

4. Investment Incentives

MANUFACTURING SECTOR – INCENTIVES AND ELIGIBILITY

The Czech Republic offers both new and existing investors investment incentives and business support through several schemes. This document describes the system of national investment incentives offered by the government to investors in manufacturing facilities. As of the end of December 2011, 639 firms had been awarded incentives.

THE NATIONAL INCENTIVES SCHEME

The Czech government in April 1998 originally approved investment incentives for manufacturing. From the outset, the incentives scheme was designed to apply equally to both foreign and domestic investors under the same conditions.

A new **Act on Investment Incentives** (Act No. 72/2000 Coll.), which came into force on 1 May 2000, and whose subsequent amendments came into force in May 2004 and July 2007, codifies, simplifies and extends the original national incentives scheme. The Act was discussed with the European Commission and is in compliance with European regulations on state aid.

INCENTIVES LISTED IN THE ACT ON INVESTMENT INCENTIVES

Tax incentive	Corporate tax relief for up to five years for new companies Partial tax relief for up to five years for existing companies
Job creation grants	Financial support for creation of new jobs
Training and retraining grants	Financial support for training and retraining new employees
Site support	Transfer of public land at a favourable price

The incentives are available individually or collectively and are designed to have maximum impact in the early stages of the given project.

Tax incentive

The tax incentive has two forms. If a new company (legal entity) is established for the investment project, the new company is eligible for corporate tax relief for up to five years. If the investment takes the form of an expansion project within an existing Czech company (legal entity), the company is eligible for partial tax relief for up to five years. The tax relief is terminated when the company has reached the maximum level of eligible state aid – see the section below on compatibility of incentives with European Union regulations.

Job-creation and training and retraining grants

Job creation grants amounting to CZK 50,000 per employee and training and retraining grants amounting to 25% of total training and retraining costs are provided only in districts with unemployment that is at least 50% higher than the national average.

Site support

The preferential transfer of land or land with infrastructure owned by the state or municipalities is possible depending on the landowner's agreement with such preferential transfer.

ELIGIBILITY CRITERIA FOR MANUFACTURING

- The investment must be made in a manufacturing sector.
- The investment must be made in the launch of new production or in the expansion of existing production.
- The investor must invest at least CZK 100 million (approx. \$5 million) within three years. This limit is reduced in regions with high unemployment to CZK 60 million or CZK 50 million, depending on the unemployment rate.
- Half of the investment minimum (above) must be financed through the investor's own equity.
- At least 60% of the total investment must be made in machinery.
- All machinery must be new.
- The proposed production must meet all Czech environmental standards.

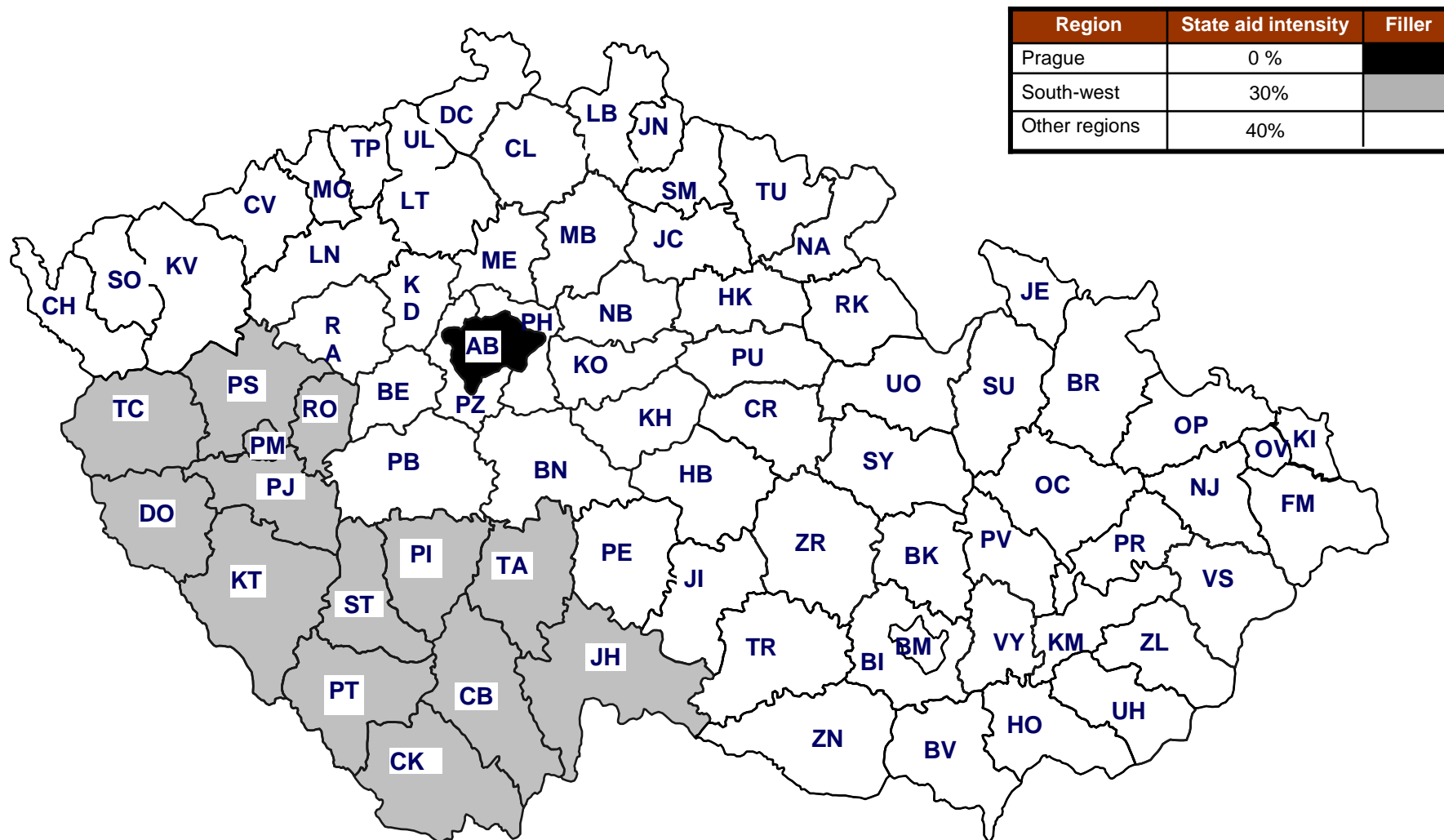
INVESTMENT INCENTIVES – COMPATIBILITY WITH EU REGULATIONS

The compatibility of the investment incentives regulations applied in the Czech Republic with EU state-aid legislation is evaluated by the European Commission. Each application for investment incentives must pass an evaluation by the Ministry of Industry and Trade, which also decides on the total amount of state aid available to each project. The actual aid available to each project is calculated as a percentage of the total value of the actual investment (i.e. capital expenditure on land, buildings, machinery, including limited expenditure on intangible assets). Once the limit of state aid available to the project has been reached, the tax break is terminated and the company has to start paying corporate tax.

Please see the attached map for the maximum percentage of state aid available in various regions in the Czech Republic, as required by EU regulations.

CzechInvest is the sole entity that may accept applications for the incentives above. Additional details on incentives can be obtained from our investment incentives specialists or from the “Manual on Investment Incentives” available at CzechInvest in printed and electronic form.

MAXIMUM PERMISSIBLE STATE AID INTENSITY (2007–2013)



The permissible state aid intensity for investment projects in which eligible costs do not exceed EUR 50 million is increased by 20% in the case of small enterprises and by 10% in the case of medium-sized enterprises.

The permissible state aid intensity for investment projects in which eligible costs exceed EUR 50 million is stipulated by the Regional Support Guidelines 2007-2013.