

Tax and Legal Services
International Assignment Solutions

Foreign Nationals Working in the Czech Republic*

January 2008



*connectedthinking

PRICEWATERHOUSECOOPERS 

Foreign Nationals Working in the Czech Republic

January 2008

International Assignment Solutions



Introduction

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 main changes connected with the accession of the Czech Republic to the EU in May 2004, the tax reform introduced as of 2008 as well as tax law and practice as of January 2008.

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 here, 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,
or if you require additional
copies of this booklet, 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

Contents

		Paragraphs
Step 1	Understanding basic principles	
	The scope of Czech taxation	1
	The tax year	2
	Determination of tax residency	3-4
	Deemed permanent establishment	5
	International hiring of labour	6-7
	Method of calculating income tax	8
	Joint taxation	9
	Payment in foreign currency	10
Step 2	Understanding the Czech tax system	
	Taxable income	11
	Employment income	12
	Income from entrepreneurial and other profitable activities	13
	Income from capital	14-19
	Rental income	20
	Other income	21-23
	Taxation of employment income	24-26
	Calculation of time period for taxation of employment income	27-28
	Special tax regime	29
	Benefits in kind	30
	Reimbursement of expenses	31-32
	Tax deductions	33
	Company cars	34
	Housing benefit	35
	School fees	36
	Payroll withholding tax	37-39
Step 3	What to do before arriving in the Czech Republic	
	Entry and departure formalities	40-42
	Immigration requirements for EU citizens	43-45
	Immigration requirements for non-EU Nationals (Work permit)	46-51
	Exemptions from the requirement to have a work permit	52
	Long-term visa	53-55
	Employment contract	56-58
	Importing personal possessions	59
	Importing your car	60-65
Step 4	What to do on arrival in the Czech Republic	
	Exchanging your foreign currency	66-67
	Foreign exchange regulation	68
	Accommodation	69
	Tax registration	70-72
	Driving licence	73

		Paragraphs
Step 5	What to do at the end of the tax year	
	Tax return submission	74-76
	Applying for an extension	77
	Paying your tax liability	78-81
	Advance tax payments	82
	Fines & penalties	83-84
	Tax overpayment	85-86
	Obtaining tax credits in your home country	87
	Tax residency certificate	88
Step 6	What to do on departure from the Czech Republic	
	Informing the Financial Office	89
	Filing your tax return	90
	Exporting your personal possessions	91
	Exporting your car	92-93
	Work permit, long-term visa	94
Step 7	Other matters requiring consideration	
	Health and social security contributions	95-97
	Purchasing real estate	98
	Road tax	99
	Highway toll	100
	Other taxes	101
Appendix A	2008 tax rate and tax deductions	
Appendix B	Income tax calculations for 2008	
Appendix C	Double taxation agreements	
	Countries with which the Czech Republic has double taxation agreements	
Appendix D	Social security agreements	
	Countries with which the Czech Republic has social security agreements	
Contacts		

Step 1

Understanding basic principles

The scope of Czech taxation

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 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 non-resident.

4. In the Czech Republic as in most countries, the “183-day rule” assumes that a Czech tax non-resident present in the country for less than 183 days in any consecutive twelve-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 twelve-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 twelve 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 twelve 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" licence 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 2008, 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 is 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 source, 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 2008. As of 2009, the flat tax rate will decrease to 12.5%.

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.
 - Other income.

Employment income

12. Income from dependent activities includes income and related remuneration from employment. Taxable remuneration from employment includes all remuneration, both monetary and non-monetary, 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. As of 2008, the employer-paid mandatory health insurance and social security contributions are also regarded 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 40 – 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 non-resident individual, are all subject to withholding tax of 15% (12.5% as of 2009).

16. A withholding tax rate of 15% (12.5% as of 2009) 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	<p>20. Income from the lease of real estate or the lease/rental of moveable property represents another sub-group of taxable income. Deductible expenditures can be determined either as actual expenses or as a lump-sum percentage of taxable income.</p>
Other income	<p>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.</p> <p>22. A special withholding tax of 15% applies in 2008 to income of up to CZK 7,000 monthly for work performed for Czech newspapers, magazines, television, or radio.</p> <p>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.</p>
Taxation of employment income	<p>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.</p> <p>25. A non-resident 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.</p> <p>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 twelve-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.</p>
Calculation of time period for taxation of employment income	<p>27. When applying the above time test to determine whether employment income of a Czech tax non-resident 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 non-resident 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 state 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).</p>

	<p>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 non resident 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 2008.</p>
Special tax regime	<p>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.</p>
Benefits in kind	<p>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).</p>
Reimbursement of expenses	<p>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.</p> <p>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).</p>
Tax deductions	<p>33. The following deductions from taxable income may apply:</p> <ul style="list-style-type: none"> - For interest paid on a mortgage under several strict conditions, up to CZK 300,000 per year. - For private contributions paid to a state-subsidised supplement pension scheme 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. - For gifts to charities under certain conditions. <p>The following deductions from tax liability may be available to taxpayers:</p> <ul style="list-style-type: none"> - A general deduction of CZK 24,840 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 38,040. - 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. - As of 1 January 2008 a taxpayer may (under some conditions) reduce his or her tax liability by CZK 10,680 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	<p>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 kilometres travelled; the 1% increase of taxable income applies even if the company car is used for no private kilometres in a month but the tax payer 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.</p>

Housing benefit	<p>35. The taxation of a housing benefit depends on how the benefit is received by the individual. Temporary housing provided as a non-monetary benefit is not taxable for 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.</p> <p>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.</p>
School fees	<p>36. School fees paid as a non-monetary benefit directly to the educational institution by the employer are not considered a taxable benefit to the employee as long as the expense is paid from the company fund for cultural and social needs or from its profit after tax or from tax non-deductible expenses (i.e., the benefit is not deducted for corporate tax purposes).</p>
Payroll withholding tax	<p>37. The employer must withhold income tax on employment income on a monthly basis for the following individuals:</p> <ul style="list-style-type: none"> - 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). - 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. <p>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.</p> <p>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.</p>

Step 3

What to do before arriving in the Czech Republic

Entry and departure formalities

40. The 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. The Czech Republic has signed agreements with some countries, including the US, Japan, Canada, Australia, and most South American countries, eliminating the need for entry visas for passport holders from these countries. Be aware that this condition is applicable only for tourist purposes. Expatriates who require a visa to enter the Czech Republic are obliged to report, within three working days of their arrival in the Czech Republic, to their local Foreigners' Police Office. They must give details of their time of arrival and the place and length of their stay in the Czech Republic. It is not possible for them to obtain an entry visa at points of entry to the Czech Republic, unless they are family members of EU nationals.

42. Foreign nationals who do not require a visa to enter the country are also required to report to the local Foreigners' Police Office within 3 working days of arrival if they intend to stay longer than 30 days. If a foreign national is staying in a hotel, the hotel management should complete the above formalities. An expatriate staying in private accommodation is obliged to undertake this registration personally.

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 local Labour Office. Registration should be done by the date the EU national begins working.

44. EU citizens who intend to stay in the Czech Republic longer than 30 days are obliged to announce their place of stay to the Local Foreigners' Police Office. If an EU national intends to stay in the Czech Republic for more than 90 days, he/she is entitled to apply for a residence permit at the respective Foreigners' Police Office. The confirmation of residence recognises two regimes: temporary and permanent (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 do not have EU citizenship are treated preferentially. The Foreigners' Police Office issues a temporary residence permit or a permanent residence permit to a family member who is a non-EU citizen along with the permit of the partner performing the activities in the Czech Republic (fulfilling the conditions and terms stipulated by 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 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 a secondment agreement, must obtain a work permit prior to their arrival in the Czech Republic. This requirement also applies to short-term assignments in the Czech Republic.

47. If the foreign national is to be registered in the Czech Commercial Register as the statutory representative of an entity registered in the Czech Republic, as the managing director ("jednatel") of a Czech limited-liability 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 and the long-term visa is applied for on the basis of his/her appointment. However, if such an individual participates in the performance of workday tasks or is also working in the Czech Republic as an employee, then he/she is required to apply for a work permit. In this case, the visa is obtained based on both purposes of the individual's stay (dual purpose).

48. A work permit is only valid if the holder also obtains either a short-term visa valid for 90 days or a long-term visa valid for one year. Both the work permit and the long-term visa must be renewed annually at the appropriate Czech immigration authority in the Czech Republic. The entrepreneur visa is renewed once in two years. The process for obtaining the work permit and visa is generally a time-consuming one, subject to frequent and unexpected changes in the Czech authorities' approach. With this in mind, an entity planning to employ a foreign national in the Czech Republic should secure a work permit from the local Labour Office in sufficient time to allow the visa to be obtained by the individual from a Czech consulate abroad.

49. In order to obtain a work permit, the following documents must be submitted to the Labour Office: application form, formal request from the employer, confirmation of the employer's existence, photo, certificate of education, duty stamp, and confirmation of the applicant's health issued by a doctor. If the work permit is being arranged by a third party, these documents must be accompanied by letters of authorisation from both the individual and the employer. The application form must be completed by both the individual and the Czech-registered employer, or a designated Czech-registered company that has been authorised to act on behalf of the foreign employing entity.

50. If the individual is employed by a Czech company, the employer's letter of request must state why a foreign national is required for the position rather than a Czech national. If the employer is a foreign company, the request must state that the individual is being sent to the Czech Republic based on an agreement with a Czech firm (secondment letter) along with the respective agreement.

51. If the employer is a Czech company, the confirmation of its existence is the original or a notarised copy of its 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

52. There are, however, several exemptions for non-EU nationals who will only be registered by the Czech entity instead of having a work permit for performing working activities. The biggest group is holders of Czech permanent residence permits and family members of EU nationals. 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 visa. Non-EU nationals with so-called "long-term residence status" in another EU member state need only apply for the work permit the first time. Extension is not required and it is again replaced by the registration.

Long-term visa (applicable to non-EU nationals only)

53. 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, travel health insurance, and a police statement that the individual does not have a criminal record in the Czech Republic are required by law. A lease contract or a confirmation of accommodation is proof that the individual rents accommodation at the stated address. A further essential document is a valid work permit or the reference number confirming filing of the work permit application with the relevant Labour Office.

54. The Czech immigration authorities may request an extract from the Criminal Register of the applicant's home country and an extract from Criminal Register of any country where he/she resided for six months in the previous three years if there are doubts regarding the applicant's criminal history. The same applies to submission of the confirmation of good health to avoid introduction of serious illness.

55. Non-working spouses or children must also 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, must also be submitted.

Employment contract

56. 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.

57. 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.

58. 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

59. 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

60. 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.

61. 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.

62. 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.

63. In other cases (e.g., a car that is used for business purposes, or that is used by an individual other than the importer, or 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.

64. 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 19% 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.

65. 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. The conventional rate applied to passenger cars imported into the EU is 10%.

Step 4

What to do on arriving in the Czech Republic

Exchanging your foreign currency

66. 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.

67. Exchange rates as at 30 November 2007 were as follows:

CZK 17.788 = USD 1.00

CZK 36.746 = GBP 1.00

CZK 26.260 = EUR 1.00

Foreign exchange regulations

68. 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.

Accommodation

69. Once the foreign national or EU citizen 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 or residence permit.

Tax registration

70. 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.

71. 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.

72. 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 licence

73. Foreign nationals who are present in the Czech Republic for more than three months and who drive a car in this county should have a Czech driving licence. 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.

Step 5

What to do at the end of the tax year

Tax return submission

74. 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 utilise tax deductions.

75. 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.

76. The tax return must be filed by 31 March 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

77. The deadline for filing the tax return is extended to 30 June 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 by 31 March. The individual may also apply for extension of the filing deadline.

Paying your tax liability

78. The conditions outlined below (points 79-82) apply if the tax liability is not regarded as having been completely settled by payroll withholding.

79. 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.

80. 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.

81. 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 (see points 70-72 above regarding your tax registration).

Advance tax payments

82. 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 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	<p>83. The tax authorities may levy a fine for late submission of a tax return; the tax liability can be increased by up to 10%. The fine for not fulfilling non-monetary duty can amount to up to CZK 2,000,000.</p> <p>84. 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.</p>
Tax overpayment	<p>85. 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.</p> <p>86. 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.</p>
Obtaining tax credits in your home country	<p>87. 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.</p>
Tax residency certificate	<p>88. If requested to do so, the Financial Office may issue a certificate declaring the tax residency of the individual in the Czech Republic.</p>

Step 6

What to do on departure from the Czech Republic

Informing the Financial Office

89. 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

90. 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

91. 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

92. 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.

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

Work permit and long-term visa/registration at the Labour Office and residence permit

94. The work permit should be cancelled by completing a form at the Labour Office within ten working days of the date of departure. The date of departure should also be announced to the Foreigners' Police three days before departure. The long-term visa will be cancelled and replaced with an exit visa valid from two to fourteen days (the passport, completed application form, one passport photos, and a CZK 200 duty stamp must be submitted to the Foreigners' Police). EU nationals must also terminate their stay by deregistering at the local Labour Office and returning their residence permits to the respective Foreigners' Police Office.

Step 7

Other matters requiring consideration

Health and social security contributions

95. 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 Czech social security scheme (see Appendix D).

96. For 2008, the Czech health insurance and social security contribution rates are 12.5% (for the employee) and 35% (for the employer) of the employee's gross salary. Entrepreneurs contribute a percentage of the entrepreneurial tax base.

97. 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.

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	0.4	1.6	1.6
Sickness	3.3	1.1	4.4	4.4 ¹
Total	35.0	12.5	47.5	47.5

(¹ voluntary)

From 1 January 2008 there is a cap on social security and health insurance for both employees/employers and entrepreneurs. The cap is 48 times the average monthly salary in the economy (the cap for 2008 is CZK 1,034,880).

Purchasing real estate

98. 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

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

Highway toll

100. 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 2008 is CZK 1,000. Toll stickers for seven days or one month are also available.

Other taxes

101. 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.

Appendix A

Individual income tax rate for 2008: **15%**

2008 annual tax deductions

	Amount CZK
Personal	24,840
Spouse	24,840
provided the spouse lives with the taxpayer and does not have income in excess of CZK 38,040	
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	10,680
provided child qualifies as a dependent living with tax payer If child is ZTP/P card holder (handicapped person)	21,360

Appendix B

Income tax calculations for 2008

A: Taxpayer entitled for spouse and two children deductions

	I CZK	II CZK	III CZK
Annual gross salary	2,000,000	2,500,000	3,000,000
Employee's health & social taxes	(129,360)	(129,360)	(129,360)
Employer's health & social taxes	<u>(362,208)</u>	<u>(362,208)</u>	<u>(362,208)</u>
Tax base (rounded)	2,362,200	2,862,200	3,362,200
Tax	354,330	429,330	504,330
Tax deductions:			
personal	(24,840)	(24,840)	(24,840)
spouse	(24,840)	(24,840)	(24,840)
Children tax credit	(21,360)	(21,360)	(21,360)
Tax payable	283,290	358,290	433,290
Net salary	<u>1,587,350</u>	<u>2,012,350</u>	<u>2,437,350</u>

B: Taxpayer not entitled for spouse and two children deductions

	I CZK	II CZK	III CZK
Annual gross salary	2,000,000	2,500,000	3,000,000
Employee's health & social taxes	(129,360)	(129,360)	(129,360)
Employer's health & social taxes	<u>(362,208)</u>	<u>(362,208)</u>	<u>(362,208)</u>
Tax base (rounded)	2,362,200	2,862,200	3,362,200
Tax	354,330	429,330	504,330
Tax deductions:			
personal	(24,840)	(24,840)	(24,840)
spouse	-	-	-
Children tax credit	-	-	-
Tax payable	329,490	404,490	479,490
Net salary	<u>1,541,150</u>	<u>1,966,150</u>	<u>2,391,150</u>

Appendix C

Double taxation agreements

Countries with which the Czech Republic has effective double taxation agreements as of November 2007

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

Former Yugoslavia 1984 *

* Treaty applies to Bosnia and Herzegovina

The following treaties are currently under negotiation or are not effective:

Bosnia and Herzegovina	Mauritius
Chile	New Zealand
China (new)	Seychels
Cyprus (new)	Syria
Ethiopia	Tajikistan
Germany (new)	Turkmenistan
Jordan	Yugoslavia (new)

Appendix D

Social security agreements

The Czech Republic is part of the EU social security legislation covering mainly the intra-EU transfers. Where there exists a separate social security agreement with another EU country, the EU legislation prevails in case of conflict.

Countries with which the Czech Republic has social security agreements as of November 2007

Austria	Luxembourg
Bulgaria	Poland
Canada	Province Quebec
Chile	Romania
Cyprus	Slovakia
France	Spain
Germany	Switzerland
Hungary	Turkey
Israel	Ukraine
Lithuania	

Former Soviet Union (the agreement is not generally applied in practice by the local authorities and is in the process of being revoked).

Countries of former Yugoslavia (Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro, Slovenia).

The treaties with Italy and USA were signed but have not yet come into force.

Contacts

Further information can be obtained from the Tax Department of PricewaterhouseCoopers at the following addresses:

Kateřinská 40
120 00 **Prague** 2, Czech Republic
Tel.: +420 251 151 111
Fax: +420 251 156 111

náměstí Svobody 20
602 00 **Brno**, Czech Republic
Tel.: +420 542 520 111
Fax: +420 542 214 796

Zámecká 20
702 00 **Ostrava**, Czech Republic
Tel.: +420 595 137 111
Fax: +420 595 137 611

Contact persons:

Petr Frisch, Director
Tel.: +420 251 152 546
E-mail: petr.frisch@cz.pwc.com

Ludmila Seidlová, Manager
Tel.: +420 251 152 507
E-mail: ludmila.seidlova@cz.pwc.com

Bryan McSweeney, Manager
Tel.: +420 251 152 511
E-mail: bryan.mcsweeney@cz.pwc.com

Ivana Vágnerová, Manager
Tel.: +420 251 152 543
E-mail: ivana.vagnerova@cz.pwc.com

Petra Bobková, Manager
Tel.: +420 251 152 515
E-mail: petra.bobkova@cz.pwc.com

Alice Jurková, Manager
Tel.: +420 251 152 559
E-mail: alice.jurkova@cz.pwc.com

Daniela Králová, Manager
Tel.: +420 251 152 505
E-mail: daniela.kralova@cz.pwc.com

www.pwc.com/cz

