



cutting through complexity

Czech Republic Country Profile

EU Tax Centre

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Key tax factors for efficient cross-border business and investment involving Czech Rep.

EU Member State Yes

Double Tax Treaties With:

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

Notes: (a) Treaty signed with the former Serbia and Montenegro State applies to both Serbia State and Montenegro State.

Forms of doing business

Limited Liability Company (s.r.o.), joint-stock company (a.s.), European Company (SE), Limited Partnership (k.s.), General Commercial Partnership (v.o.s.), Cooperative

Legal entity capital requirements

s.r.o. - minimum registered equity is CZK 1
a.s. - minimum registered equity is MCZK 2
SE - minimum registered equity is TEUR 120
v.o.s. - minimum registered equity is not set
k.s. - minimum registered equity is TCZK 5



cooperative - minimum registered equity is not set

Residence and tax system

A company is resident if it has been incorporated in the Czech Republic or if its management and control is exercised in the Czech Republic.

Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Czech source income.

Compliance requirements for CIT purposes

A standard form is used for CIT compliance purposes. The tax return must be filed within three months of the end of the taxable period (or six months if the company is audited/the tax return is filed by a registered tax advisor based on a power of attorney). The tax return has to be filed electronically under penalty of TCZK 2.

Tax rate

The standard corporate income tax rate is 19 percent.

Withholding tax rates

On dividends paid to non-resident companies

35 percent for countries where no DTT or Tax Information Exchange Agreement has been concluded, otherwise 15 percent.

Exemption from WHT on dividends to an EU, Icelandic, Norwegian, Swiss parent or Liechtenstein* associated companies:

- Participation requirement: 10 percent of the share capital;
- Minimum holding period: 12 months (or commitment) – can be met ex post;
- Taxation requirement: No.

* the provision about Liechtenstein can be applied only under the condition that the DTT with Liechtenstein enters into force.

On interest paid to non-resident companies

35 percent for countries where no DTT or Tax Information Exchange Agreement has been concluded, otherwise 15 percent.

Exemption from WHT on interest paid to EU, Icelandic, Norwegian, Swiss or Liechtenstein* associated companies:

- “Affiliated companies”: 25 percent of the share capital or voting rights are held directly; or indirectly if common 25 percent parent;
- Minimum holding period: 24 months (or commitment) – can be met ex post;

* the provision about Liechtenstein can be applied only under the condition that the DTT with Liechtenstein enters into force.;

On patent royalties and certain copyright royalties paid to non-resident companies

On royalty and interest payments: 35 percent for countries where no DTT or Tax Information Exchange Agreement has been concluded, otherwise 15 percent.



Exemption from WHT on royalties paid to EU, Icelandic, Norwegian, Swiss or Liechtenstein associated companies:

- “Affiliated companies”: 25 percent of the share capital or voting rights are held directly; or indirectly if common 25 percent parent;
- Minimum holding period: 24 months (or commitment) – can be met ex post.

* the provision about Liechtenstein can be applied only under the condition that the DTT with Liechtenstein enters into force..

On fees for technical services

No

On other payments

Czech source income:

- Income from a permanent establishment - taxed through tax return
- Income from employment 15%
- Income from provision of services* 15%
- Income from the sale and/or use of immovable assets - taxed through tax return
- Income from an independent activity* 15%
- Income of entertainers and sportsmen* 15%
- Income from the use of movable assets* 15%
- Remuneration of members of statutory bodies 15%
- Income from the sale of movable assets of a permanent establishment, investment instruments under the special regulation of capital market business, property rights registered in the Czech Republic - taxed through tax return
- Winnings from lotteries and other games of chance 15%
- Pensions 15%
- Contractual fines 15%
- Income from settlement of a receivable acquired by assignment - taxed through tax return
- Income from trust 15%
- Gratuitous income 15%
- Income from a transfer of shares in a company seated in the Czech Republic - taxed through tax return
- Income from a sale of business located in the Czech Republic - taxed through tax return



- Rental income from movable property located in the Czech Republic
- Income received by a shareholder of a company in connection with a registered capital reduction 15%

* performed/exercised/located in the Czech Republic

Under Czech law, Czech-sourced income paid to a non-resident is generally subject to either 15% withholding tax or the non-resident must file a tax return. The WHT rate is increased to 35% if the income is paid to residents of countries which have not signed a DTT with the Czech Republic or when no arrangement is in place for the exchange of information on tax matters.

Branch withholding taxes

No

Holding rules

Dividend received from resident/non-resident subsidiaries

In principle, subject to 15 percent tax. An exemption (100 percent) applies to dividends from domestic and EU subsidiaries if the following requirements are met:

- Participation requirement: 10 percent of the share capital;
- Minimum holding period: 12 months (or commitment) – can be met ex post.

For dividends received from subsidiaries resident in non-EU countries that have entered into DTT with the Czech Republic, the exemption can be applied if the minimum holding conditions are met and the subsidiary is subject to a minimum 12 percent tax rate. The exemption cannot be applied if the parent company or the subsidiary: are exempt from corporate income (or a similar) tax; or may claim some corporate income tax exemption or relief; or are subject to corporate income tax at a rate of 0 percent.

Capital gains obtained from resident/non-resident subsidiaries

Exemptions may apply to gains derived by a domestic company from the sale of shares in a domestic, EU or non-EU subsidiary under the same conditions as apply to dividends.

Tax losses

Losses can be carried forward for 5 years.

Tax consolidation rules/Group relief rules

No

Registration duties

For CIT purposes, a taxpayer must register with the tax authorities:

- In the case of residents: within 15 days after the incorporation of a company
- In the case of non-residents: within 15 days after the incorporation of the permanent establishment
- In the case of non-residents: within 15 days after the receipt of certain types



of Czech-sourced income or after obtaining the business permission.

Transfer duties

On the transfer of shares

No. The definition of real estate company is based on the particular DTT.

On the transfer of land and buildings

4 percent. This transfer tax is usually paid by the seller but can, in mutual agreement, also be paid by the acquirer.

Stamp duties

No

Real estate taxes

Yes: computed based on the area of land occupied, category of land and other variables (number of floors, local coefficients determined by the local authorities).

Controlled Foreign Company rules

No

Transfer pricing rules

General transfer pricing rules

OECD Transfer Pricing Guidelines

Documentation requirement?

The Czech Ministry of Finance has issued guidelines covering recommended documentation.

Thin capitalization rules

Interest and other expenses on credits and loans (e.g., loan arrangement fees, guarantee fees) from related parties and from unrelated parties where a related party is a guarantor are subject to thin capitalization rules.

- Debt-to-equity ratio of 4:1 (6:1 for banks and insurance companies) on loans or credits granted by related parties: Excess expenses (including interest) are non-deductible.
- Interest on “back-to-back” loans is treated as interest on related-party debt.
- Any upward adjustment of profit resulting from a thin capitalization or transfer pricing adjustment relating to a non-EU or non-EEA resident counterparty may be treated as a dividend, i.e., is subject to dividend withholding tax and reduced by the provisions of any applicable DTT, if such reclassification is allowed by the DTT.

General Anti-Avoidance rules (GAAR)

Yes



Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions

Restrictions on loss utilization in corporate reorganizations and changes in ownership if there is also a change in the business ("same activities test").

"Subject to tax" requirement for the exemption of dividends and capital gains.

Where the interest rate or the interest payment is dependent on the borrower's profit, the related expense is non-deductible.

Advance Ruling system

Binding rulings can be obtained for the following:

- The apportionment of costs that cannot be allocated solely to taxable income;
- The calculation of the proportion of expenses connected with the operation of real estate used partly for business or lease purposes and partly for private purposes (for sole traders);
- Improvement of an asset;
- Deductibility of expenses incurred on R&D projects;
- Loss carry-forward on a change of ownership (but only after the event);
- Transfer pricing;
- The applicable VAT rate.
- Application of local VAT reverse charge mechanism on sale of scrap.

IP / R&D incentives

Yes

Other incentives

Investment incentives can be granted if the particular conditions and all the administrative requirements are met.

VAT

The standard rate is 21 percent, with two reduced rates: 15 percent and 10 percent.

Other relevant points of attention

"Substance over form" rule; however in practice, "form" tends to be more important.

Source: Czech tax law and local tax administration guidelines, updated 2015.



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