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Global Mobility Services:

Taxation of International
Assignees – Czech Republic

People and
Organisation
Global Mobility
Country Guide
(Folio)



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Country:

Czech Republic

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Global Mobility Country Guides

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 2018. 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.

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Step 1:

Understanding basic principles

The scope of taxation in the Czech Republic

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

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 nonmonetary 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

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 non-resident.



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 12-month period is not subject to local income tax. However, additional aspects must be taken into account (work for a permanent establishment or hiring out of labour).

Deemed permanent establishment

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

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.

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

Taxable income is calculated by adding together all (taxable) sources of income. 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 fictive) 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 arrive at the tax liability. Employment income and income from independent services over certain limit are subject to solidarity surcharge of 7%. In 2018 such solidarity surcharge is computed from annual employment income and/or entrepreneurial taxable base exceeding CZK 1,438,992.

Payment in foreign currency

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

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

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 fictive) are also regarded as employment income subject to tax.

Income from entrepreneurial and other profitable activities

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). However, annual lump-sum expenses are limited to certain amount depending on the type of activities.

Income from capital

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.

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 Czech tax resident are all subject to withholding tax of 15%. A withholding tax rate of 15% applies to income received by resident individuals from interest and other yields from savings on deposit accounts.

The rate of 15% applies also to income mentioned above paid to Czech tax non-residents residing in EU/EEA states or in a state having concluded a double tax treaty or an agreement on exchange of tax information with the Czech Republic. In other cases the tax rate for this type of income is 35%.



Withholding tax may be reduced under the applicable double tax treaty. 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.

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.

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

Rental income

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%). Annual lump-sum expenses are limited to CZK 300,000.

Other income

"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.

A special withholding tax of 15% applies to income of up to CZK 10,000 monthly for work performed for Czech newspapers, magazines, television or radio.

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

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.

A non-resident individual 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 non-resident individual if he or she remains on the payroll of a foreign company (and is not deemed to be on a local payroll; and the employer does not have a taxable presence in the Czech Republic via a permanent establishment).

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

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 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).

Artists, sportsmen, performers

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% or 35% withholding tax in the Czech Republic. The rate of 15% applies to Czech tax non-residents residing in EU/EEA states or in a state having concluded a double tax treaty or an agreement on exchange of tax information with the Czech Republic. In other cases the tax rate for this type of income is 35%.

Special tax regime

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

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).

Reimbursement of expenses

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.

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

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 EU/EEA under certain conditions, up to CZK 24,000 per year
- For private contributions paid on private life insurance to a life insurance institution within EU/EEA under certain conditions, up to CZK 24,000 per year
- For gifts to persons residing in the EU/EEA, 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 2018:

- 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 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.

A taxpayer may (under some conditions) reduce his/her tax liability by dependent child deduction. The annual deductions is CZK 15,204 for the first child, CZK 19,404 for the second child and CZK 24,204 per each further 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 60,300.

Documented fees for kindergarten may be deducted from tax up to the amount of the statutory minimum monthly wage per dependent pre-school child.

The above deductions are generally available for Czech tax residents. Tax non-resident taxpayers may utilise the deductions only if they reside in an EU/EEA member state, and their Czech taxable income is at least 90% of their world-wide income.

Company cars

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 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

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

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 certain conditions are fulfilled.

Payroll withholding tax

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

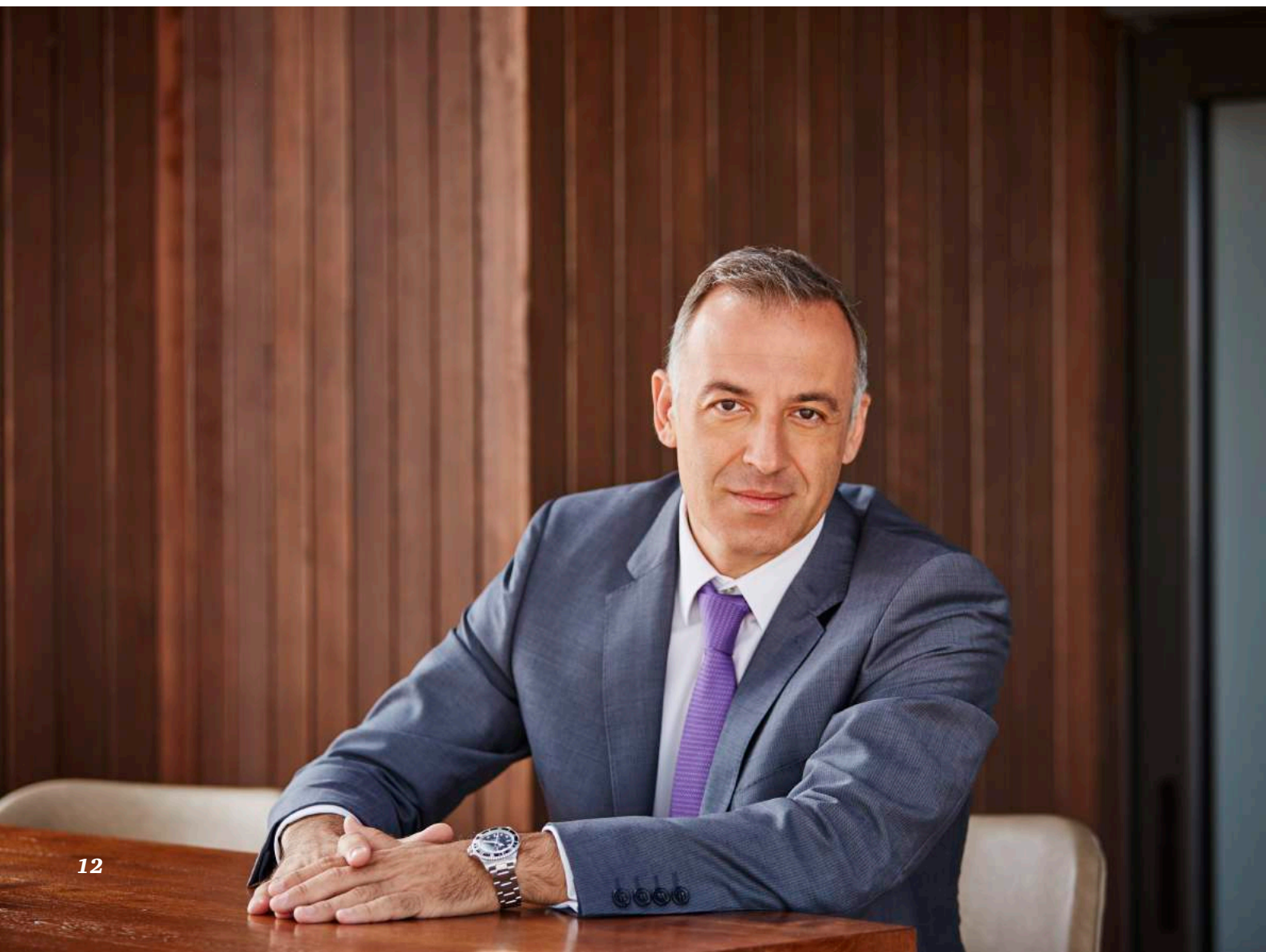
- All employees of a Czech company
- All employees of a Czech branch of a foreign company registered in the Commercial Register, including expatriates assigned to work at the branch
- All individuals employed in the Czech Republic for longer than 183 days, with the exception of persons providing services through a Czech deemed permanent establishment

- All individuals hired by a Czech company as part of international hiring-out of labour. 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.

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 is not obliged to file annual tax return 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.

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

Czech Republic, as a Member state of the European Union (EU)/Schengen, is bound by common regulations. EU citizens can freely enter the Czech Republic holding passport or a national identity card; non-EU citizens, unless they come from visa-waived country, need to obtain a visa from a Czech embassy abroad, in order to enter the Czech Republic/ Schengen Area, unless they hold a valid visa or a residence permit issued by one of the Schengen states.

Citizens of certain visa-waived countries such as US, Japan, Canada, Australia, Ukraine, countries of former Yugoslavia and most of South American countries, do not need to hold a visa to enter the Czech Republic/ Schengen area for a short-term period (i.e., three months in any 180 days period). Visa waiver regime is primarily meant for purpose of tourism or business. Nevertheless for purpose of work, irrespective of length of stay or nationality, there is always need of work visa. We highly recommend you to contact the Czech embassy/Consulate in your home country prior to your departure to avoid any kind of misunderstandings and to make sure that you will fulfil Czech/Schengen immigration requirements.

There is general obligation for all expatriates (incl. EU citizens) to register in person their place of stay after their arrival in the Czech Republic with the local Foreigner's Police Office (non-EU citizen within 3 working days,

EU citizen within 30 days if their EU citizen within 30 days if their stay would be longer than 30 days in a row). The Expatriate must provide following details for purpose of registration: date of arrival, expected length of stay and address in the Czech Republic. Besides the passport, the Expatriate will need to provide the Foreigner's Police Office with a valid travel insurance with a minimum coverage of EUR 30,000 (for short-stay) or EUR 60,000 (for long-stay) covering whole stay in the Czech Republic. If staying in a hotel, the registration is done on behalf of the foreign guest by a hotel management.

Please note that the Czech Republic's accession to the Schengen area has resulted in a stricter regime for visa-free foreigners, who are allowed to stay in the Czech Republic for a maximum of 90 days within any 180 days.

Immigration requirements for EU citizens and their family members

EU citizens coming to work in the Czech Republic have the same rights and same free access to job market as the Czech citizens. Therefore, they do not need to apply for work permit and work visa in order to commence work, as the non-EU citizens do. However, the Czech employer must register the EU national with the local Labour Office by the first working day of the EU national at the latest.

EU nationals planning to stay in the Czech Republic for more than 30 days are obliged to register their place of stay with the local Foreigners' Police Office. If an EU national intends to stay in the Czech Republic for more than 90 days, s/he may apply for a Confirmation of Temporary Residence at the Ministry of Interior. There are two possible regimes of long-term stay in the Czech Republic – temporary stay and permanent residency (generally granted after five years of temporary stay in the Czech Republic).

Family members of the EU citizens (including unmarried couples living in a common household) who are not EU citizens themselves and who accompany the EU citizen, are treated preferentially. Up to three months after arrival to the Czech Republic (with or without short-term visa depending on their visa obligation), they must apply for a Temporary Residence Permit at the Ministry of Interior. The applications for residence permits to the EU citizen's family members are examined thoroughly. Granted Temporary Residence Permit is generally valid for five years and can be extended repeatedly at the territory of the Czech Republic. Such family member of the EU citizen does not need the work permit in order to work in the Czech Republic.

If the family member of the EU citizen is not followed by the EU national to the Czech Republic then the family member cannot enjoy this beneficial residence regime. In other words, such person falls under standard regime for foreigners from outside EU, which means s/he has to have a valid work permit and relevant

visa/residence permit in order to be able to work and stay legally in the Czech Republic.

Work and immigration requirements for non-EU citizens

Work stay shorter than 90 days

Generally, all foreign nationals who intend to work in the Czech Republic for a Czech employer, must possess a work permit and a visa/residence permit (the latter applies also on visa-free Expatriates), prior to start of their working activities in the Czech Republic. Work can be based on direct employment contract or on the secondment. The foreign national is applying for the Schengen visa (also known as a short-stay visa or C-type visa) for the purpose of work. The general time-limit for processing of the application for a Schengen visa is 15 days from submission date, but the period is often shorter. Essential document for the application is a work permit.

The visa is applied at one of the Czech embassies/ Consulates abroad.

A Schengen visa usually allows for multiple entries and is valid for 90 days. It is impossible to prolong its validity, a new visa has to be applied for.

The Czech work permit is usually issued in 30 days, nevertheless delays up to 90 days may occur on the side of the Labour Offices in bigger cities. To obtain a work permit for a non EU-national, the employer must announce a vacant job position first. If the position is not engaged by a Czech or EU national within one month of testing the local labour market, the foreigner is entitled to apply for the work permit related to the offered position.

Such labour market test is not necessary in case the Expatriate is seconded to work in the Czech Republic, i.e., s/he has no local work contract with the Czech company.

Exemptions from the requirement of a work permit

There are, however, several situations when non-EU nationals is exempt from the work permit obligation. In such cases only the registration at the Labour Office by the Czech employer is requested for performing working activities. For example, the following categories of foreigners, do not need a work permit: holders of Czech permanent residence permits and their family members, family members of EU nationals holding Czech temporary residence permits; students and graduates of an accredited Czech secondary school or university; non-EU nationals who are seconded to provide services from a company seated in another EU member state when holding work permit from such country; non-EU nationals with so-called "long-term residence status" in another EU Member State. Such foreigners are still required to hold a visa/ residence permit.

If the foreign national is appointed to the Czech Republic as a statutory representative of an entity registered in the Czech Republic, or as a managing director ("jednatel") of a Czech limited liability company, or as a member of the board of directors of a joint-stock company or as a branch manager, generally no work permit is needed and entrepreneur's visa is issued.

However, if such individual also performs day-to-day tasks of the company, then he/she is required to hold a work permit.

Work stay longer than 90 days Employee Card

An Employee Card is most common type of a residence permit for purpose of work in the Czech Republic for a period longer than 90 days. For locally hired foreign employees it has a dual nature, i.e., it combines the residence and work permit in one. Seconded non-EU nationals receive non-dual Employee Card, therefore they still apply for a work permit first and then for the Employee Card. For both categories, see the following paragraphs.

A foreign employee hired locally (under the Czech employment contract)

An application for Employee Card is subject to the initial 30-day labour market test and the application must fulfil certain criteria as, e.g., the employment contract must guarantee minimum salary and working hours entitlement. The application for the Employee Card is submitted at the Czech Embassy/ Consulate abroad. The Ministry of Interior has 60–90 days to decide about the application. After the positive decision on granting the Employee Card is reached, the process of its issuance is finalised at the territory of the Czech Republic. For purpose of arrival to the Czech Republic and provision of biometric data for the Employee Card, special entry visa is issued. Upon provision of biometric data at the Ministry of Interior's Office, the foreigner obtains the Employee Card in the form of plastic biometric residence permit in the size of a credit card.



A foreign employee seconded to work in the Czech Republic (assigned by the foreign employer)

The Czech entity in which a foreign employee intends to perform working activities together with the foreign employee must apply for the work permit first. Once the work permit is issued or, as soon as the registration number of the work permit application is generated, the application for the Employee Card could be submitted at the Czech Embassy/Consulate abroad. The Ministry of Interior has 60–90 days to decide about the application.

After the positive decision on granting the Employee Card is reached, the process is then finalised at the territory of the Czech Republic. For purpose of arrival to the Czech Republic and provision of biometric data for the Employee Card, special entry visa is issued.

Upon provision of biometric data at the Ministry of Interior's Office, the foreigner obtains

the Employee Card in the form of plastic biometric residence permit in the size of a credit card.

The Employee Card is valid according to the validity of the work contract/ assignment letter of the working individual or for maximum of 2 years. It can be repeatedly extended for up to 2 years at the territory of the Czech Republic.

Generally, the process of obtaining the work permit and relevant visa/residence permit is administratively and time consuming. Therefore if you plan to be employed in the Czech Republic, please bear in mind, that all permits should be secured beforehand in timely manner.

Dependent spouses or children

Dependent spouses or children do not apply for the Employee Cards instead of it they need to obtain long-term visas for purpose of family reunion at a Czech embassy. It is necessary to submit documentation proving

sufficient funds of the breadwinner to cover their living expenses and family ties. Marriage and birth certificates must be properly verified and officially translated into Czech.

The first long-term visa for family members is issued for maximum of 1 year. Afterwards these are extended in the Czech Republic at the Ministry of Interior. The long-term visa extended on the grounds of the Czech Republic is called residence permit and the family members are granted plastic biometrical residence permit in the size of credit card. The validity of such permit follows the validity of the Employee Card of the breadwinner.

Blue Card

Blue Card is a work and residence permit in one for highly qualified non-EU citizens who tend to work in the Czech Republic and enjoy easier working mobility within the EU. A Blue Card is commonly applied at the Czech Embassy/Consulate abroad, unless the foreigner already resides in the Czech Republic, then s/he can apply in the territory.



Firstly, the Employer must announce a vacant position at the relevant Labour Office. If such position is not engaged by a Czech or EU candidate within 30 days, it may be offered to a foreigner from outside of the EU. Differently to other visa/residence permit applications; the applicant for Blue Card must submit the valid work contract guaranteeing her/him 1.5 average monthly salary in the Czech Republic. The application for the Blue Card is usually processed within 90 days from the submission.

The Blue Card is valid according to the validity of the work contract, but at maximum of 2 years and can be repeatedly extended at the territory of the Czech Republic.

Same as other residence permits, esp. Employee Card, the Blue Card is issued in the form of a plastic biometric residence permit in the size of a credit card.

New residence permits as of August 2017

By way of implementation of a new EU legislation in mid August 2017 and partially trying to rise competitiveness of the Czech economy, the Czech Republic introduced new types of residence permits for non –EU nationals for specific purposes of stay, i.e. Intra-corporate Transferee (ICT) cards, visa for seasonal workers and resident permits for investors.

Intra-corporate Transferee Card so called ICT Card

The ICT Card is intended for a non-EU national deployed by her/his foreign employer residing outside EU to work in one of the EU member states for more than 90 days on a position of a manager, specialist or trainee.

The home employer outside of the EU member state and host employer in the EU member state have to be capitally connected. The ICT Card application is to be decided within 90 days of its submission at one of the Czech embassies/Consulates abroad. Maximum period of stay in the territory based on IT Card is three years for managers and specialist. Trainees can remain just 1 year. Similarly as a Blue Card, the ICT Card facilitate mobility of foreigners within EU i.e. holders of Intra-corporate Transferee permits issued by a first Member State then also enjoy the right to stay and work either short-term or long-term in another Member State within another entity of the same group of undertakings under enhanced rules.

Long-term visa for purpose of seasonal employment

Very specific visa solely intended for paid activities related to a season. The list of industries for which this visa can be applied for is issued by the Czech Ministry of Work and Social Affairs. Currently it covers areas such as hospitality, agriculture and forestry, leisure and entertainment. Work permit issued by the Labour Office is a prerequisite for the seasonal employment visa application. For seasonal work lasting less than 3 months, short-stay visa (Schengen visa) type C is issued. For seasonal work lasting more than 3 months, long-stay visa is issued. This type of visa is strictly time-limited (maximum 6 months) but can be extended for another 6 months in the territory of the Czech Republic.

Residence permit for purpose of an investment

The residence permit issued to a foreigner who intends to carry out a significant investment; either by investment of the financial means (minimum of 75 mil. CZK) or creating certain amount of job positions (min. 20) in the Czech Republic. When applying for the investment residence permit number of documents have to be provided by the applicant, mainly: business plan (credible, feasible and beneficial for the municipality, region or state); bank account statement in the EU or Switzerland, financial reports for past two years, no due certificates of the company, origin of the financial means etc. The Ministry of Industry accesses the business plan and together with the Ministry of Interior reach the final decision on granting the residence permit for the purpose of investment. The application for the residence permit for the purpose of investment shall be decided within 30 days from its lodging either at one of the Czech embassies abroad or branches of the Ministry of Interior. Such residence permit is valid for 2 years with possibility of extension at the territory of the Czech Republic.

Employment contract

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

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.

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

Importing personal possessions

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 below.

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

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.

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. 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.

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. Customs duty will be payable at 3% of the full amounts per month. The amount will become payable upon re-export of the car. VAT of 21% is payable in the moment of importation on the value of the purchase price (including customs duty). VAT must be paid within 10 days of receiving the official notification from the Customs Office.

If the car will not be re-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 21% 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.

Step 4:

What to do when you arrive in the Czech Republic

Exchanging your foreign currency

The Czech crown (CZK) is a convertible currency and can be readily exchanged outside the Czech Republic. 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.

Foreign exchange rates at 30 January 2018 were as follows

- CZK 20.394 = USD 1.00
- CZK 25.330 = EUR 1.00
- CZK 28.804 = GBP 1.00

Foreign exchange regulations

- 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 CZK 270,000 cashless transfers of funds must be used.

Accommodations

Once the foreign national finds a place to live in during his/her assignment in the Czech Republic, he/she is obliged report the new address to the respective office of the Ministry of the Interior if the address differs from the accommodation stated in the application for long-term visa/residence permit application.

Tax registration

Foreign nationals who have income taxable in the Czech Republic and who are not taxed via Czech payroll must register for Czech tax purposes.

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.

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

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 183 days from the arrival to the Czech Republic. The licence is issued based on the driver's current driving licence; however, it is not automatically exchanged for Czech driving licence issued for all types. In general, the foreign driving licence is exchanged for a Czech driving licence if the issuing country is bound by 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 obtaining an international driving licence annually 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

Generally, individuals having annual taxable income over CZK 15,000 must submit annual tax return to the appropriate tax authority. However, individuals having employment income from one employer or several subsequent employers which is taxed under a Czech payroll withholding system are not obliged to file a personal income tax return provided that their other income does not exceed CZK 6,000 per year and their annual income is not subject to solidarity surcharge. Individuals who are not Czech tax residents are obliged submit a personal income tax return if they utilize certain tax deductions.

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.

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 a tax filing extension

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

The conditions outlined below apply if the tax liability is not regarded as having been completely settled by payroll withholding.

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.

However, the full tax liability is generally 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.

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

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.

Fines & penalties

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.

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 fifth working day after the due date).

Tax overpayment

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.

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 half-year.

Obtaining tax credits in your home country

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

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

The financial authorities need to be advised 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

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 power of attorney to an official tax adviser to act on his/ her behalf.

Exporting your personal possessions

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

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

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

Work permit and visa/ residence permit termination – non EU citizens

The work permit needs to be cancelled by an employer. This is done by completing a Labour Office's form within 10 working days after

the employment is terminated. The visa/residence permit is cancelled automatically as the Labour Office shares the data with the Ministry of Interior. It is compulsory to return (even expired) biometrical residence card to the hands of the Ministry of Interior, e.g. by mail.

Labour office and residence permit termination – EU citizens

The employer is obliged to terminate the employment of the EU national as well. This is done by deregistration at the local Labour Office within 10 working days after the termination of the employment. If the EU citizen holds the confirmation of the residence permit, this should be returned to the Ministry of Interior.



Step 7:

Other matters requiring consideration

Health and social security contributions

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).

Czech health insurance rate is 4.5% and social security contribution rate is 6.5% (for the employee) and 9% resp. 25% (for the employer) of the employee's gross salary. Entrepreneurs contribute a percentage of entrepreneurial tax base.

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 for both employees/employers and entrepreneurs. In 2018, the cap applies to social security assessment base (CZK 1,438,992). Health insurance assessment base is unlimited.

Road tax

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

Highway toll

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 a calendar year is CZK 1,500. Toll stickers for ten days or one month are also available.

Other taxes

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 gift and the sale or other transfer of real estate in the Czech Republic may create a liability to income tax or real estate transfer tax.

Reporting of the tax-free income

Individuals are obliged to report the acquisition of tax-free income exceeding CZK 5,000,000. The tax-free income should be reported to the Financial Office within the deadline for filing of the personal income tax return.

Appendix A:

Overview of personal tax deductions and income tax rates

Personal income tax rates

Tax rate applicable to individuals for 2018: 15% plus solidarity surcharge of 7% for employment income and entrepreneurial tax base over CZK 1,438,992(per year).

Annual tax deductions

The personal tax allowances for 2018 are as follows (CZK):

Personal	24,840
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)	15,204/19,404/24,204
If child is ZTP/P card holder (handicapped person)	30,408/38,808/48,408



Appendix B:

Tax computation for 2018

Taxpayer entitled for spouse and two children deductions (CZK)

	<i>I</i>	<i>II</i>	<i>III</i>
Annual gross salary	2,000,000	2,500,000	3,000,000
Employee's health and social taxes	(183,535)	(206,035)	(228,535)
Employer's health and social taxes	539,748	584,748	629,748
Tax base (rounded)	2,539,700	3,084,700	3,629,700
Tax	380,955	462,705	544,455
Solidarity surcharge	39,271	74,271	109,271
Tax deductions:			
Personal	(24,840)	(24,840)	(24,840)
Spouse	(24,840)	(24,840)	(24,840)
Children tax credit	(34,608)	(34,608)	(34,608)
Tax payable	335,938	(452,688)	569,438
Net salary	1,480,527	1,841,277	2,202,027

Taxpayer not entitled for spouse and children deductions (CZK)

	<i>I</i>	<i>II</i>	<i>III</i>
Annual gross salary	2,000,000	2,500,000	3,000,000
Employee's health and social taxes	(183,535)	(206,035)	(228,535)
Employer's health and social taxes	539,748	584,748	629,748
Tax base (rounded)	2,539,700	3,084,700	3,629,700
Tax	380,955	462,705	544,455
Solidarity surcharge	39,271	74,271	109,271
Tax deductions:			
Personal	(24,840)	(24,840)	(24,840)
Tax payable	395,386	512,136	628,886
Net salary	1,421,079	1,781,829	2,142,579

Appendix C:

Double-taxation agreements

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

Albania	Iceland	Pakistan
Armenia	India	Panama
Australia	Indonesia	Philippines
Austria	Iran	Poland
Azerbaijan	Ireland	Portugal
Bahrain	Israel	Romania
Barbados	Italy	Russia
Belarus	Japan	Saudi Arabia
Belgium	Jordan	Serbia, Montenegro
Bosnia and Herzegovina	Kazakhstan	Singapore
Brazil	Korea	Slovakia
Bulgaria	Korea People's Rep.	Slovenia
Canada	Kuwait	South Africa
China	Latvia	Spain
Chile	Lebanon	Sri Lanka
Columbia	Liechtenstein	Sweden
Croatia	Lithuania	Switzerland
Cyprus	Luxembourg	Syria
Denmark	Macedonia	Tajikistan
Egypt	Malaysia	Thailand
Estonia	Malta	Tunisia
Ethiopia	Mexico	Turkey
Finland	Moldova	Ukraine
France	Mongolia	United Arab Emirates
Georgia	Morocco	United Kingdom
Germany	Netherlands	United States of America
Greece	New Zealand	Uzbekistan
Hong Kong	Nigeria	Venezuela
Hungary	Norway	Vietnam

¹ Does not apply to Taiwan, Macao and Hong Kong

² Does not apply to Kosovo

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)

Albania	Macedonia
Australia	Moldova
Bosnia and Herzegovina	Montenegro
Canada	Serbia
Chile	Russia
Israel	Turkey
India	Ukraine
Japan	United States of America
Korea	





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