

# *International Assignment Services* Taxation of International Assignees

*Human Resources Services  
Czech Republic*



# ***Country: Czech Republic***

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## **Introduction:**

# **International assignees working in the Czech Republic**

This booklet is designed to provide foreign nationals planning to work in the Czech Republic with a general background of Czech tax law and related issues. It reflects the tax law and practice as of January 2011.

This booklet traces a Czech assignment through seven steps. These steps address the specifics of what to do before you arrive in the Czech Republic, what to do when you are in the Czech Republic and what to do before you depart from the Czech Republic. Familiarity with these issues will make your assignment easier and more enjoyable.

This booklet is not intended to be a comprehensive or exhaustive study of Czech tax law. It should be used as a guide as you prepare for your assignment in the Czech Republic. We advise you against making any decisions without first seeking professional advice, as laws and interpretations in the Czech Republic are still subject to relatively frequent changes without much prior notice. This booklet will give you the preliminary information you can use to define the issues that are relevant to your situation.

**If we can be of assistance please contact us at:**

**PricewaterhouseCoopers Česká republika, s.r.o.**

**Kateřinská 40, 120 00 Prague 2**

**Czech Republic**

**Tel.: +420 251 151 111**

**Fax: +420 251 156 111**

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This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.

## Step 1:

# Understanding basic principles

### **The scope of taxation in the Czech Republic**

#### **1.**

A foreign national working in the Czech Republic is likely to be subject to Czech taxation. Income tax is the main tax to which expatriates are subject, although social security, health insurance contributions, and other taxes may also apply.

### **The tax year**

#### **2.**

For individuals, the tax year corresponds to the calendar year. For income tax purposes, income is taxed in the year when payment is actually received or, in the case of non-monetary benefits, in the year when the benefit is received.

Employment income received in January relating to work performed in the previous year must be included in the tax base of the previous year.

### **Determination of tax residency**

#### **3.**

**An individual is considered a resident for tax purposes in the Czech Republic if either of the following conditions is met:**

#### **a)**

The individual is a permanent resident in the Czech Republic, i.e., possesses a permanent home in the Czech Republic. The possession of a long-term visa does not by itself make an individual a tax resident in the Czech Republic.

#### **b)**

The individual is present in the Czech Republic for 183 or more days in a calendar year. This includes the days of arrival and departure.

If the individual is considered resident in more than one country, his final tax residency is determined based on the applicable double-tax treaty. Most double-tax treaties define an individual as a Czech tax resident if he/she has a permanent home in the Czech Republic, a strong personal and/or economic connection to the Czech Republic, a habitual place of residence in the Czech Republic or Czech citizenship. An individual not meeting the conditions of Czech tax residency is considered Czech tax nonresident.



4.

In the Czech Republic, as in most countries, the “183-day rule” assumes that a Czech tax nonresident present in the country for less than 183 days in any consecutive 12-month period is not subject to local income tax. However, additional aspects must be taken into account (please see points 5 and 25).

### **Deemed permanent establishment**

5.

For the determination of the creation of a deemed permanent establishment of a foreign company, the six-month rule applies to any consecutive 12-month period. The days of presence in the Czech Republic of all expatriates employed by the same foreign employer are taken into account. Consequently, an expatriate may be subject to Czech income tax even if present in the country for less than 183 days. Under Czech tax legislation, a permanent establishment is understood as a facility located in the Czech Republic. A “deemed” permanent establishment of a foreign entity is created in the Czech Republic if any commercial, managerial, advisory or other services are provided by employees of the foreign company in the Czech Republic for more than six months in any 12 successive calendar months. This time limit can be modified by the relevant double-tax treaty that the Czech Republic has

concluded with the country of residence of the foreign entity (e.g., to nine months in any 12 months in case of the US entities).

### **International hiring of labour**

6.

Special rules may apply when an employee of a foreign company is hired to perform work for a Czech employer. The hiring-out of labour is deemed to exist if the foreign employer has no contractual obligations regarding the final result of the services rendered. The foreign employer’s contractual obligation is limited to that of providing manpower to the Czech employer, where the work is provided under the supervision of the Czech employer. The expatriate’s Czech tax liability is then incurred from the first day of his physical presence in the Czech Republic.

7.

In such a situation, the Czech company using international hiring-out of labour is deemed the economic employer of the expatriate. Thus, the salary paid to the expatriate by the foreign entity would be subject to Czech income tax as if it were paid via a Czech payroll. Depending on the specific conditions the foreign employer may need a special “labour agency” license issued by the Czech Ministry of Labour and Social Affairs.

### **Method of calculating income tax**

8.

Taxable income is calculated by adding together all (taxable) sources of income. From 2009, in order to calculate the annual tax base, annual income from employment plus the employer’s part of the health insurance and social security contributions (either Czech actual or Czech hypothetical) are added to other income, e.g., profits from entrepreneurial activities, capital income and rental income. The annual tax base does not include Czech-source income from which tax is withheld at source, e.g., Czech dividends, interest and share of profits. Losses arising from one source of income may, under certain conditions, be offset against income from other sources, with the exception of employment income. In other words, it is not possible to offset losses arising from capital, entrepreneurial, rental or other sources against employment income.

Appropriate deductions are then made and the result is rounded down to the nearest CZK 100. A flat tax rate of 15% is then applied to this figure to arrive at the tax liability for the year 2011.

### **Joint taxation**

9.

According to the Czech tax law valid since 1 January 2008, joint filing for married couples is no longer allowed.

### **Payment in foreign currency**

10.

Individuals employed directly by foreign entities can be paid in a currency other than Czech crowns; individuals employed by local companies or directly by branches of foreign companies can also be paid in a non-Czech currency, if their employment contract is governed by foreign labour law. If governed by Czech labour law, however, they are required to be paid in Czech crowns (although the amount of salary payable can be pegged to a fixed amount in a foreign currency).

## Step 2:

# Understanding the Czech tax system

### Taxable income

#### 11.

Taxable income under the Czech Income Taxes Act includes the following:

- Income from dependent services (employment);
- Income from independent services (entrepreneurial and other profitable activities);
- Income from capital (interest, dividends, etc.);
- Rental income; and
- Other income.

### Employment income

#### 12.

Income from dependent services includes income and related remuneration from employment. Taxable remuneration from employment includes all remuneration, both monetary and nonmonetary, and benefits in kind given to or provided for an employee or family member, including director's fees, except where noted below. The location of the payment of salaries, bonuses, etc. does not affect the tax treatment. The employer's mandatory health insurance and social security contributions calculated according to the Czech health insurance and social security legislation (actual or hypothetical) are also regarded as employment income subject to tax.

### Income from entrepreneurial and other profitable activities

#### 13.

Entrepreneurs, independent consultants and other self-employed individuals who are not Czech tax residents will nevertheless be taxed in the Czech Republic on their activities to the extent the income is derived from a Czech permanent establishment or for services provided in the Czech Republic. Residing



entrepreneurs are taxed on their total self-employment income. Broadly speaking, expenditures required to "attain, secure and maintain" the taxpayer's income are deductible when calculating taxable income. Deductible expenditures can be determined either as actual expenses or as a lump-sum percentage of taxable income (between 30% to 80% depending on the type of activity).

### Income from capital

#### 14.

Income from capital, i.e., dividends and other yields from securities, limited liability companies or limited partnerships, and interest and profit shares from silent partnerships, is taxable income and is generally treated as a part of the total annual tax base.

#### 15.

Dividends (and other yields from securities or partnerships) from limited liability companies

or limited partnerships, profit shares from silent partnerships and interest from deposit certificates and bonds paid by a Czech resident entity to a resident or nonresident individual are all subject to withholding tax of 15%.

#### 16.

A withholding tax rate of 15% applies to income received by individuals from interest and

other yields from savings on deposit accounts.

#### 17.

Withholding tax may be reduced under the applicable double-tax treaty. Several of these treaties further reduce the rate of withholding tax. Reduced withholding tax rates are only applicable if the individual remains tax resident in another jurisdiction (i.e., the other party to the double-tax treaty) and is not treated as a Czech tax resident as defined under the treaty.

#### 18.

Dividends and interest received from foreign sources form part of an individual's taxable income only if the individual is considered Czech tax resident. Individuals can credit foreign tax paid on dividends received from abroad against their Czech tax liability based on the relevant double-tax treaty. Credit relief is not given for the "underlying" tax, i.e., tax imposed on the profits of the company from which a dividend is paid.

#### 19.

In respect of interest income paid within the EU, the rules of the savings directive have to be followed.

### **Rental income**

#### 20.

Income from the lease of real estate or the lease/

rental of moveable property represents another subgroup of taxable income. Deductible expenditures can be determined either as actual expenses or as a lump-sum percentage of taxable income (30%).

### **Other income**

#### 21.

"Other income" includes income from the sale of the individual's own real estate, moveable property, shares, participation, securities, occasional income, prizes in sporting or advertising competitions, and prizes from lotteries. Exemptions are available for gains that arise from the disposal of assets that have not been used for commercial purposes and have been held for a certain minimum period.

#### 22.

A special withholding tax of 15% applies in 2011 to income of up to CZK 7,000 monthly for work performed for Czech newspapers, magazines, television or radio.

#### 23.

Individuals who are not Czech tax residents are nevertheless liable to Czech income tax on gains not exempted as outlined above if the shares, participation or securities are in or are issued by a Czech legal entity and if such shares, participations or securities are sold to an entity with its seat in the Czech Republic. Income from the lease of real estate or moveable assets

is taxable if the subject of the lease is located in the Czech Republic.

### **Taxation of employment income**

#### 24.

Under Czech legislation, a tax resident is subject to tax on his or her worldwide income. This treatment applies in principle to any individual (national or expatriate) who has a permanent home in the Czech Republic or who is present in the country for 183 or more days in the calendar year. However, if an expatriate is present in the Czech Republic for 183 or more days but is a tax resident of a country with which the Czech Republic has concluded a double-tax treaty, the determination of tax residency under the treaty applies (subject to Czech interpretation of the treaty), and he/she may effectively be taxed only on Czech-source income.

#### 25.

A nonresident foreign national present in the Czech Republic for less than 183 days in a calendar year may be subject to Czech taxation on Czech-source income only. In principle, no tax is payable by the individual if he or she remains on the payroll of a foreign company (and is not deemed to be on a local payroll; refer to points 6-7 above) and the employer does not have a taxable presence in the Czech Republic via a permanent

establishment. The permanent establishment issue is covered in point 5 above.

#### 26.

If there is no Czech double-tax treaty with the country of residence of the foreign individual, this exemption applies to income earned from dependent activity performed by such foreign residents in the Czech Republic if the time period related to the performance of activity does not exceed 183 days in any consecutive 12-month period. In cases where the Czech Republic has concluded a double-tax treaty, the treaty rules indicate the conditions for a full exemption of income from Czech income tax.

### **Calculation of time period for taxation of employment income**

#### 27.

When applying the above time test to determine whether employment income of a Czech tax nonresident is taxable in the Czech Republic, all days of physical presence in the Czech Republic (including days of arrival and departure) are included, plus any days the nonresident spends outside the Czech Republic during the Czech assignment. This includes Saturdays, Sundays, public holidays, private holidays, and business trips directly related to employment in the Czech Republic. This approach must always be applied to

individuals from a country with which the Czech Republic has not concluded a double-tax treaty. In cases where the Czech Republic has concluded a double-tax treaty, the treaty rules apply to the calculation of the time period (i.e., generally only days of physical presence in the Czech Republic).

### 28.

The above tax exemption does not apply to income from activity performed personally and in public by artists, sportsmen, entertainers and their co-performers, or to income from activities carried out in a permanent establishment. Income of nonresident artists, sportsmen, entertainers and their co-performers for the activities performed in the Czech Republic is subject to 15% withholding tax in the Czech Republic in 2011.

## Special tax regime

### 29.

No beneficial tax regime for foreign individuals exists. Relevant relief from double taxation may be applicable if the foreign individual is a tax resident in a foreign country.

## Benefits in kind

### 30.

Taxable income includes employment income and benefits in kind. For certain benefits in kind, a special formula is applied to calculate the taxable value

(e.g., a company car used for business and private purposes – please see point 34).

## Reimbursement of expenses

### 31.

Special regulations apply to certain items of monetary income. For example, the reimbursement of travel expenses and meals on business trips can be tax-free only up to certain limits. The maximum daily allowable limits change regularly. The daily meal allowances for business trips outside the Czech Republic vary according to the country visited and are updated on a regular basis by the decree of the Ministry of Finance.

### 32.

Reimbursed expenses above these limits are regarded as part of the employee's salary and are subject to personal income tax and health insurance and social security contributions (if applicable).

## Tax deductions

### 33.

The following deductions from taxable income may apply:

- For interest paid on a mortgage under several strict conditions, up to CZK 300,000 per year;
- For private contributions paid to a state-subsidized supplement pension scheme

or to a pension insurance institution within the EU, Norway or Iceland under certain conditions, up to CZK 12,000 per year;

- For private contributions paid on private life insurance under certain conditions, up to CZK 12,000 per year; and
- For gifts to persons residing in the EU, Norway or Iceland whose recipient and purpose comply with the conditions determined by the Czech tax law
- **The following deductions from tax liability may be available to taxpayers for 2011:**
- A general deduction of CZK 23,640 from the taxpayer's final tax liability;
- A spouse deduction of CZK 24,840 if the spouse lives with the taxpayer and does not have income in excess of CZK 68,000;
- For taxpayers in receipt of a disability pension, CZK 2,520, CZK 5,040 or CZK 16,140 (depending on the severity of disability);
- For students, CZK 4,020; and

A taxpayer may (under some conditions) reduce his/her tax liability by CZK 11,604 annually per dependent child. If the total tax is lower than the respective child allowance, the taxpayer will receive a special tax bonus equal to the difference between the child allowances and his/her tax liability. However, the maximum amount of tax bonus is CZK 52,200.

## Company cars

### 34.

If an individual is provided with a company car that is available for both business and private use, the taxable benefit to the individual is calculated as 1% of the car's purchase price for each month the car is available for private use. The minimum monthly taxable benefit must be at least CZK 1,000. The benefit does not vary with the amount of kilometers traveled; the 1% increase of taxable income applies even if the company car is used for no private kilometers in a month but the taxpayer had the car available for private journeys. Petrol consumed on private trips is considered a benefit in kind if paid by the employer and is taxable for the individual.

## Housing benefit

### 35.

The taxation of a housing benefit depends on how the benefit is received by the individual. Temporary housing provided as a nonmonetary benefit is not taxable to the employee up to CZK 3,500 per month. The housing provided must be at or near the place of work and must be different from the individual's permanent residence. Temporary housing provided over this limit is always included in the employee's taxable income.

If, however, the individual is provided with an allowance for housing or a reimbursement of his/her housing costs, the



amount of the allowance or the amount reimbursed is included in his/her taxable income.

### **School fees**

**36.** School fees paid as a nonmonetary benefit directly to the educational institution by the employer are not considered a taxable benefit to the employee as long as certain conditions are fulfilled.

### **Payroll withholding tax**

**37.** The employer must withhold income tax on employment income on a monthly basis for the following individuals:

- All employees of a Czech company;
- All employees of a Czech branch of a foreign company registered in the Commercial Register, including expatriates assigned to work at the branch;
- All individuals employed in the Czech Republic for longer than 183 days, with the exception of persons providing services through a Czech deemed permanent establishment (see point 5 above); and
- All individuals hired by a Czech company as part of international hiring-out of labour (see points 6 and 7 above). The income of the employee must represent

at least 60% of the amount charged by the foreign employer if, in addition to salary costs, a mark-up is charged by the foreign entity as well.

**38.** Tax is withheld at source by the employer from the salary of the employee and should be paid to the appropriate tax authorities. The employer is obliged to operate a payroll and is responsible for tax registration and for correct payment of tax. Furthermore, if the employee has no income to declare other than employment income, and has not simultaneously obtained income from other employers, the employer must, if requested by the employee, also produce a year-end tax

reconciliation on behalf of the employee. This reconciliation, in effect, replaces the tax return of the employee.

### **39.**

If payroll withholding is not required, e.g., if the expatriate works at a deemed permanent establishment, the employee is personally responsible for Czech tax registration, for reporting employment income subject to Czech tax and for paying the amount of tax due.

## Step 3:

# What to do before you arrive in the Czech Republic

### **Entry formalities**

#### **40.**

Czech immigration law is very similar to the laws of the other European Union member states, as it is determined by common directives. EU nationals can freely enter the Czech Republic on a passport or a national identity card; non-EU citizens need to obtain a visa from a Czech embassy or a general consulate abroad, unless they have a valid Schengen visa or a residence permit of one of the Schengen states.

#### **41.**

Citizens of certain countries such as the US, Japan, Canada, Australia and most of South American countries do not need to hold a visa to enter the Czech Republic/Schengen zone for tourism purposes. We highly recommend that you contact the Czech embassy in your home country prior to your departure to confirm your situation to avoid any kind of misunderstandings and to make sure that you will fulfil Czech/Schengen immigration requirements.

#### **42.**

All non-EU expatriates with or without the visa requirement are obliged to register within 3 working days after their arrival in the Czech Republic with a local Foreigners' Police. While registering with the Foreigners' Police, the Expatriate must provide the following details – date of

arrival in the Czech Republic, place and expected length of stay in the Czech Republic.

Besides the passport, the Expatriate will need to provide the Foreigners' Police Officer with valid travel insurance with limited coverage of EUR 60,000 for the entire stay in the Czech Republic. If the Expatriate is staying in a hotel, the hotel management should complete the formalities above. In case the Expatriate is staying in a private accommodation, he/she is obliged to undertake this registration personally.

Please note that the Czech Republic's accession to the Schengen zone has resulted in a stricter regime for visa waiver foreigners, who are allowed to stay in the Czech Republic for a maximum of 90 days within six months.

### **Immigration requirements for EU citizens**

#### **43.**

EU citizens coming to work in the Czech Republic have the same rights as Czech citizens when applying for work in the Czech Republic. While non-EU nationals need a work permit and visa to commence working, this does not apply to EU nationals. However, the Czech employer must register the EU national with the Labour Office. Registration of the Expatriate needs to be processed by the EU national's first working day at the latest.

#### **44.**

EU citizens who intend to stay in the Czech Republic for a period longer than 30 days are obliged to announce their place of stay at the Foreigners' Police Office. If an EU national intends to stay in the Czech Republic for more than 90 days, he/she should apply for a Temporary Residence Permit at the respective Immigration Office. There are two possible regimes of stay in the Czech Republic – temporary stay and permanent residency (granted after five years spent in the Czech Republic on a Temporary Residence Permit).

#### **45.**

Family members of EU citizens (including unmarried couples living in a common household) who are not EU citizens enjoy a more favourable regime than non-EU citizens. When arriving to the Czech Republic, the family member of an EU citizen must apply for a Temporary Residence Permit at a relevant Immigration Office. The Temporary Residence Permit is issued along with the Temporary Residence Permit of the EU partner who is performing working activities in the Czech Republic (fulfilling the conditions and terms stipulated by the law). The system of granting residence permits to family members varies from case to case, and the procedure depends on the particular situation. Generally, the Temporary Residence Permit of a spouse is valid for five years and can be extended.

## **Immigration requirements for non-EU nationals**

### **Work permit**

#### **46.**

All foreign nationals who intend to work in the Czech Republic for a Czech employer, either on the basis of a direct employment contract or secondment, must obtain a work permit prior to their arrival in the Czech Republic. This requirement also applies to short-term assignments to the Czech Republic.

#### **47.**

If the foreign national is appointed to the Czech Republic as a statutory representative of an entity registered in the Czech Republic, as a managing director (“jednatel”) of a Czech limited company, as a member of the board of directors of a joint-stock company or as a branch manager, then no work permit is needed in case the responsibilities from such appointment are performed on a formal basis. However, if such individual participates in the performance of day-to-day tasks or is also working in the Czech Republic as an employee of the company, then he/she is required to apply for a work permit. In this case, a long-term visa can be obtained either on the basis of both purposes of the individual’s stay (dual purpose) or on the basis of employment.

#### **48.**

The long-term visa can be renewed for up to two years at the appropriate Immigration Office. The process of obtaining the work permit and visa is quite administrative and time-consuming, so please bear in mind that in case you plan to be employed in the Czech Republic, both permits should be secured in a timely manner and well before your arrival in the Czech Republic.

#### **49.**

The Czech work permit is usually issued within 40 days. To obtain a work permit for a non EU-national, the employer must announce a vacant job position, and if the position is not engaged by a Czech or EU national within one month, the foreigner is entitled to apply for the work permit. If the employer is a foreign company, the Czech receiving company must first obtain consent from the Labour Office that the individual can be seconded to the Czech Republic based on a secondment letter together with the respective agreement between the foreign and the Czech entity.

#### **50.**

If the employer is a Czech company, the proof of its existence is the original or a notarised copy of the extract from the Commercial Register. For foreign employers, a notarised copy of the extract

from the Commercial Register of the Czech company to which services are provided, together with confirmation of the foreign company’s existence, is required.

### **Exemptions from the requirement to have a work permit**

#### **51.**

There are, however, several exemptions for non-EU nationals who are not required to obtain a work permit and only have to be registered by the Czech entity instead of having a work permit for performing working activities. The following cases apply to these exemptions – holders of Czech permanent residence permits, their family members and family members of EU nationals. Also, graduates of a Czech secondary school, college or university are not required to apply for the work permit. Non-EU nationals who are seconded to provide services from a company seated in another EU member state must also have a residence permit from this country to be excluded from the obligation to have a work permit, but they are always required to obtain a long-term visa. Non-EU nationals with so-called “long-term residence status” in another EU member state are only obliged to register with the relevant Labour Office.



### **Long-term visa**

#### **52.**

Several documents are required for an initial long-term visa application to be filed at a Czech embassy or a Consulate General. A completed application form, photographs, a valid passport and travel health insurance are required by law. A lease agreement or a confirmation of accommodation is sufficient proof that the individual is renting a property at the stated address. A further essential document is a valid work permit or a reference number confirming filing of the work permit application with the relevant Labour Office.

#### **53.**

The Czech immigration authorities will request

an extract from the Criminal Register of the applicant's home country as well as any other country where he/she resided continuously for six months in the past three years. In exceptional cases, Czech immigration authorities may require the confirmation of good health to avoid introduction of serious illness (e.g., HIV or syphilis).

#### **54.**

Non-working spouses or children also need to obtain long-term visas at a Czech embassy or Consulate General. It is necessary to submit documentation showing that they will have sufficient funds to cover their living expenses. Marriage and birth certificates properly verified, if applicable, also have to be submitted.

#### **55.**

Please bear in mind that the first long-term visa applied for at any Czech embassy or Consulate General is granted for a maximum period of six months. To obtain a long-term visa takes about 90-120 days.

### **Green cards**

#### **56.**

Foreign nationals of certain countries have easier access to the Czech job market thanks to a Green Card system developed jointly by the Czech Ministry of the Labour and Social Affairs and the Czech Ministry of the Interior. Green Cards serve as both residency permits and work permits. They can be applied for by foreign nationals who, in addition to fulfilling certain criteria, fill a job vacancy in the central job register. The register will contain positions that have not been filled within 30 days of being announced to the Labour Office or were identified by the Ministry of Industry and Trade as appropriate for key personnel. Green Cards are issued by the Ministry of the Interior and can be applied for by foreigners either from within the Czech territory, provided they enjoy long-term residency, or through an embassy, which then issues visas to allow the applicants to collect the green cards in the Czech Republic. The Green Card is usually approved within 30 days from the date the application reaches the Ministry of the Interior.

### 57.

Green Cards are issued in three different categories: category A for key personnel and qualified staff with a university degree; category B for certified skilled workers; and category C for all others. Green Cards will allow the holder to stay in the Czech Republic for a maximum of three years if it is a category A and two years in case of categories B and C. Category C Green Cards cannot be extended.

### Blue cards

### 58.

As of 1 January 2011, the Czech Republic has adopted several EU regulations. One of these is the Blue Card system. The system supports employment of highly qualified non-EU citizens who plan to work within the EU territory. A Blue Card can be applied for either at the Immigration Office – this is only in case the non-EU citizen has a valid residence permit in the Czech Republic – or at a relevant Czech embassy abroad.

### 59.

The first step in this process is to announce a vacant position at the relevant Labour Office. After 30 days, if the position was not engaged by a Czech citizen or an EU citizen, a non-EU candidate may apply for a Blue Card. The application for the Blue Card is usually processed within 90 days from the day it was submitted. It is important to note that, during the first 18 months, changing employers is possible only with

prior approval from the Ministry of the Interior. After this period, all changes are reported within 30 days directly to the Ministry of the Interior.

### Employment contract 60.

An expatriate who has an employment contract with either a foreign company or a local company may choose which country's labour laws should apply.

### 61.

Foreign nationals working in the Czech Republic for a foreign company or for a Czech entity based on a service agreement are not required to have a specific Czech employment contract, although it is advisable to be aware of the terms and conditions set down by the employer for the duration of the stay in the Czech Republic. If a foreign national is employed by a Czech company directly, a written employment contract must be concluded.

### 62.

Special rulings apply to representatives of Czech companies, as this relationship is governed by the Commercial Code and not by the Labour Code.

### Importing personal possessions

### 63.

Foreign nationals are allowed to import personal possessions for personal use duty-free.

For customs clearance, however, a copy of the foreign national's long-term visa, together with confirmation from the employer regarding the work function and approximate length of stay, must be provided. This confirmation must be written in Czech. The Customs Office will provide the appropriate form for the import of personal items; this form should be kept, as it will be required when the personal items are exported.

### Importing your car 64.

It is obligatory to register the car for a Czech number plate within six months (183 days) of the date of entering the Czech Republic.

### 65.

If a car is imported by a foreign national for personal use and for a period not exceeding six months, no customs duty is charged, and it is deemed to be a temporary admission with full relief from import duty and VAT.

### 66.

If a car is imported into the Czech Republic by an individual who will change his residency to the Czech Republic and will perform work here, it will be classified as a change of habitual abode abroad. In this case, the passenger car can be released into free circulation with full relief from import duty and VAT. The condition that must be fulfilled is that the car must have been used and owned abroad by the importer for at least six months

before the date of leaving the habitual abode.

### 67.

In other cases (e.g., a car that is used for business purposes, a car that is used by an individual other than the importer or a car that is to be re-exported in less than 34 months), it will be classified as a temporary admission with partial relief from import duty. Duty and VAT will be payable at 3% of the full amounts per month. These amounts will become payable upon re-export of the car.

### 68.

If the car is not exported, it will be released into free circulation. In this case, the customs duty is calculated as a percentage of the purchase price of the car (conventional rate of 10% is applied). VAT of 20% is also payable on the value of the purchase price (including customs duty). VAT and customs duty must be paid within 10 days of receiving the official notification from the Customs Office.

### 69.

After the Czech Republic's accession to the EU, the movement of goods within the EU is not classified as import or export, so no customs procedure is applied. In the case of importing goods from non-EU member states, the procedure is the same as described above.

## Step 4:

# What to do when you arrive in the Czech Republic

### Exchanging your foreign currency

#### 70.

The Czech crown (CZK) is a convertible currency and can be readily exchanged outside the Czech Republic at select locations. It is also possible to obtain local currency using your debit or credit card at most automatic cash dispensing machines; additionally, MasterCard, Visa, American Express and Diners Club are accepted by many retail outlets.

#### 71.

Exchange rates at 31 December 2010 were as follows:

- CZK 18.751 = USD 1.00
- CZK 29.108 = GBP 1.00
- CZK 25.060 = EUR 1.00

Foreign exchange regulations

#### 72.

The foreign exchange regulations, in particular the Foreign Exchange Act and related executive provisions, include certain special rules regarding expatriates. **Under the current legal regulations, the following points should be kept in mind:**

- Expatriates can operate foreign currency bank accounts at Czech banks without restrictions.
- Expatriates can hold Czech currency bank accounts.

- When making payments in excess of EUR 15,000, cashless transfers of funds must be used.

### Accommodations

#### 73.

Once the foreign national finds a flat or house to live in during his/her assignment in the Czech Republic, he/she should report the new address to the local Foreigners' Police Office if the address differs from the accommodation stated on the long-term visa application or residence permit.

### Tax registration

#### 74.

Foreign nationals who have income taxable in the Czech Republic and who are not taxed via Czech payroll must register for Czech tax purposes. The tax authorities require a completed application form; confirmation of the work position may also be required. Other attachments to the tax registration form depend on the immigration documents of EU and non-EU nationals.

#### 75.

Upon Czech tax registration, the foreign national is issued a tax registration number. This number must be used in any communication with the Czech tax authorities.

#### 76.

Individuals whose employer (Czech or foreign) operates

a Czech payroll and who do not have income other than their employment income are not required to register personally with Czech tax authorities.

### Driving license

#### 77.

Foreign nationals who are present long-term in the Czech Republic and who drive a car in this country should have a Czech driving licence within three months from the date long-term visa or residence permit is obtained. The licence is issued based on the driver's current driving licence; however, it is not automatically issued for all types. In general, the rule is that a Czech driving licence is issued for driving licences of those countries in which the form of the licence is governed by either the Vienna Convention or the Geneva Convention. EU citizens and foreign nationals who have a driving licence issued by a state of the European Commonwealth do not need to have their licences replaced by a Czech one. Czech licences cannot be issued, for example, for the USA, Canada and Australia. Such driving licences must be accompanied by an international driving licence, which needs to be renewed in the country that issued the driving licence. The only way how to avoid annually obtaining an international one for such drivers is to pass an additional drivers' test in the Czech Republic.

## Step 5:

# What to do at the end of the year

### Tax return submission

#### 78.

Individuals who receive income subject to Czech taxation that is not taxed under a payroll withholding system or by final withholding tax (e.g., Czech dividends and Czech-source interest) in excess of CZK 6,000 per year must submit a personal income tax return to the appropriate tax authority. If the individual does not have any employment income, he/she is obliged to submit a personal income tax return if income, in addition to income directly taxed by final withholding, exceeds CZK 15,000. Individuals who are not Czech tax residents are obliged submit a personal income tax return if they utilize tax deductions.

#### 79.

Individuals working in the Czech Republic for a foreign company that has a deemed permanent establishment in the Czech Republic are always required to submit a Czech tax return.

#### 80.

The tax return must be filed by 1 April following the end of the tax year in which the income arises. Spouses must file separate returns. The fiscal year is the calendar year in the Czech Republic for personal taxation purposes.

### Applying for an extension

#### 81.

The deadline for filing the tax return is extended to 1 July if the tax return is prepared and submitted by a Czech registered tax adviser under a power of attorney that has been filed at the Financial Office before 1 April. The individual may also apply for extension of the filing deadline.

### Paying your tax liability

#### 82.

The conditions outlined below (points 83-85) apply if the tax liability is not regarded as having been completely settled by payroll withholding.

#### 83.

Generally, taxes are payable in advance, based on the last known Czech tax liability of the individual (i.e., as stated on the last filed annual tax return) and adjusted where appropriate to reflect changes in the liability as notified by the Financial Office.

#### 84.

However, the full tax liability is due on the day of submitting the first tax return corresponding to the year of arrival, as there was no previously known tax liability and therefore no tax advances were paid.

#### 85.

The tax due should be paid to the appropriate Financial Office in Czech crowns by bank transfer to the Czech National Bank. The Financial Office also accepts cash payments. Each payment should specify the type of tax payment being made. Payment orders should indicate the exact bank account number and the location of the Czech National Bank branch corresponding to the relevant local Financial Office. If tax is paid from abroad, the appropriate IBAN format of the bank account number must be used. When making payment, the tax identification number issued upon tax registration must be stated. The day of payment is considered to be the day on which the payment is credited to the account of the Financial Office.

### Advance tax payments

#### 86.

After submission of the first tax return, tax advance payments are required against the following year's tax liability. The amount of tax advances and the frequency of payment depend on the amount of the previous year's tax liability. The advances apply from the day following the submission of the tax return to the last day of the deadline for submitting next year's tax return. **Tax advances are explained in table below\*.**

*Tax advances are payable as follows:		
Tax due in previous year CZK	Amount of each advance	When payable
Under 30,000	0%	-
30,000 - 150,000	40%	Biannually
Over 150,000	25%	Quarterly

## ***Fines & penalties***

### **87.**

The tax authorities may levy a fine for late submission of a tax return; the tax liability can be increased by 0.05% for each day of delay (the tax loss by 0.01% for each day) up to 5% in total. The fine can amount to up to CZK 300,000.

### **88.**

There is also interest for late payment of a tax liability. The default interest rate is 14% points above the Czech National Bank's annual repo rate effective on the first day of the applicable calendar half-year, and the default interest is calculated for each day of late payment (starting the first working day after the due date).

## ***Tax overpayment***

### **89.**

The tax administrator can offset a tax overpayment against other tax arrears, if any, and the

balance can be credited against a future tax liability. However, where there are no tax arrears, the taxpayer can apply for a refund of overpaid tax. The overpaid tax should be returned to the taxpayer within 30 days of delivery of the application.

### **90.**

In the case of failure to return the tax overpayment within the deadline, the Financial Office is obliged to pay interest to the taxpayer. The amount of this interest is 14% above the Czech National Bank's annual repo rate effective on the first day of the applicable calendar half-year.

## ***Obtaining tax credits in your home country***

### **91.**

If it is necessary for a foreign national to obtain a tax credit in his/her home country for Czech taxes paid, the Financial Office will, upon request, provide an official certificate declaring the

total amount of Czech taxable income and the amount of tax paid. This can then be sent to the Financial Office in the home country.

## ***Tax residency certificate***

### **92.**

If requested to do so, the Financial Office may issue a certificate declaring the tax residency of the individual in the Czech Republic.



## Step 6:

# What to do when you leave the Czech Republic

### **Informing the Financial Office**

#### **93.**

The financial authorities need to be advised within 15 days of departure that the foreign national has left the Czech Republic permanently. This releases the foreign national from any obligation to pay further tax advances.

### **Filing your tax return**

#### **94.**

The foreign national's tax return should be prepared and submitted within the normal timescale. As the foreign national will not be present in the Czech Republic, it is advisable for the foreign national to grant a general power of attorney to an official tax adviser to act on his/her behalf.

### **Exporting your personal possessions**

#### **95.**

In order to re-export personal possessions free of duty, a personal declaration

(in Czech) must be delivered to the customs officials. The declaration must state that the goods are personal possessions.

### **Exporting your car**

#### **96.**

If the car was imported under the temporary admission regime with a partial relief, the appropriate duty and VAT must be paid when the car is exported.

#### **97.**

If the full relief applied to import of the car, no further duties are payable.

Work permit and long-term visa termination - non EU citizens

#### **98.**

The work permit needs to be cancelled by an employer by completing a form of the Labour Office within 10 working days after the employment with an employer was terminated. The Long – term visa is cancelled automatically as the Labour Office shares the data with the Ministry of Interior.

Labour office and residence permit termination - EU nationals.

#### **99.**

EU nationals must also terminate their stay by deregistering them at the local Labour Office and should also return their residence permit to the respective Ministry of Interior.

## Step 7:

# Other matters requiring consideration

### Health and social security contributions

#### 100.

Assignees working in the Czech Republic are generally subject to Czech social security and health insurance contributions. According to Czech legislation, foreigners who are subject to the Czech social security system must have a specific Czech identification number, which is generated based on application via the Czech Foreigners' Police Department – the so-called birth number. Based on EU regulations or an applicable bilateral social security treaty, the foreign employees may be subject to their home country social security system and, in this case, they are not subject to the Czech social security scheme (see Appendix D).

#### 101.

For 2011, the Czech health insurance and social security contribution rates are 11% (for the employee) and 34% (for the employer) of the employee's gross salary. Entrepreneurs contribute a percentage of entrepreneurial tax base.

#### 102.

**Social security contributions provide funding for three separate funds:** pensions, unemployment benefits and sickness, together with other benefits. Entrepreneurs can choose whether or not to contribute to the sickness fund.

There is a cap on social security and health insurance for both employees/employers and entrepreneurs. As of 2010, the cap is increased from 48 times to 72 times the average monthly salary in the economy (i.e. the cap for 2011 is CZK 1,781,280).

See table below for details.\*

### Purchasing real estate

#### 103.

At present, it is generally not possible for individuals who do not permanently reside in the Czech Republic to purchase Czech real estate. However, EU citizens who have obtained a residence permit, even if it is not a permanent one, may acquire Czech real estate except for agricultural land and forests.

### Road tax

#### 104.

Most cars that are used for business purposes fall under the Road Tax Act.

### Highway toll

#### 105.

All cars that use the Czech highway system must display a special sticker as evidence of payment of the highway toll. The amount of the toll depends on the weight of the car. For passenger cars up to 3.5t, the highway toll for the calendar year 2011 is CZK 1, 200. Toll stickers for ten days or one month also are available.

### Other taxes

#### 106.

There are no local taxes on income in the Czech Republic. There is no wealth tax. Individuals may be subject to real estate tax on land and buildings that they use or own. The transfer of assets by way of inheritance and gift, and the sale or other transfer of real estate in the Czech Republic may create a liability to gift, inheritance or real estate transfer tax.

*				
Contributions	Employer %	Employee %	Total Compulsory	Entrepreneur
Health care insurance	9.0%	4.5%	13.5%	13.5%
Pensions	21.5%	6.5%	28.0%	28.0%
Unemployment	1.2%	0.0%	1.2%	1.2%
Sickness	2.3%	0.0%	2.3%	2.3%**
Total	34.0%	11.0%	45.0%	45.0%

\*\*voluntary

## Appendix A:

# Overview of personal tax deductions and income tax rates

### Personal income tax rates

Tax rate applicable to individuals for 2011: 15%

### Annual tax deductions

The personal tax allowances for 2011 are as follows (in CZK):

Personal	23,640
Spouse (provided the spouse lives with the taxpayer and does not have annual income in excess of CZK 68 000)	24,840
Student studying for an occupation	4,020
If in receipt of partial disability pension	2,520
If in receipt of disability pension	5,040
If a ZTP/P card holder (handicapped person)	16,140
Child tax credit (provided child qualifies as a dependent living with taxpayer)	11,604
If child is ZTP/P card holder (handicapped person)	23,208



## Appendix B:

### Typical tax computation

#### Typical tax computation for 2011 - Taxpayer entitled for spouse and two children deductions:

<b>Tax computation</b>	<b>I - CZK</b>	<b>II - CZK</b>	<b>III - CZK</b>
Annual gross salary	2,000,000	2,500,000	3,000,000
Employee's health and social taxes	(195,942)	(195,942)	(195,942)
Employer's health and social taxes	605,636	605,636	605,636
Tax base (rounded)	2,605,600	3,105,600	3,605,600
Tax	390,840	465,840	540,840
Tax deductions:			
Personal	(23,640)	(23,640)	(23,640)
Spouse	(24,840)	(24,840)	(24,840)
Children tax credit	(23,208)	(23,208)	(23,208)
Tax payable	319,152	394,152	469,152
<b>Net salary</b>	<b>1,484,906</b>	<b>1,909,906</b>	<b>2,334,906</b>

#### Typical tax computation for 2011 - Taxpayer not entitled for spouse and two children deductions:

<b>Tax computation</b>	<b>I - CZK</b>	<b>II - CZK</b>	<b>III - CZK</b>
Annual gross salary	2,000,000	2,500,000	3,000,000
Employee's health and social taxes	(195,942)	(195,942)	(195,942)
Employer's health and social taxes	605,636	605,636	605,636
Tax base (rounded)	2,605,600	3,105,600	3,605,600
Tax	390,840	465,840	540,840
Tax deductions:			
Personal	(23,640)	(23,640)	(23,640)
Tax payable	367,200	442,200	517,200
<b>Net salary</b>	<b>1,436,858</b>	<b>1,861,858</b>	<b>2,286,858</b>

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## Appendix C:

# Double-taxation agreements

### Countries with which the Czech Republic currently has double-taxation agreements:

Albania	Jordan	Sri Lanka
Armenia	Kazakhstan	Sweden
Australia	Korea	Switzerland
Austria	Korea People's Rep.	Syria
Azerbaijan	Kuwait	Tajikistan
Belarus	Latvia	Thailand
Belgium	Lebanon	Tunisia
Bosnia and Herzegovina	Lithuania	Turkey
Brazil	Luxembourg	Ukraine
Bulgaria	Macedonia	UAE
Canada	Malaysia	United Kingdom
China*	Malta	United States
Croatia	Mexico	Uzbekistan
Cyprus	Moldova	Venezuela
Denmark	Mongolia	Vietnam
Egypt	Morocco	
Estonia	Netherlands	*Does not apply to Taiwan, Macao and Hong Kong.
Ethiopia	New Zealand	
Finland	Nigeria	
France	Norway	
Georgia	Philippines	
Germany	Poland	
Greece	Portugal	
Hungary	Romania	
Iceland	Russia	
India	Serbia, Montenegro	
Indonesia	Singapore	
Ireland	Slovakia	
Israel	Slovenia	
Italy	South Africa	
Japan	Spain	

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## **Appendix D:**

### **Social security agreements**

The Czech Republic is part of the EU social security legislation covering mainly the intra-EU transfers.

#### **Social security agreements (non EU countries)**

Bosnia and Herzegovina

Serbia

Canada

Turkey

Croatia

Ukraine

Chile

United States of America

Israel

Japan

Korea

Macedonia

Montenegro

## **Appendix E:**

### **Czech Republic contacts and offices**

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#### **William Schofield**

Tel: +420 251 152 500

E-mail: [william.schofield@cz.pwc.com](mailto:william.schofield@cz.pwc.com)

#### **Ludmila Seidlová**

Tel: +420 251 152 507

E-mail: [ludmila.seidlova@cz.pwc.com](mailto:ludmila.seidlova@cz.pwc.com)

#### **Ivana Vágnerová**

Tel: +420 251 152 543

E-mail: [ivana.vagnerova@cz.pwc.com](mailto:ivana.vagnerova@cz.pwc.com)

#### **Petra Bobková**

Tel: +420 251 152 515

E-mail: [petra.bobkova@cz.pwc.com](mailto:petra.bobkova@cz.pwc.com)

#### **Daniela Králová**

Tel.: +420 251 152 625

E-mail: [daniela.kralova@cz.pwc.com](mailto:daniela.kralova@cz.pwc.com)

#### **Tomáš Hunal**

Tel: +420 251 152 516

E-mail: [tomas.hunal@cz.pwc.com](mailto:tomas.hunal@cz.pwc.com)

#### **Jana Zelová (Immigration)**

Tel: +420 251 152 567

E-mail: [jana.zelova@cz.pwc.com](mailto:jana.zelova@cz.pwc.com)

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#### **Prague**

Kateřinská 40  
120 00 Prague 2  
Czech Republic

Tel: +420 251 151 111

Fax: +420 251 156 111

#### **Brno**

Náměstí Svobody 20  
602 00 Brno  
Czech Republic

Tel: +420 542 520 111,

Fax: +420 542 214 796

