictions on utilisation of losses across different categories of income.
- Generally, with the exception of employment income, necessary expenses incurred to generate, ensure and maintain given category of taxable income are deductible from the respective income.
- Losses arising from a business or rental property may be offset against other sources of income, except employment income. If an overall loss is realised, it can be carried forward and offset against taxable income (except employment income) arising in the following five years.

PERSONAL TAX DEDUCTIONS

- Donations to individuals and entities seating with the EU, Norway and Iceland for the purpose of financing certain activities, including science, education, culture, charity, and for the relief of natural disasters, are deductible up to 10% of the individual's tax base. The minimum value of a tax-deductible donation is CZK 1,000 or 2% of the individual's tax base (whichever is lower).
- Under specific conditions an individual's tax base can be reduced by the annual amount of paid mortgage interest (up to CZK 300,000 per family), private life insurance (up to CZK 12,000), supplementary pension insurance premiums (up to CZK 12,000) and membership fees paid to trade unions (up to CZK 3,000).

TAX CREDITS

- General personal tax credit: CZK 24,840 (for all individuals).
- Dependent spouse tax credit: CZK 24,840⁽¹⁾.
- Disability tax credit: amount depends on level of disability⁽¹⁾.
- Student tax credit: CZK 4,020 (for regular students up to 26 years old and university-level doctoral students up to 28 years old).
- Dependent child tax credit: CZK 11 604⁽¹⁾. If the total tax is lower than the respective tax credit, the taxpayer will receive tax bonus in cash equal to the difference between the total dependent child tax credit and his/her tax liability. Maximum tax bonus is CZK 52,200 per year. certain conditions must be fulfilled

TAX REGISTRATION OF FOREIGNERS

- All foreigners assigned to the Czech Republic by a foreign employer with a service permanent establishment in the Czech Republic must register for income tax purposes and file annual income tax returns.

TAX RETURN AND TAX LIABILITY

- The tax period is the calendar year. A fiscal year may be applied for the income from business activities provided that the individual keeps his/her accounting books.
- The filing and payment deadline is 31 March of the year following the tax period.
- An automatic extension to 30 June is granted if a Czech registered tax advisor prepares and files the return on individual's behalf and name, as long as a power of attorney authorising the registered tax advisor to prepare and file the return is filed with the local competent tax authority by the 31 March deadline.
- The same deadlines also apply to the payment of any outstanding annual tax liability.

TAX ADVANCES

- Generally, an individual with a tax liability of CZK 30,000 or more must pay tax advances in respect of his future income tax liability.
- Individuals whose income from dependent activities (employment) exceeds 50% of their total income are not obliged to pay tax advances. For individuals whose income from dependent activities forms between 15% and 50% of their total income the tax advances are halved.
- The amounts and frequency of tax advances depend on the previous year's tax liability. If no previous liability exists, the Tax Office may still impose an advance payment scheme. Tax Office may also reduce or waive tax advances based on individual's request.
- Advance payments are due semi-annually or quarterly, depending on the amount of the previous year's tax liability:

Previous tax liability	Frequency	Amount
CZK 30,000-150,000	semi-annually	40% of the previous tax
above 150,000	quarterly	¼ of the previous tax

Health Insurance and Social Security

CONTRIBUTIONS

- Obligatory for an individual employed by the Czech company. Exemption applies for certain types of part-time employment relations and for employments with immaterial remuneration.
- A seconded working in the Czech Republic for a foreign employer is subject to social security and health insurance contributions in the Czech Republic if the EU regulations or a social security treaty apply (unless the assignee is an E101 holder).
- If EU regulations do not apply and no social security treaty covers health insurance, the obligation to contribute to the Czech social security and health insurance schemes has to be reviewed individually.
- Health insurance covers health and medical care.
- Health insurance is administered independent of the state budget (including auditing of contributions payment).
- An individual can choose the licensed health insurance company to which he/she will pay health insurance contributions. There are no substantial differences between the insurance coverage provided by individual health insurance companies.
- Social security contributions provide funding for three separate funds: pensions, unemployment and sickness. Individuals with business income may choose whether to participate in the sickness insurance in respect of their business income.
- Mandatory contributions of employees are calculated from the individual's remuneration which is similar to the payroll tax base.
- For the individual's income from business activities, the base for calculation of mandatory contributions is 50% of the entrepreneurial income (after deduction of expenses incurred to generate, ensure and maintain taxable income).
- There is a capped annual base for social security and health insurance payments of

employees and private entrepreneurs in the amount of 72 times the average monthly salary (for 2010), i.e. CZK 1,707,048.

SOCIAL SECURITY CONTRIBUTION RATES

Employee:	Sickness and other benefits	0.0%
	Pension scheme	5.0%
	Unemployment insurance	0.0%
	Total	6.5%
Employer:	Sickness and other benefits	2.3%
	Pension scheme	21.5%
	Unemployment insurance	1.2%
	Total	25.0%
Private entrepreneur:	Sickness and other benefits	1.4% (voluntary)
	Pension scheme	28.0%
	Unemployment insurance	1.2%
	Total	30.6%

Changes are planned for 2011 and onwards for the capped annual base for social security and health insurance payments as well as for the employer's social security contribution rates.

HEALTH INSURANCE CONTRIBUTION RATES

Employee:	4.5%
Employer:	9.0%
Private entrepreneur:	13.5%

VOLUNTARY CONTRIBUTIONS TO STATE PENSION SCHEME

- Voluntary contributions can be made under certain conditions during periods in which the individual is not covered, in order to receive entitlement to a Czech pension.
- The individual must pay at least the minimum monthly contribution of CZK 1,660 for his contributions to be credited toward the pension. Voluntary participation in the state pension scheme is subject to certain other conditions.

MINIMUM HEALTH INSURANCE CONTRIBUTIONS

- Mandatory for the individuals with permanent address in the Czech Republic and for employees of employer which has seat or official address in the Czech Republic (subject to the exemptions pursuant to the EU regulations and social security treaties): 13.5% of the minimum monthly salary (CZK 8,000(1)), i.e., CZK 1,080 per month.
- If an individual is not covered by the mandatory Czech health insurance scheme, he may contribute voluntarily on a commercial basis (commercial health insurance scheme provided by approved insurance company may be obligatory for certain expatriates seconded to work in the Czech Republic).

⁽¹⁾ the amount of minimum salary may change during the year

Tax-Efficient Investments for Individuals

STATE-SUBSIDISED SUPPLEMENTARY PENSION INSURANCE

- An individual or employee can choose to invest in this in addition to the compulsory state pension system. In addition to certain tax advantages (below), the government makes an additional contribution to the pension fund. The amount of the monthly state subsidy depends

on the amount of the monthly contributions, with the maximum subsidy of CZK 150 applicable to monthly contributions of at least CZK 500.

- The benefits are generally paid to participants once they have reached retirement and the contributions have been paid for certain minimum period of time.
- Only an adult individual with permanent residence in the European Union who participates in Czech health or pension insurance is eligible for the pension insurance.
- Contribution payments can be made by the individual or by the employer in the employee's benefit.
- If an individual contributes more than CZK 6,000 in a year, the amount over CZK 6,000 can be used to reduce his individual income tax base up to CZK 12,000 of the total tax relief.
- An employer's contribution is tax-exempt for the purposes of the employee's individual payroll tax and social insurance contributions up to CZK 24,000 for both supplementary pension insurance and private life insurance (see below) per year.
- Benefits from the supplementary pension insurance that exceed the contributions and state subsidy are subject to 15% withholding tax, which represents the final taxation of the benefits. If the insurance scheme is terminated prematurely, the amount of the financial settlement that exceeds the contributions of the participant (employee) is subject to 15% withholding tax.

PRIVATE LIFE INSURANCE

- An individual or employee can choose to invest in this in addition to the compulsory pension system.
- It is an endowment or retirement annuity insurance for the individual if the benefits are paid no earlier than the year the individual reaches 60 years of age.
- The minimum duration of the insurance effective for the tax purposes is 60 months.
- For insurance policies that pay out a fixed amount if and when the individual reaches a certain age, the minimum insured amount is CZK 40,000 if the term of the policy is from 5-15 years and CZK 70,000 if the term is over 15 years.
- Contribution payments can be made by an employee or by his employer in the employee's benefit to an insurance company that is entitled to carry out insurance activities in the Czech Republic.
- Up to CZK 12,000 of the annual contributions paid by the individual can be used to reduce his personal income tax base.
- Annual insurance premiums paid by an employer for an employee's private life insurance are exempt from the employee's individual income tax up to CZK 24,000 together with employer's contributions to supplementary pension insurance (see above) per year.
- Benefits that exceed the contributions are subject to 15% withholding tax, which represents the final taxation of the benefits. If the insurance scheme is terminated prematurely, the amount of the financial settlement that exceeds the contributions of the participant (employee) is subject to 15% withholding tax.

HOUSING SAVINGS ACCOUNTS

- These are primarily an efficient form of investment for Czech citizens with permanent residence in the Czech Republic and EU citizens with a Czech residence permit and a valid identification number; they are designed to finance housing, but they can also be used as a general investment instrument.
- The savings accounts generally have two phases:
 - The participant deposits his financial contribution.
 - Usually, after a certain period of time, a loan can be provided to finance housing and the participant begins repaying this loan. The loan is optional and the participant can decide not to take it, in which case the deposited money can be withdrawn. Other kinds of loans (e.g., bridging loans) can also be granted to the participant according to his needs and the contract conditions.
- Interest income from, and state contributions to, housing savings are fully exempt from personal income tax.

Corporate Income Tax

ENTITIES SUBJECT TO CORPORATE INCOME TAX

- Companies having their seat or place of effective management in the Czech Republic, i.e. Czech tax residents, are taxed on their worldwide income.
- Czech tax non-residents are taxed on Czech-source income only and are subject to specific rules.
- There are no provisions for group corporate taxation, i.e., consolidated returns cannot be filed, and each group company subject to Czech taxation must submit separate tax return. The consolidated taxation factually applies only for the general partners with respect to the income from their participation in a partnership (general or limited).

TAX BASE AND RATES

- The tax base is generally the difference between income and expenses as reported in the company's statutory financial statements prepared under the Czech GAAP, adjusted for tax purposes by non-taxable income and tax non-deductible costs. The accrual principle must be followed, i.e. only the costs and revenues related timely and by matter to given tax period are taken into account for the calculation of the tax base.
- The standard corporate tax rate is 19%.
- A special rate of 15% applies to income included in a separate tax base (e.g., certain dividends and similar income from abroad).
- A tax rate of 5% applies to investment funds, unit funds, pension funds and pension institutions.

EXEMPTIONS AND NON TAXABLE INCOME

- Under the EU Parent/Subsidiary Directive rules implemented into Czech legislation, dividends paid by a qualified Czech subsidiary to a qualifying parent company that is tax resident in a member state are exempt from withholding tax. A dividend received by a qualified Czech parent company from a qualified EU subsidiary is also exempt from tax (for qualifying criteria see the Parent/Subsidiary Directive section).
- Treatment equal to the EU countries applies to dividends payable by Czech tax resident to Swiss, Norway or Iceland tax residents.
- For dividends receivable by Czech tax residents from their third-country subsidiaries in the double-taxation treaty countries outside the EU applies treatment equal to the EU countries if (i) the subsidiary was subject to corporate income tax at the nominal rate of at least 12% in the year when the distribution was approved and in the previous year, and (ii) the subsidiary has a legal form similar to a Czech limited-liability company, a joint-stock company or a cooperative.
- Capital gains of qualifying parent companies realised on sales of participations in companies fulfilling the above conditions for dividend exemption are also exempt.
- Property (including property rights) received by inheritance or gift are not subject of corporate income tax.
- Other specific items listed in the Income Taxes Act.

TAX-DEDUCTIBLE ITEMS

- Generally those incurred to generate, ensure and maintain taxable income. Documentation (receipts, invoices) must be kept by the taxpayer to support their tax deductibility. For tax audit purposes, a Czech translation of non-Czech documents may be requested (non-official translation is normally accepted by the tax authorities).
- Interest (subject to thin capitalisation restrictions), royalties and service fees.
- Tax depreciation of assets.
- Tax net book value of disposed assets.
- Tax-deductible reserves (available only for future repair of tangible fixed assets and having equivalent in bank account deposit).

- Tax-deductible bad debt provisions available for the receivables against debtors in insolvency proceeding and for other qualifying trade receivables (or a proportion of such receivables) from non-related parties.
- Exchange rate gains/losses in the year in which they arise.
- Social security and health insurance if paid within one month after the end of the tax period.
- The value of destroyed inventory stocks under certain conditions.
- Tax non-deductible costs provided that there is related taxable income (with certain limitations); applicable in case of recharge of non-deductible costs to third party.

TAX NON-DEDUCTIBLE ITEMS

- In certain cases, the tax law specifies limits or disallows expenses for tax purposes. The main limits on disallowed expenses are:
 - Expenses above statutory limits (e.g., company catering or travel reimbursement).
 - Expenses that are deductible only when paid (e.g., contractual fines and penalties).
- In certain cases, tax law specifies tax non-deductible expenses. The main non-deductible expenses are:
 - Gifts and donations.
 - Entertainment expenses.
 - Expenses related to non-taxable or exempt income, including holding costs (see below).
 - Accounting provisions and accounting reserves.
 - Fees paid to the members of company's statutory bodies (i.e. members of the board of directors or supervisory board of joint stock company).
 - Statutory fines and penalties (e.g., penalties for late tax payment).
 - Losses realised on the sale of land, receivables and specified participations.
- Special rules apply to expenses of the parent company related to its holding shares in a subsidiary as defined for the purpose of the Parent/Subsidiary Directive rules implemented into Czech tax law. Non-deductible expenses include:
 - Interest on debt finance provided to the parent company up to six months before acquisition of the shares in its subsidiary, unless the parent company can prove that the borrowing does not relate to holding the shares in the subsidiary.
 - Indirect costs of holding shares in the subsidiary which are deemed to be set at 5% of dividends received by the parent company from the subsidiary unless the parent company can support that the actual amount of indirect costs of holding is lower than this amount.
- Losses from sale of participations with decisive interest in a joint-stock company (more than 20%) or any interest in a limited-liability company or limited partnership.
- Revaluation differences from shareholdings that may be exempt if sold (see the rules participation exemption above).

DEDUCTIONS FROM THE TAX BASE

Donations

- Donations to entities and government bodies for the purpose of financing science, education, culture, charity and responding to natural disasters are deductible up to 5% of the company's tax base after deduction of other allowances (e.g., tax losses, R&D allowance). Donations to universities and other public research institutions can be deducted up to an additional 5% of the company's tax base after deduction of other allowances. The minimum value of a tax-deductible donation is CZK 2,000.

Deduction of R&D costs

- Taxpayers are entitled to use a tax allowance for certain tax-deductible costs incurred in respect of research and development projects. This provision is intended to encourage investment into research and development activities in the Czech Republic.

- This means that costs incurred for research and development may in fact be deducted from the tax base twice (as tax-deductible costs and then as the tax allowance).

INTEREST

General

- Interest received from the Czech Republic and from abroad is taxable income.
- Interest paid to a Czech resident is not subject to any Czech withholding tax apart from certain products offered by financial institutions to individuals.
- Interest paid abroad is subject to Czech withholding tax, if not excluded from the taxation under the relevant double-taxation treaty or exempt based on the Interest and Royalty Directive rules implemented into Czech legislation.
- Interest on the acquisition of fixed assets may be capitalised, depending on the company's decision.
- Interest from profit-participating loans are tax non-deductible.

Interest income from securities

- Generally, interest income from securities is included in the tax base of the recipient and subject to the standart tax rate.
- Special rules apply to Czech interest income from government bonds issued prior to 1 January 1997 and interest income from corporate bonds issued prior to 1 January 1998.
- Interest income from mortgage bonds issued until 31 December 2007 is exempt from tax, if the issuer confirmed in the prospectus that the liabilities arising from the issued securities will be covered by receivables granted for acquisition or construction of the property. Interest income from mortgage bonds issued after 1 January 2008 is taxed in the general tax base.
- Interest income from bonds issued abroad by Czech tax residents is exempt provided that the recipient is a Czech non-resident.

Interest and Royalty Directive

The exemption of interest is available under the Interest and Royalty Directive implemented into Czech legislation on the following conditions:

- The interest is paid to a resident of other EU country listed in the appendix to the Interest and Royalty Directive by a Czech resident or by Czech permanent establishment of resident of other EU country.
- The companies are directly related via capital (minimum share of 25%).
- The minimum required shareholding is maintained for at least 24 months. This condition may be met subsequently upon review.
- The recipient is a beneficial owner of the interest • The interest receipt is not attributable to a Czech permanent establishment of the company from other EU country.
- The exemption of the interest income was approved by the Czech tax authorities.
- The above also applies to the tax residents of Switzerland, Norway and Iceland.

THIN CAPITALISATION

- The tax-deductibility of financial costs (i.e., interest on loans from related parties and other related costs such as arrangement fees, commitment fees, etc.) is limited by thin-capitalisation rules. Generally, the permitted debt/equity ratio between related parties is 4:1. The debt/equity ratio of 6:1 applies to related-party loans for insurance companies and banks.
- The definition of "related parties" for thin-capitalisation purposes corresponds to the definition for transfer-pricing purposes.

DIVIDENDS

Parent/Subsidiary Directive

Under the rules similar to those in the EU Parent/Subsidiary Directive, dividends are exempt from withholding tax (upon payment) and from corporate income tax (upon receipt) if the following conditions are met:

- The parent company has at least a 10% participation in the registered capital of its subsidiary.
- The EU company has a legal form defined in the appendix to the EU Parent/Subsidiary Directive. In the Czech Republic, the provisions apply to Czech permanent establishment of the qualified EU companies and Czech based joint-stock companies (akciová společnost, a.s.), limited-liability companies (společnost s ručením omezeným, s.r.o.), and co-operatives (družstvo).
- The minimum required shareholding must be maintained for at least 12 months. This condition may be met subsequently upon review.

If the above conditions are not met subsequently (the decisive day is the day the general meeting approves the dividend payment) and the company does not pay the applicable withholding tax additionally, the payment assessed by the Tax Office will be considered a net payment of dividends. The sum will, therefore, be grossed-up and an additional tax assessment and penalty levied. The same rules also apply to distribution of profit paid from Czech companies to the parent companies seating at Switzerland, Norway and Iceland.

Dividend income

- Dividend income between Czech companies is subject to 15% final withholding tax unless the income is exempt if the dividends are received from subsidiaries as defined for the purpose the Parent/Subsidiary Directive.
- Dividends received from abroad, if not exempt under the Parent/Subsidiary Directive, are included in a separate corporate income tax base subject to a 15% tax rate.

ROYALTIES

- Royalties generally represent tax-deductible expense. If paid abroad, they are subject to 15% withholding tax (5% for financial lease payments), which may be reduced under relevant double taxation treaty. Royalties paid to directly related companies based in the EU will be exempt from withholding tax under the Interest and Royalty Directive under the same conditions as interest payments (above) starting from 2011.
- The above also applies to the Swiss, Norwegian and Iceland companies receiving the royalties from Czech royalty payer.

RELATED-PARTY TRANSACTIONS

- Prices between related parties must be at fair market value (the “arm’s-length” principle) for corporate tax purposes. Special conditions apply for the interest on loans when the loan agreement was signed before 2008.
- The tax authorities can adjust the tax base and assess penalties if arm’s-length prices were not used in related-party transactions and the justification for the difference is not well-documented. “Related parties” includes entities or individuals related by capital (directly or indirectly related by participation in capital or voting rights of 25% or more) or in another way (related via management or control or close persons).
- Transfer-pricing rules also apply to transactions between persons who have entered into a commercial relationship largely for the purpose of reducing their tax base or increasing their tax loss.
- Companies may apply for an Advance Pricing Agreement (transfer-pricing binding ruling) in accordance with the Czech Income Taxes Act. The agreement may be unilateral (i.e., binding only for Czech entity) or bi-lateral (i.e., binding for Czech entity and for its counter-party in other country).

- OECD transfer-pricing guidelines are accepted and used by Czech tax authorities when determining whether prices between related parties conform to the arm's-length principle.
- Transfer-pricing documentation is voluntary and it should be prepared in line with the conclusions made by the EU Joint Transfer Pricing to be accepted by Czech tax authorities. The Code of Conduct issued by the EU Joint Transfer Pricing Forum is generally applied by the Czech tax authorities.
- The non-arm's-length part of the agreed price is excluded from the tax base. For tax non-residents (excluding EU/EEA countries), the excluded part may be reclassified as a deemed distribution of profit and taxed appropriately. The reclassified part of the non-arm's-length price received from abroad that was taxed as a dividend in the foreign country may be treated as dividend income for Czech tax purposes if a double-taxation treaty was concluded with the relevant country.

TAX LOSSES

- From the tax period commencing in 2004, tax losses can be carried forward and offset against future profits for a maximum of five years. Losses generated in a tax period commencing in or before 2003 can be carried forward for a maximum of seven consecutive tax periods.
- Utilisation of a tax loss is not possible if there has been a significant change in the ownership of the company carrying forward its tax losses and the company does not satisfy the "same business" test, i.e., it does not generate at least 80% of its revenues from the same business compared to the tax period when the tax loss arose.
- Significant change in the ownership structure is defined as a change in more than 25% of the registered capital or voting rights or when a shareholder gains decisive control.
- Losses cannot be carried back, nor can they be offset against the profits of another group company. Losses are transferable (under certain conditions) in case of contribution of business as going concern and in case of merger or de-merger. Losses are not transferable in case of sale of business as going concern.

MERGERS

- The provisions incorporating the Merger Directive allow Czech companies to carry out tax-neutral contributions of a business or its part, share exchanges, mergers and de-mergers or spin-offs.
- In case of the contribution of a business or its part, merger or de-merger, the tax losses, tax reserves, tax provisions and tax relieves of the contributing entity or the one ceasing to exist as a result of the merger are transferred to the legal successor company provided that it is a joint-stock company or a limited-liability company.

RULINGS

The following types of binding opinions issued by the Czech tax authorities are available to taxpayers:

- Advance Pricing Arrangements (APA)
- Methodology of division of expenses (costs) that relate to exempt, non-taxable or taxable income
- Recognition of tax-deductible expenditures (costs) connected with operation of real estate property that is used both for private and business purposes
- Decision whether expenditure for a change in an asset qualifies as repair or technical improvement of the asset
- Recognition of costs incurred on R&D projects (deduction of these costs is allowed under Czech tax law)
- Application of the same business test with respect to tax deductibility of tax losses carried forward

DEPRECIATION

The following tangible fixed assets cannot be expensed directly and must be depreciated for corporate tax purposes:

- Separate movable assets and sets of movable assets with a purchase price exceeding CZK 40,000 and with an operational and technical life exceeding one year,
- Buildings, houses, flats and non-residential premises.
- Constructions (e.g., bridges, pylons, roads, construction sites), with certain exceptions.
- Technical appreciation in form of modernisation and reconstruction of leased assets performed by the lessee with a price exceeding CZK 40,000 and certain "other assets".

Note: Some types of assets, such as plots of land and artwork, are not eligible for depreciation.

Tangible fixed assets are classified into depreciation categories (to which different depreciation periods apply), as follows:

Depreciation Category	Minimum Depreciation Period (years)	Examples
1	3	Office machines and computers, tools and implements.
2	5	Engines, pumps, cooling/freezing equipment, accumulators, and TV and radio receivers, motor vehicles.
3	10	Elevators, escalators, turbines, air-conditioning equipment, electric motors and generators.
4	20	Houses and buildings made of wood and plastic, long distance transmission lines.
5	30	Houses and buildings not made of wood or plastic, bridges, tunnels, waterworks and other construction works (with the exception of buildings included in 6 below).
6	50	Administrative buildings, department stores, historical buildings and hotels.

- Taxpayers are not obliged to depreciate an asset for tax purposes every year. Start of depreciation may be postponed and depreciation may be interrupted in any year and continued in a later year without a loss of depreciation potential.
- Tangible assets are generally depreciated by the taxpayer with ownership title, except, for example:
 - Technical appreciation of a rented asset carried out by a tenant may be depreciated by that tenant, subject to certain conditions.
 - An asset that is transferred to a creditor as a security may be depreciated by the original owner if there is agreement on temporary free use of the asset by the use.
- Depreciation can only start once the assets are put into use (i.e. it is completed and ready for the use) and comply with the technical and administrative requirements of specific laws.
- The acquisition value of the asset to be used as the basis for depreciation depends on how the asset is acquired. In general, it is:
 - Acquisition value (construction and equipment costs, architect's fees, legal fees, notary's fees, etc.) if the asset is acquired for a consideration by the taxpayer from third party.
 - Own costs incurred if the asset is acquired or produced internally by the taxpayer.
- For most assets, the taxpayer can choose to claim depreciation on either a straight-line or an accelerated basis in accordance with the tables below. Certain types of assets (forms, assets

with limited life period) are depreciated on timely or planned output basis along the period of planned life-time (e.g., temporary buildings).

- Some tangible fixed assets acquired in the period between 1 January 2009 and 30 June 2010 may be depreciated using super-accelerated depreciation method (see below).

Straight-line method

Depreciation Category	Annual Depreciation Rate		
	1st year	Subsequent years	For increased input price
1	20%	40%	33.3%
2	11%	22.25%	20%
3	5.5%	10.5%	10%
4	2.15%	5.15%	5%
5	1.4%	3.4%	3.4%
6	1.02%	2.02%	2%

Accelerated method

Depreciation Categories	Coefficient for Accelerated Depreciation		
	1st year	Subsequent years	For increased input price
1	3	4	3
2	5	6	5
3	10	11	10
4	20	21	20
5	30	31	30
6	50	51	50

Super-accelerated method

- The tax payer can apply (instead of applying of the accelerated or straight-line methods) super-accelerated method for tangible assets in the first and second depreciation category that are acquired between 1 January 2009 and 30 June 2010.
- Extra depreciation applies from the month following the month in which the asset was acquired and put into use.
- The depreciation of assets in the first category applies evenly over the period of 12 month.
- The depreciations of assets in the second depreciation category apply over the period of 24 months. During the first 12 months will be depreciated 60% of the purchase price of the assets and during the second 12 months the rest of the purchase price of the assets.

DEPRECIATION IN THE FIRST YEAR

- Czech tax law allows (for straight-line and accelerated method of depreciation) an increase of the depreciation charge in the first-year depreciation of some tangible assets in the year in which the assets are put into use, provided certain conditions are met:
 - The taxpayer must be the first owner of the asset.
 - The assets are classified in the 1st, 2nd or 3rd depreciation groups.

- The possibility to increase the first-year depreciation cannot be applied to assets such as personal cars, planes, household equipment and certain other given assets.
- The first-year depreciation can be increased by:
 - 10% for office equipment, computers, generators, accumulators, transformers, air-conditioning and most other assets fulfilling the above conditions.
 - 15% for gas generators, filters and rectification appliances.
 - 20% for forestry and agriculture machines owned by taxpayers whose main activity is agriculture or forestry.

DEPRECIATION OF INTANGIBLE ASSETS

- Special rules apply to depreciation of intangible fixed assets. The depreciation method differs depending on the year of the acquisition:
 - Assets acquired until the end of the 2000 period are classified in depreciation groups 1, 2 or 3 and are depreciated according to the legislation valid until the end of the 2000 period.
 - For assets acquired from the 2001 period to the end of the 2003 period, the accounting depreciation is also applied for tax purposes.
- For assets acquired from the 2004 period, the following rules are applied:
 - As intangible fixed assets are recognised the assets which are recognised as intangible fixed assets for accounting purposes, which has acquisition value exceeding CZK 60,000 and which life-time exceeds one year.
 - Intangible fixed assets are depreciated from the following month and over the period of time for which the right to use was provided to the company claiming the capital allowances. If no maximum period of use was agreed in the contract, audiovisual work is depreciated over 18 months, software and intangible results of R&D over 36 months, establishment costs over 60 months, and other intangible fixed assets over 72 months.
- Valuation difference or goodwill is not classified as intangible asset for tax purposes. Valuation difference or goodwill acquired for a consideration is depreciated for tax purposes over 180 months.
- Technical appreciation of intangible assets increases the input price of intangible asset, and the taxpayer shall continue to write off depreciation for the remaining part of the depreciation period. However, from 2006, this period should not be for less than 9 months if audiovisual work is concerned, 18 months if software and intangible results of R&D are concerned, and 36 months if other intangible fixed assets are concerned. If the right to use the intangible assets is time limited, the increased input price is depreciated for the remaining period given by an agreement.
- Technical appreciation of intangible asset is defined as costs for completed extended capabilities or on increased useful life or on modifications giving a new purpose to existing intangible fixed assets.

Corporate Income Tax for Foreign Entities

GENERAL PRINCIPLES

- A foreign entity which is not Czech tax resident (i.e., it does not have its seat or place of effective management in the Czech Republic) is subject to Czech tax on the income which has its source in the Czech Republic.
- As Czech sourced income of a foreign entity may mainly be recognised the revenues attributable to the Czech permanent establishment, interest income, royalties and dividends from Czech residents and income from provision of certain services in the territory of the Czech Republic. The list of Czech sourced income of foreign entities taxable in the Czech Republic may be modified by relevant double taxation treaty.
- A number of double tax treaties binding for the Czech Republic expressly limit their benefits to the beneficial owners of relevant income. If there is conflict between to double tax treaties

caused by the fact that the beneficial owner receives income through third party seating in other country, the double tax treaty with the country where the beneficial owner seats may be used only.

- In case that the non-resident is tax transparent under domestic tax law, the Czech tax authorities generally accept the tax transparency also for Czech tax purposes.

CZECH SOURCED INCOME

The following types of income of foreign entity (Czech tax non-resident) are recognised by tax law as having its source in the Czech Republic:

- Income generated through permanent establishment (see below for details)

BRANCH OF A FOREIGN ENTITY

- A branch of a foreign entity has to be registered in the Czech Commercial Register provided that business is carried on through this entity, i.e. it actively performs business activities in the Czech Republic. It can be a trading and/or non-trading branch.
- Branch normally represents permanent establishment for the corporate tax purposes pursuant to the Czech law. The definition of the permanent establishment by Czech law may be modified by relevant double taxation treaty.
- The trading branch is subject to corporate income tax on its attributable profits minus expenses as reported in its Czech financial statements. For the non-trading branch (mainly if they are only cost-bearing), it may be possible to negotiate with Czech tax authorities a special method of calculating attributable profit as a percentage of costs incurred in respect with the branch's activities.
- It has the same registration, filing, payment and advance payment obligations as local legal entities.
- Profit distribution to the head office country is not regarded as dividend distribution and is not subject to any taxes.

PERMANENT ESTABLISHMENT (PE)

- A permanent establishment is purely tax concept and it has no relation to the formal legal status of foreign entity in the Czech Republic.
- The PE is created through:
 - The provision of services in case of absence of fixed place of business (if employees of a foreign company or individuals working in another capacity for the foreign company provide management, consulting or similar services to a Czech entity, including branches, and their presence during the provision of such services in the Czech Republic exceeds six months in a 12-month period). Such creation of the PE may be eliminated if relevant double taxation treaty does not recognise such "service PE".
 - Place through which the business of foreign entity is carried on, such as:
 - Office premises, workshops or places of sale;
 - building sites (if employees of a foreign company or individuals working on the building site in the Czech Republic provide building services to the Czech entity, if the duration of the building of the site exceeds six months in a 12-month period. The condition of duration is always reviewed in context for individual site respectively project).
 - A dependent or independent agent, i.e., a person that is entitled to conclude agreements in the Czech Republic in the name of a non-resident and usually executes such entitlement.
- The conditions for creation of a PE may be modified by the relevant double-taxation treaty.
- PE has similar registration, filing, payment and advance payment obligations as local Czech legal entities.

TAX SECUREMENT

- A Czech individual or entity may be required to secure tax from payments made to foreign, non-EEA/EU based taxpayers having Czech-source income which is not subject to withholding tax.
- When paying, transferring or crediting an amount to a foreign, non-EEA entity, the Czech tax resident must withhold 10% tax securement from income derived from the sources in the Czech Republic and 1% from sales of investment instruments and from the repayment of receivables assigned to a foreign, non-EEA entity, unless given income is subject to Czech withholding tax.
- A tax securement corresponding to the personal or corporate tax rate, as appropriate, should be withheld from income attributable to non-EEA general partners of a Czech general or limited partnership.
- The Tax Office may waive the obligation or lower the rate of tax to be secured based on the application of the foreign entity.
- The secured tax is treated as an advance tax payment of the foreign entity, and the foreign entity may (but does not have to) file a tax return at the end of the year to settle its tax liability in the Czech Republic. If the tax return is not filed, tax liability is deemed settled by the withheld tax securement.
- The relevant double-taxation treaty may eliminate the imposition of tax securement in the Czech Republic by assigning the taxing rights to the other country.

WITHHOLDING TAXES

The payments listed below are subject to withholding tax when made by Czech companies to foreign parties. The rate of tax may be modified by the relevant double-taxation treaty (see the appendix for specific rates applicable to each country) or exempt from taxation if the EU Directives are applicable to payments made to EU tax residents (in some cases to tax residents of Switzerland, Iceland or Norway). The same rules as under the Parent/Subsidiary Directive apply to dividend payments between Czech entities. The reduced rates under relevant double-taxation treaty are applied automatically.

Dividends 15% or 0%

Dividends paid abroad are subject to the same final withholding tax (15%) as dividends paid to Czech residents if not reduced under relevant double-taxation treaty. The exemption is available under the rules similar to those in the Parent/Subsidiary Directive or to Switzerland, Norway or Iceland as described in the Exemptions section above.

Interest 15% or 0%

Interest paid abroad is subject to 15% withholding tax if not reduced under the relevant double-taxation treaty, the Interest and Royalty Directive implemented in Czech tax law. For interest paid to Swiss, Norway or Iceland is applicable the tax exemption based on Interest and Royalty Directive implemented in the Czech legislation.

Royalties 15%

As noted above, royalties paid abroad are subject to 15% withholding tax if not reduced under the relevant double-taxation treaty or exempt based on the the Interest and Royalty Directive. The exemption based on the Interest and Royalty Directive will apply since 1 January 2011. The similar exemption applies to Swiss, Norway and Iceland by the same deadline as well.

Management fees 15%

These are fees for management services provided in the Czech Republic (representing Czech-source income) that are paid by a Czech tax-resident company to a non-resident without a Czech permanent establishment. The tax may be reduced or eliminated under the relevant double-taxation treaty.

Financial lease payments 5%

Financial lease payments made to a Czech non-resident are subject to 5% withholding tax. The payments made based on agreements signed by 1 January 2008 are subject to 1%.

- For management services fees, interest and royalties, the tax should be withheld by the Czech tax resident on the date of payment or of remittance or credit of payment to the foreign subject, but no later than the date on which the liability is recorded.
- For dividends, the tax should be withheld by the Czech tax resident on the date of payment to the foreign entity but no later than by the end of the third month following the date on which the decision about the payment of dividends was made by the general meeting of shareholders or, in the case of dematerialised shares, by the end of the month following the general meeting of shareholders.
- The tax should be transferred to the Tax Office no later than by the end of the month following the month in which the tax should be withheld.
- The Czech tax resident must notify the Tax Office that the tax was withheld and paid.
- The withholding obligation lies with Czech tax residents. If the tax is not withheld, or is withheld in an incorrect amount, or is not transferred to the Tax Office within the deadline, the unpaid tax will become a debt of the Czech tax resident and a penalty, which is tax non-deductible may can be assessed and charged to the Czech payer of the income.
- A tax underpayment will arise if the two-year or one-year holding criterion for the exemption of interest, royalties (from 2011) or dividends under the rules similar to these in the Parent-Subsidiary and Interest and Royalty Directives is not met after the payments were made, as mentioned above.

CERTIFICATE OF PAYMENT OF WITHHOLDING TAX

- The Tax Office will issue a confirmation of payment of withholding tax if requested by the taxpayer, i.e., foreign entity.
- The Czech tax resident who withheld the tax can ask for such confirmation on behalf of the foreign entity.
- This confirmation serves as proof for foreign financial authorities that the tax was paid in the Czech Republic.
- Foreign entity residing in the EEA countries may file Czech tax return and report its revenues subject to the withholding tax and reduced by related tax-deductible costs. The withheld tax may be credited against the final reported tax liabilities of the foreign entity.

REPORTING DUTIES

- Czech residents are obliged to inform the Czech National Bank of all acceptance and settlements of outstanding accounts or payments in respect of a foreign exchange loan exceeding CZK 1 million (approx. EUR 38,000). The above duties are fulfilled by completing the prescribed form issued by the Czech National Bank.

Corporate Tax Compliance

TAX PERIOD

- The tax period which generally the same as the accounting period can be:
 - A calendar year.
 - A fiscal year (must be 12 successive calendar months).
- The period starting from the decisive day of:
 - a merger,
 - a squeeze-out merger, or
 - a de-merger of a company (partnership) or co-operative, to the end of the calendar year or fiscal year in which such merger, squeeze-out merger or de-merger is entered in the Commercial Register.

- The accounting period, if it is longer than 12 successive months.

To change the tax period from a calendar year to a fiscal year, the taxpayer must inform the relevant Tax Office at least three months prior to the suggested starting date of the fiscal year.

FILING

- Corporate tax returns must be filed within three months of the end of the tax period.
- A three-month automatic extension of the filing deadline is available to a taxpayer represented by a registered tax advisor. This three months extension is automatically also granted to the taxpayers subject to a Czech statutory audit.
- In some special cases, the tax returns must also be filed after end of an accounting period that is not considered to be a tax period. In these cases, the filing deadline is shorter, usually one month after the end of the month in which the decisive moment according tax legislation occurred, and may be extended only with the approval of the Tax Office upon taxpayer's previous request.

PAYMENT

- Tax payments are due on the same day as the filing deadline.
- A company is obliged to pay corporate income tax advances if its last known tax liability exceeded CZK 30,000.

The advance period starts on the day following the statutory date for filing the corporate income tax return.

- Advances are assessed:
 - No advances need to be paid if the last known tax liability did not exceed CZK 30,000.
 - Semi-annually (40% of the last known tax liability) if the last known tax liability exceeded CZK 30,000.
 - Quarterly (25% of the last known tax liability) if the last known tax liability exceeded CZK 150,000.
- Upon filing a tax return, reconciliation is made between the advances paid during the respective tax period and the actual tax liability reported in the tax return. Any outstanding amount must be paid on the date the tax return is due. Any overpayment will be refunded by the tax office upon taxpayer's request or can be credited against future tax liabilities.

Investment Incentives

Investment incentives are available for projects in manufacturing industry and are compatible with EU requirements.

MANUFACTURING INCENTIVES

The support can be granted to investment projects which either introduce new production capacity in a newly established company or which extend current production capacity of an existing company.

Main eligibility requirements

A company eligible for the investment incentives must satisfy the following criteria:

- It must be a registered Czech entity (this includes subsidiaries of foreign companies).
- New manufacturing facilities must be constructed (for newly established entities) or existing facilities must be expanded (for already existing entities). Logistics, warehousing and other service projects do not qualify for investment incentives.
- A minimum of CZK 100 million (EUR 3.8 million) must be invested into long-term tangible and intangible assets in the form of land, buildings, machinery, know-how and licences. In the regions with higher unemployment rate is threshold lowered to CZK 60 million (EUR 2.3 million) or EUR 50 million (EUR 1.9 million).

Note: Know-how and licences may be included up to 50% of tangible eligible costs.

- At least half of the above-mentioned minimum amount of investment should be financed by the equity of the investor, i.e. the minimum investor's equity related to the project must be EUR 50 million (EUR 1.9 million). In the regions with higher unemployment rate the equity must be at least EUR CZK 30 (EUR 1.2 million) or CZK 25 million (EUR 1 million).
- Only tangible fixed assets (land, buildings, machinery) and intangible fixed assets related to the production activities are taken into account.
- Investment into machinery must account for at least 60% of the total investment into the tangible and intangible fixed assets.
- Machinery must be new, i.e., produced not longer than 2 years before its acquisitions and the investor shall be its first owner in the Czech Republic (i.e. the investor must be the first person posting the asset in accounting books as fixed asset).
- The project must be environmentally friendly.
- The work on the project may not begin before the application for incentives is registered by CzechInvest (Czech governmental agency for foreign investments) and CzechInvest issues the "Confirmation of Project Registration".
- Investment or supported newly created jobs should be maintained for at least five years.

Available incentives

The following incentives are available:

- Full or partial corporate income tax relief for up to five years.
- Financial support for job creation (available only for projects located in regions with higher unemployment rate).
- Financial support for training/re-training of employees (available only for projects located in regions with higher unemployment rate).
- Acquisition of land or land with infrastructure on preferential terms (discounted price).

The level of incentives depends on the investment into tangible and intangible fixed assets, the number of jobs created, and the investment into training/re-training of employees. The percentage of granted subsidies in comparison to the sum of eligible costs depends on the region in which the project is located. Currently, 0% support is provided for the projects situated in Prague, 36% support is provided to the projects situation in South-West Bohemia and 40% support is provided to the projects situated in other regions. The support for companies that qualify as SMEs can be further increased by 20% in the case of small enterprises and by 10% in the case of medium-sized enterprises. On the other hand, only the projects in the chemical, pharmaceutical, machinery and electronics industry may obtain the above-mentioned level of state aid. The projects in other industrial segments (e.g., food producing, wood processing, metal production) are entitled only for 75% of maximum state aid.

FINANCIAL SUPPORT FROM EU STRUCTURAL FUNDS

The Czech government has implemented the Operational Programme "Enterprise and Innovation" for the period 2007-2013 to foster the performance and competitiveness of enterprises especially in the area of manufacturing industry and services. Within the framework of this programme, the Czech Ministry of Industry and Trade introduced aid programmes for co-financing business projects in the manufacturing industry and related services.

Most of the aid programmes are designated to support small and medium-sized enterprises. Support for large enterprises operating in the manufacturing industry is possible under the programme implementing Priority Axis 4: "Innovation". The programme Innovation is aimed at increasing the innovation potential, in particular by:

- implementing technical and usable values of products and technologies (product innovation) or
- implementing an innovative element within the production process (process innovation).

The support may be granted to a large enterprise that is registered in the Czech Republic as an income-tax payer for the period of at least two complete tax periods preceding the date of application for a subsidy. The project supported under the programme Innovation must be tied together with the finalised research and development, which must be documented by the contract on the transfer of the unique know-how or the licence agreement. The support is provided for the purchase of long-term assets, especially machinery and other equipment, necessary for the implementation of innovative production or processes.

Other activities of large enterprises, but unfortunately not those primarily focused on production support, may also be supported from the Operational Programme "Enterprise and Innovation":

- Research, development and innovation of products and processes (production is not supported) under the Potential programme.
- Development and implementation of new ICT solutions and applications and creation or extension of high-tech repair centres under the ICT and business support services programme.
- Decrease in the energy intensity of production; decrease in consumption of primary energy resources; increase in the utilisation of energy from renewable resources under the Eco-energy programme.
- Creation or extension of training centres under the Training centres programme.
- Development of real estate and related infrastructure under the Real Estate programme.
- Creation of clusters and technology platforms under the Co-operation programme.
- Creation or extension of infrastructure for innovative firms as incubators under the Prosperity programme.

Value-Added Tax (VAT)

Value-added tax was first introduced in the Czech Republic on 1 January 1993. In principle, VAT is a tax on consumer expenditure; entities registered for Czech VAT can generally recover input Czech VAT incurred during the course of economic activity (with certain exceptions).

Czech accession to the EU has greatly impacted Czech VAT rules and procedures, as the EU directives, regulations and case law apply and must be adhered by the taxpayers and tax authorities. Entities and individuals registered for Czech VAT charge Czech VAT on the taxable supplies of most goods, services, and rights (output VAT). The VAT is assessed on the transfer price for the supply and forms part of the cost for the purchaser (with certain exceptions).

- The standard VAT rate is 20% and applies to most goods and services; a reduced rate of 10% applies to certain services (e.g. accommodation and public transportation) and essential goods (e.g. food and non-alcoholic beverages).
- As of 1 January 2008, taxpayers may ask the Czech Ministry of Finance for a binding ruling in respect of correct application of the VAT rate.
- Entities and individuals registered for Czech VAT can generally reclaim VAT through their VAT return incurred on purchases used for economic activities (input VAT).
- Goods acquired from VAT payers registered in an EU member state are subject to VAT. Czech VAT payers self-assess VAT on acquisition and can reclaim this VAT in the same VAT period, assuming they are fully taxable persons.
- Goods imported from outside the EU are subject to import VAT, which is similarly self-assessed and recovered by VAT payers as with intra-community supplies.

- The receipt of services provided by taxable persons from EU or third countries to Czech VAT payers is generally subject to VAT based on the reverse-charge mechanism, i.e., the Czech customer self-assesses VAT on the purchase of such services, which may also be recovered under normal input recovery rules.
- The dispatch of goods to a VAT payer registered in an EU member state is considered an “exempt with credit” supply, i.e., no output VAT is charged, but the provider is able to reclaim input VAT related to the supply.
- The export of goods outside the EU is generally also considered an “exempt with credit” supply, i.e., no output VAT is charged, but the provider is able to reclaim input VAT related to the supply.
- The provision of certain services abroad is treated as being outside the scope of VAT.
- Certain supplies (e.g., banking services, insurance, financial operations) are treated as “VAT exempt.” While on output such supplies are VAT-exempt, input VAT related to VAT-exempt supplies cannot be reclaimed.
- Taxpayers must file VAT returns in which the amount of input VAT paid on purchases is deducted from the amount of output VAT charged. If during the tax period the amount of output VAT charged is higher than the amount of input VAT incurred, the balance must be remitted to the Tax Office. In the opposite case, the Tax Office remits the difference to the taxpayer.
- For intra-Community transactions VAT payers must also submit EC Sales list (for supply of services subject to reverse-charge and dispatch of goods) and Intrastat reports (for acquisition/dispatch of goods where the trading volume assessed for each type of transactions separately reaches the value of CZK 8,000,000).

VAT REGISTRATION

Czech entities and individuals can register voluntarily for VAT if they carry out economic activity in the Czech Republic. VAT registration is mandatory if turnover reaches CZK 1,000,000 (approx. EUR 37,780) within any twelve consecutive calendar months.

The application for mandatory registration must be filed with the Tax Office no later than the 15th day of the month following the month in which the turnover threshold is exceeded. VAT-only registration for foreign companies is possible in the Czech Republic under EU rules provided taxable supplies will be carried out in the Czech Republic. The turnover valid for Czech entities does not apply. As of 1 January 2008, a group of related companies can register as a single VAT entity.

ADMINISTRATION

VAT is administered by the Tax Office, with the exception of import VAT, which is administered by the Customs Office for non-VAT registered persons. Complete and accurate records of input and output VAT must be kept. For input VAT refund purposes, this involves invoices or receipts that meet the conditions of a tax document for VAT purposes. For output VAT, invoices with all essential details are required. Special rules apply to import and export. For VAT return purposes, received taxable supplies must be divided into domestic, intra-Community, and imported supplies. Received supplies must be further allocated into one of three groups based on the purpose and type of supply and the taxpayer’s economic activity. The Tax Office is authorised to make compliance visits to ensure that records and accounts are in order and that VAT is charged and paid correctly. Compliance visits tend to occur frequently, particularly if the VAT refund amount is high. An issue not identified at one compliance visit can be identified at a subsequent visit. VAT returns must be filed within 25 days of the end of the taxable period (see below) and any VAT liability paid within this time period. Significant penalties can be and are frequently imposed by the financial authorities for failure to comply with VAT legislation.

EC Sales List and Intrastat Reporting

In addition to VAT returns, VAT payers involved in intra-Community trade must file an EC Sales List for the delivery of goods and provision of services, subject to general place of supply rule, to VAT payers in the EU. The reporting period is a month and deadline for submitting EC Sales List for the current month is 25th day of the following month. Only VAT payers who provide services with place of taxable supply in another EU Member State determined in compliance with the general rule and do not make intra-community supply of goods will submit EC Sales List within the period for filing VAT return, i.e. depending on taxable period on a monthly or quarterly bases.

Also, with effect from 1 January 2010 the EC Sales List has to be submitted in electronic version only with an advanced electronic signature based on a qualified certificate or through a “data boxes”.

For statistical purposes, VAT payers involved in intra-Community trade must file Intrastat reports to record the movement of goods across internal EU borders. The reports are filed monthly with the local Customs Office if trade exceeds a certain volume. The deadline for submission of Intrastat reports is 10 working days after the respective month end if submitted in hard copy and 12 working days if submitted electronically.

TAX PERIOD

- One calendar month – if turnover exceeds CZK 10 million (approx. EUR 377,850) in the previous calendar year.
- Calendar quarter – if previous annual turnover is less than CZK 2 million (approx. EUR 75,570) and for all “VAT only” registered taxpayers.
- Monthly or quarterly – if previous annual turnover is more than CZK 2 million but less than CZK 10 million (the taxpayer may choose).

Upon registration for VAT, the tax period is determined based on anticipated turnover.

TAX POINT

Each transaction subject to VAT has a “tax point,” i.e., the date on which the supplier is obliged to charge output VAT. This in turn defines the tax period to which the taxable supply belongs. For the sale of goods based on a purchase agreement, VAT payers charge VAT on receipt of payment or the date of taxable supply, whichever occurs first. For most goods and, in particular, for services, it is necessary to determine the date of taxable supply based on the specifics and according to Czech legislation.

PLACE OF SUPPLY

If goods or services are supplied in the Czech Republic, they are subject to Czech VAT (as applicable). However, for various transactions and in particular for the provision of cross-border services, special place of supply rules apply.

Goods

In general, if goods are made available in the Czech Republic or are located in the country at the time delivery begins, they are considered as supplied in the Czech Republic and, therefore, subject to Czech VAT.

Services

The VAT legislation differentiates between the general rule for determining the place of supply of services provided to person liable to tax, i. e. physical person or legal entity that independently carries out business activity, and a person not-liable to tax.

Services provided to person liable to tax are generally considered as effected where the recipient of the service has its seat, establishment or place of business. However, different rules apply to different types of services and it can be quite difficult in some cases to determine the place of supply.

Some of the services are subject to different VAT rules

- For services related to immovable property the place of supply is the place where the immovable property is located.
- For services in the area of art, science and sports the place of supply is the place where the cultural, scientific or sport event actually takes place.
- For restaurant services the place of supply is the place where the restaurant service is actually provided.
- For short-term rental of means of transport the place of supply is the place where the means of transport is actually handed over to the customer.

Services provided to person not-liable to tax are considered as effected in the Czech Republic if the provider is located in the Czech Republic.

REFUND OF INPUT VAT

VAT that is to be reclaimed is divided into three different groups of taxable supplies: supplies with a full refund of VAT, supplies with no refund of VAT, and supplies with a partial refund of VAT. Taxpayers must allocate received supplies (purchases) to one of these three groups.

- Group 1 – purchases used for economic activity subject to output VAT; purchases used for economic activity subject to zero-rated VAT (e.g., export of goods, intra-Community deliveries); purchases related to supplies outside the scope of VAT (in certain cases); and for a limited number of purchases related to taxable supplies that are VAT-exempt.
- Group 2 – purchases used to provide VAT- exempt supplies or supplies that do not relate to economic activities of the taxpayer. No refund of input related to purchases used to provide VAT-exempt supplies is allowed.
- Group 3 – purchases used for both Group 1 and Group 2 supplies. For purchases classified under Group 3, the taxpayer is obliged to reduce its refund of VAT, i.e., only a partial VAT refund is possible.

NON-RECOVERABLE INPUT VAT

Certain input VAT is always irrecoverable and is, therefore, always an actual cost to a business. Currently, this applies to tax non-deductible representation expenses.

REFUND OF CZECH VAT TO EU VAT PAYERS

VAT payers established and VAT registered in an EU member state are entitled to a refund of Czech VAT. These VAT payers must file an electronic VAT refund application in the country of their establishment. The deadline for filing the application for the respective calendar year is 30 September of the following calendar year. The VAT refund application will be reviewed in accordance with the rules applicable in the country where the respective VAT was incurred and this within the strict time plan. The applicant has the right to late payment interest if the claimed VAT is refunded with delay.

REFUND OF CZECH VAT TO NON-EU ENTREPRENEURS

The refund of VAT to non-EU entrepreneurs is based on the system of VAT reciprocity. Currently Switzerland, Norway and Macedonia have confirmed VAT reciprocity with the Czech Republic. An application for a refund of VAT based on reciprocity for the respective calendar year must be filed no later than 30 June of the following year with the Tax Office for Prague 1 and meets all statutory and procedural requirements.

REFUND OF CZECH VAT TO TOURISTS

Under certain conditions, foreign nationals (tourists) who are not citizens of an EU member state are entitled to a VAT refund when they take purchases made in the Czech Republic abroad. VAT is refunded if all conditions are met, i.e., the foreign national has neither permanent nor temporary residence in the Czech Republic; the price of purchased goods (including VAT) paid to a single vendor exceeds a certain amount of Czech crowns; and the goods leave the EU no later than three months from the end of the month in which the purchase was made. The entitlement to a VAT refund expires after six months from the end of the month in which the purchase was made. The VAT refund is restricted in the case of certain goods, such as fuel, tobacco products, alcoholic beverages and foodstuffs.

VAT AND OTHER TAXES

When calculating taxable profit for income tax purposes, VAT that cannot be reclaimed may be deducted as a business expense. Similarly, VAT that is not recovered may be included in the capital costs of assets that are depreciated for tax purposes. VAT that is not recovered will normally arise only for entities that make VAT-exempt supplies or which are not registered for Czech VAT. If a full refund of input VAT is made, the relevant transaction is recorded net of VAT for income tax purposes. For more information on income tax in the Czech Republic, please refer to our Corporate Tax chapter.

TYPES OF SUPPLIES

Taxable Supplies (20%, 10% VAT).

In general, the sale of most goods and services is subject to 20% output VAT. Certain essential goods and services are subject to the reduced VAT rate of 10%. This basically includes all food and beverages (other than alcohol) and social housing.

VAT-Exempt Supplies

VAT-exempt supplies are charged with no output VAT. The provider cannot reclaim input VAT incurred in connection with the provision of most VAT-exempt supplies. VAT-exempt supplies include banking, insurance, and financial operations; postal services; public radio and television broadcasting; the sale or lease of land; and the sale or lease of buildings, unless the option to tax is pursued. If during the course of business a taxpayer provides both VAT-exempt and taxable supplies, the taxpayer must reduce his overall VAT refund by a coefficient that is determined by reconciling the amount of taxable supplies against the total amount of all supplies (including exempt supplies) in each tax period. For providers of VAT-exempt supplies, the reduction of the VAT refund can be significant. It is advisable to seek consultation if transactions are carried out in the Czech Republic involving an entity providing exempt supplies.

VAT Exempt with Credit (Zero-Rated) Supplies

In general, the export of goods and the intra-Community delivery of goods are the most frequent supplies treated as exempt with credit. No output VAT applies, and the provider is entitled to a full refund of input VAT incurred in connection with the provision of such supplies.

Supplies outside the Scope of Czech VAT

In general, transactions that do not have their place of supply in the Czech Republic, such as reverse-charge services, are considered to be outside the scope of Czech VAT and have no Czech VAT implications. Related input tax is recoverable under conditions identical to local supplies.

Energy taxes

- The tax reform introduced a new type of indirect taxes implementing the relevant EU regulations in the area of environmental taxes with effect from 1 January 2008.

- These taxes are levied on supplies of electricity, natural and other gases, and solid fuels (“energy”). The payers of energy tax are either suppliers of energy in the Czech Republic selling the energy to end users or operators of distribution or transmission systems. Taxpayers are most frequently entities that use tax-exempt energy for other than exempted purposes or that used untaxed energy.
- The amount of tax on electricity is calculated by multiplying the tax base, i.e., the amount of electricity in MWh, by the tax rate, which is CZK 28.30/MWh.
- The tax base for gas is the amount of gas in MWh of gross heating value. The tax rate varies from CZK 0/MWh to CZK 264.80/MWh, depending on the nomenclature code for gas and the date the tax liability arose.
- The tax base for solid fuels is set as the amount of solid fuels expressed in GJ of gross heating value in the original sample. The tax rate is CZK 8.50/GJ of gross heating value in the original sample.
- The traders in electricity, gas or solid fuels may purchase the products tax-exempt subject to approval issued by the customs authorities.
- The products used for the production of energy are tax-exempt unless they are used as heating fuel (with exemption for production of heat meeting certain efficiency threshold). The tax-exemption also applies where the products are used in the metallurgical and mineralogical processes.

Excise duty

This tax applies to hydrocarbon fuels and lubricants, spirits and distilled liquors, beer, sparkling wine and tobacco products that are produced in or imported to the Czech Republic. The tax is quite high and it may comprise more than half of the price for the final consumer.

The tax is calculated as a fixed amount per unit of the product concerned and is levied on the producers or traders. Tax levied on cigarettes is calculated as a combination of a fixed amount and a percentage of the selling price.

System of Czech excise duty is harmonised with EU legislation. If the product is produced or imported to the Czech Republic the duty suspension arrangement may be applied and the tax does not become due until the product is launched for free circulation, e.g. supplied to retailer or to final customer. However, duty suspension arrangement is subject to strict supervision of Custom Authorities who administer excise duty in the Czech Republic.

Road Tax

- Taxable vehicles include:
 - Vehicles registered and operated in the Czech Republic for commercial purposes.
 - Vehicles over 3.5 tonnes used exclusively for freight transport and registered in the Czech Republic.
 - Cars belonging to employees that are used for business trips, if the employer pays travel allowances to the employees.
- Exempt vehicles include, among others:
 - Motorcycles,
 - Buses for public transport,
 - Public emergency and rescue vehicles (police, fire engine, ambulance etc.)
 - Vehicles using ecological fuels - electric or hybrid vehicles, vehicles using as fuel gas (LPG, CNG) or E85 ethanol.
- The person named on the vehicle’s registration document is liable to pay the tax, except when an employee’s car is used for commercial purposes, in which case the employer is

- liable. This includes Czech branches and permanent establishments of foreign companies.
- The road tax liability is calculated as follows:
 - For passenger cars used for commercial purposes, the liability is based on the vehicle's engine capacity and ranges from CZK 1,200 to CZK 4,200.
 - For semi-trailers, the liability is based on a combination of the total of maximum permitted weight on axles and number of axles and the tax ranges from CZK 1,800 to CZK 50,400.
 - For other vehicles (e.g., trucks, trailers), the liability is based on a combination of their maximum permitted weight and number of axles; the tax ranges from CZK 1,800 to CZK 50,400.
 - For cars belonging to employees that are used for business purposes, the tax may be based on either the number of days used (using the special tax rate of CZK 25 per day) or the usual annual tax rate.
 - The standard road tax rate can be reduced as follows (reductions cannot be combined):
 - 25% for vehicles used in agriculture.
 - Reductions for new vehicles for the first 108 months since their first registration (up to 48% for first 36 months since their first registration, up to 40% for the following 36 months and up to 25% for the subsequent 36 months) – this applies also for cars imported from abroad.
 - 100% for vehicles from 3.5 to 12 tonnes and used by individuals, non-profit organizations and driving schools providing that vehicles are not used for commercial purposes
 - 48% for vehicles above 12 tonnes if same conditions as above are met.
 - The standard road tax rate is increased by 25% for vehicles registered in the Czech Republic or abroad before 1990.
 - Tax reductions apply up to 100% for vehicles used for transporting ISO containers in combined car-train-car or car-boat-car transport (depending on the number of journeys in the tax period).
 - The liability is proportionally reduced if the vehicle is used only for part of the year.
 - Road tax is calculated on an annual basis for the calendar year. Quarterly tax advances must be paid by 15 April, 15 July, 15 October and 15 December. Any outstanding liability must be paid by 31 January of the following year.
 - The road tax return must be filed by 31 January following the end of the tax period and can be filed electronically.

Real Estate Transfer Tax

- Real estate transfer tax is levied on the sale or transfer of real estate for consideration (including in-kind contribution to subsidiaries and exchange of real estates).
- The tax rate is 3% and is levied on either the transfer price or the officially assessed value, whichever is higher. The tax is normally payable by the seller, with the purchaser acting as the guarantor.
- The tax return must generally be filed by the end of the third month following the month in which the transfer of legal title occurred.
- The tax is due by the deadline for filing the tax return.

Real Estate Tax

- Real estate tax is payable by the legal owner of land or buildings (classified as separable asset from the legal perspective) located in the Czech Republic.
- Tax taxable period is calendar year and the decisive day is 1 January. Any changes in ownership after 1 January are not relevant.
- If ownership cannot be determined, real estate tax is payable by the user of the land/property. In practice, the user of the real estate bears the burden of the tax, either directly or through increased rent or service charges.
- Owners of real estate must file a real estate tax return with the Tax Office by 31 January of

the taxable period in the first year. In other years the tax return is filed only if a qualifying change to the real estate has occurred since the previous year. Otherwise, the Tax Offices notifies the tax payer about the due tax (which is normally payable by 31 May of the taxable period).

- The tax rates differ based on location of particular real estate, type of land (undeveloped, agricultural, other), type of use of building (private, business) and type of business performed in building (agriculture, services, industry).

Inheritance Tax

- Applies to property gratuitously acquired as the result of an individual's death.
- Is assessed on the net value of property acquired after the deduction of debts and other liabilities.
- Is payable by the recipient within 30 days of the day that the recipient receives the tax assessment document stating the amount due.

Tax rate

- The tax is levied on a scale of progressive rates ranging from 0.5% to 20%, depending on the value of the property and the group into which the transferor and transferee fall.
- Depends on the relationship between the recipient (transferee) and the decedent (transferor).
- Individuals are categorised into three groups according to their relationship:
 - **Category I**
 - direct relatives and spouses.
 - **Category II**
 - a) other relatives (in the collateral line), namely siblings, nephews, nieces, uncles and aunts.
 - b) children's spouses, spouses' children, spouses' parents, spouses of parents and, if certain conditions are met, persons living with the testator in a common household.
 - **Category III**
 - other individuals and legal entities.

Main exemptions

- Transfer of assets up to certain limits:
 - Category I - fully exempt.
 - Category II - fully exempt.
 - Category III - value of movable assets up to CZK 20,000. Savings accounts at registered banks in the Czech Republic exempt up to CZK 20,000.

Gift Tax

- Is levied on the value of the property donated, reduced by related debts and other liabilities.
- Is payable by the taxpayer within 30 days of the day the taxpayer receives a tax assessment stating the amount due.

Taxpayer

- The taxpayer is normally the recipient, unless the gift is donated abroad, in which case the donor is the taxpayer.

Tax rate

- The gift tax rate is double the applicable rate of inheritance tax.
- Depends on the relationship between the recipient and the donor.
- Individuals are categorised into three groups according to their relationship (same categories as applicable in the case of inheritance tax). Category I and II are fully exempt from gift tax. The same exemption limits as in the case of inheritance tax apply to Category III.

Tax return

- A specific gift tax return must be filed within 30 days of, for example:
 - The day a gift of movable property is made.
 - The day a gift is provided abroad.
 - The day the official document confirming ownership of real estate is delivered to the taxpayer.

Administration of Taxes

The administration of taxes is covered by Administration of Taxes Act ("Act"). The administration of taxes means mainly the right to seek out the persons liable to tax, to assess, collect, account for and exact taxes, and to supervise the fulfilment of tax liabilities in the determined amount and within the stipulated term.

On 1 January 2011, the new Tax Code will take effect which will fully replace the Act. We describe below the current state of the legislation (when not stated otherwise)

Assessments

- A tax may not be assessed or additionally assessed after three years have elapsed from the end of the respective taxable period.
- If an act directed at the assessment of tax or additional tax (e.g., tax audit) is enacted within three years of the end of the taxable period, the three-year period commences run anew from the end of the year in which the taxpayer was notified of this act.
- Tax may be assessed or additionally assessed no later than ten years after the end of the taxable period during which the duty to pay tax arose.
- The assessment period is extended for the taxpayers granted investment incentives and taxpayers utilising tax losses.

Additional Tax Return

- If a taxpayer discovers an error in the tax return resulting in a higher tax liability or a lower loss, an additional tax return must be filed within one month following the month in which the error was discovered. Any additional tax must be paid within this time limit.
- If a taxpayer discovers an error in its favour in a filed tax return, an additional tax return can also be filed under certain conditions.

Tax fines and penalties

Penalties

- Penalties became a one-off fine of:
 - 20% if the tax is increased or the tax deduction decreased
 - 5% if the tax loss is decreased
- The tax liability declared based on an additional tax return is not subject to penalty calculation.

Default interest

- The Administration of Taxes Act regulates default interest, which is deemed a pecuniary fine for late payment. The amount of default interest is the repo rate of the Czech National Bank valid on the first day of the calendar half-year plus 14% (i.e., as at 1 January 2010 the repo rate will be 1.0%; thus, the overall default interest will be 15.0%).

Increase of tax

- For the late filing of a tax return, the sanction up to 10% of the total tax liability can be imposed.

Fines

- Failure to comply with non-monetary obligations, e.g., late registration or failure to keep appropriate tax records, may result in repeatedly assessed fines of up to CZK 2 million in total. The cash fine can be imposed repeatedly and can be imposed up to two years from the end of the year in which the action that gave rise to the right to impose a fine occurred.

Other sanctions

- There are other potential penalties for failure to comply with the requirements of Czech accounting law and health insurance and social security law.

This new amendment described above applies to taxes where the deadline for filing the tax return expires after 1 January 2007, or more precisely, to taxes whose primary payment date occurs after 1 January 2007. This means that for taxes where the deadline for filing the tax return expired before 31 December 2006 (or for taxes whose primary payment date occurred before 1 January 2007), the wording that applied until such time is used, i.e.:

- A taxpayer is subject to cash penalties if:
 - It fails to pay its tax liabilities in full and on time.
 - Tax is under-declared in a tax return and is increased by an additional tax return filed voluntarily by the taxpayer.
 - A tax assessment was made by the Tax Office resulting from an inspection.
- The standard penalty is 0.1% of the outstanding amount per day, assessed from the day following the day when the tax was due until the full amount is paid. The penalty is halved if the under-declared tax is discovered and reported by the taxpayer. If the tax authorities make the discovery, the penalty can be doubled to 0.2% of the outstanding amount per day. This calculation applies for the first 500 days of delay; from the 501st day, the penalty is calculated as 140% of the Czech National Bank's discount interest rate.

Under the new Tax Code (effective from 1 January 2011) new regulation for sanctions will apply as follows:

Penalties

- Penalties will be one-off fine of:
 - 20% if the tax is increased or the tax deduction decreased
 - 1% if the tax loss is decreased
- The tax liability declared based on an additional tax return is not subject to penalty calculation.

Default interest

- The Tax Code regulates default interest, which is deemed a pecuniary fine for late payment. The amount of default interest is the repo rate of the Czech National Bank valid on the first day of the calendar half-year plus 14%. Unlike the current valid legislation the default interest will apply from fifths (instead of first day) business day after due until the day of payment inclusive.

Order fine

- The Tax Office can impose the order fine in the maximal amount of CZK 50 thousands to persons which seriously compound the course of tax proceeding or which does not fulfill non-monetary obligations.

Fine for late assertion of tax

- The fine will be imposed in cases that the tax subject does not file the tax return (respectively statement, final settlement etc.) or file the tax return (respectively tax statement, final settlement etc.) more than five days after the deadline.

- The fine for not filing of the tax returns amounts:
 - 0,05% of tax or tax deduction for every day of delay but not more than 5% of tax respectively tax deduction
 - 0,01% of tax loss but not more than 5% of tax loss.
- The fine for not filing of the statements amounts:
 - 0,05% of tax or tax deduction for every day of delay but not more than 0,5% of tax respectively tax deduction
- The maximal amount of the fine could not exceed CZK 300 thousands.

DOUBLE TAXATION TREATIES

Czech corporations are required to withhold tax on the payment of dividends, interest and royalties as follows:

Recipient	Dividends (4)%	Interest (8)%	Royalties %
Resident parent company	0	0	0
Resident corporations – others	15	0	0
Resident individuals	15	15	0
Non-resident corporations and individuals			
Non-treaty:			
EU parent companies (sister companies)	0	0	0 (effective from 2011)
Corporations – others	15	15	5/15 ⁽¹⁾
Individuals	15	15	5/15 ⁽¹⁾
Treaty corporations or individuals:			
Albania	5/15	0/5	10
Armenia	10	0/5/10	5/10 ⁽¹⁴⁾
Australia	5/15	10	10
Austria	0/10	0	0/5 ⁽²⁾
Azerbaijan	8	0/5/10	10
Belarus	10	5	10
Belgium	5/15	0/10	0/5 ⁽²⁾
Brazil	15	0/10/15	15/25 ⁽³⁾
Bulgaria	10	10	10
Canada	5/15	10	10
China, P.R.	10	10	10 ⁽¹⁵⁾
Croatia	5	0	10
Cyprus	0/5	0	10 ⁽¹³⁾
Democratic People's Republic of Korea	10	0/10	10
Denmark	15	0	0/5 ⁽²⁾
Egypt	5/15	0/15	15
Estonia	5/15	0/10	10
Ethiopia	10	10	10
Finland	5/15	0	0/1/5/10 ⁽⁷⁾
France	10	0	0/5 ⁽²⁾
Georgia	5/10	0/8	0/5/10 ⁽¹²⁾
Germany	5/15	0	5
Greece	Local rates	10	0/10 ⁽²⁾
Hungary	5/15	0	10

Iceland	5/15	0	10
India	10	10	10
Indonesia	10/15	0/12.5	12.5
Ireland	5/15	0	0/10 ⁽⁹⁾
Israel	5/15	10	5
Italy	15	0	0/5 ⁽²⁾
Japan	10/15	10	0/10 ⁽²⁾
Jordan	10	0/10	10
Kazakhstan	10	10	10
Korea, Rep. Of	5/10	0/10	0/10 ⁽²⁾
Kuwait	0/5	0	10
Latvia	5/15	0/10	10
Lebanon	5	0	5/10
Lithuania	5/15	0/10	10
Luxembourg	5/15	0	0/10 ⁽²⁾
Macedonia	5/15	0	10
Malaysia	10	0/12	12
Malta	5	0	5
Mexico	10	10	10
Moldova	5/15	5	10
Mongolia	10	10	10
Morocco	10	0/10	10
Netherlands	0/10	0	5
Nigeria	12.5/15	0/15	15
Norway	0/15	0	0/5/10 ⁽¹¹⁾
Philippines	10/15	0/10	10/15
Poland	5/10	0/10	5
Portugal	10/15	0/10	10
Romania	10	0/7	10
Russia	10	0	10
Serbia and Montenegro	10	0/10	5/10 ⁽²⁾
Singapore	5	0	10
Slovak Republic	5/15	0	0/10 ⁽²⁾
Slovenia	5/15	0/5	10
South Africa	5/15	0	10
Spain	5/15	0	0/5
Sri Lanka	15	0/10	0/10 ⁽²⁾

Sweden	0/10	0	0/5 ⁽²⁾
Switzerland	5/15	0	10/5 ⁽¹⁰⁾
Syria	10	10	12
Tajikistan	5	0/7	10
Thailand	10	0/10	5/10/15 ⁽⁶⁾
Tunisia	10/15	12	5/15 ⁽²⁾
Turkey	10	10	10
Ukraine		5/15	0/5
United Arab Emirates	0/5 ⁽⁵⁾	0	10
United Kingdom	5/15	0	0/10 ⁽²⁾
United States of America	5/15	0	0/10 ⁽²⁾
Uzbekistan	10	0/5	10
Venezuela	5/10	0/10	12
Vietnam	10	0/10	10
Yugoslavia (only Bosnia and Herzegovina)	5/15	0	10

The numbers in parentheses refer to the notes below.

1. The lower rate applies to financial lease contracts.
2. The lower rate applies to cultural royalties.
3. The higher rate applies to payments in respect of the use of trademarks.
4. The lower rate applies if the recipient is a company (some treaties exclude partnerships) that owns or has a beneficial ownership of at least a certain share of the capital or voting shares of the company paying the dividend.
5. The lower rate applies if the recipient of the dividends is the government, a government institution or organization, or a company in which the government or a government institution owns (directly or indirectly) at least 25% of the capital.
6. The lowest rate applies to cultural royalties (except for movies and other products for television or radio). The 10% rate applies to trademarks and other industrial royalties.
7. The rate of 0% applies for cultural royalties, the 1% rate applies for financial lease payments, and the 5% rate applies for operating lease payments and payments for the use of computer software. The rate of 10% applies for industrial royalties.
8. The lower rate applies mostly in cases when the recipient of the interest is, or the interest is paid by, the government or its instruments, state agencies, state-owned institutions, central banks, etc., or the loan is guaranteed by those entities.
9. Exemption applies to leasing.
10. The lower rate is applied based on the Protocol to the treaty as long as Switzerland does not apply withholding tax on royalties at all.
11. The rate of 10% applies for royalties in general, the rate of 0% applies for cultural royalties (except software), and the rate of 5% applies for lease payments.
12. The rate of 10% applies for royalties in general, the rate of 0% applies for cultural royalties, and the rate of 5% applies for lease payments.
13. The lower rate on dividends applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of no less than one year.
14. The 0% rate on interests applies to government debt and government-assisted debt; the 5% rate applies to interest on loans or credit granted by banks. The 10% rate applies in other cases. The 5% rate on royalties applies to literary, artistic, or scientific work copyright royalties and to film and broadcasting royalties. The 10% rate applies in other cases.
15. In 2009 a new tax treaty was signed and now is in a process of ratification.

The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of these limitations.

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