

13. Taxation

The system of taxation described below is derived from the Czech tax legislation and may be modified by a particular Double Taxation Treaty.

The current tax system was introduced in January 1993. The legislation is subject to frequent amendments and changes due to rapid developments in the economy.

Taxpayers in the Czech Republic are subject to the following taxes:

Tax	Tax rate
Corporate income tax	19% for tax periods starting in 2010 and afterwards; 5% corporate tax rate applies for certain types of taxpayers (pension funds, investments funds)
Personal income tax	Flat tax rate of 15% for calendar year 2012
Value added tax (VAT)	14% (food, books, special healthcare products) and 20% (most goods and services) starting in 2012
Excise tax	Levied on petrol and petrol derivatives, alcohol (beer, wine and spirits) and tobacco
Road tax	CZK 1,200 – 4,200 (cars), CZK 1,800 – 50,400 (trucks) when used for business purposes
Real estate tax	According to type, location and purpose of use of the real estate
Real estate transfer tax	Flat tax rate of 3%
Inheritance tax and gift tax	Progressive tax rate ranging from 1% (0.5% for inheritance tax) up to 40% (up to 20% for inheritance tax).
Energy tax	Levied on supplies of electricity, natural and other gases, and solid fuels with effect from 1 January 2008

CORPORATE INCOME TAX AND PERSONAL INCOME TAX

All **Czech tax residents** are subject to these taxes on their worldwide income, while **Czech tax non-residents** are taxed only on their income from Czech sources.

An **individual** is a Czech tax resident if he/she has his/her permanent address in the Czech Republic (i.e., a place where an individual has his/her home and circumstances indicate his/her intention to dwell there permanently) or has “a usual residence” in the Czech Republic (i.e., the individual’s total number of days spent in the Czech Republic is equal to or greater than 183 days per calendar year).

The tax residency of a **legal entity** is its registered office or place of effective management in the Czech Republic.

CORPORATE INCOME TAX

Corporate taxation and asset depreciation rules are described in the Fact Sheet on Corporate Tax and Depreciation.

Rendering of services in the Czech Republic

A permanent establishment is the taxable presence of a foreign entity through which it carries out its business activities in the Czech Republic. A permanent establishment is not a legal entity; however, it is a taxable presence of the foreign entity and therefore its existence triggers registration duty for tax purposes of the foreign entity with the Czech Tax Office.

A permanent establishment of a foreign company can be created when the company’s employee(s) is (are) assigned to the Czech Republic to render services here for more than six months (183 days) in any 12 consecutive calendar months. If a company sends a group of employees that are present in the Czech Republic on the same days, the 183-day limit covers all employees, i.e., the presence of more than one employee on any given day is counted as one day of presence. Particular Double Taxation Treaties can modify the conditions for creation of a permanent establishment.

Facility located in the Czech Republic

A permanent establishment can also be created when a foreign entity sets up a fixed place of business (e.g., an office, workshop, production facility, sales outlet or other business facility) in the Czech Republic. In such a case, a permanent establishment is created regardless of the 183-day condition.

Relevant Double Taxation Treaty can modify the conditions for creation of a permanent establishment of a foreign entity in the Czech Republic. It especially may eliminate the creation of permanent establishment when the activities performed through the fixed place of business located in the Czech Republic have preparatory or auxiliary nature.

Dependent agent

A permanent establishment can also be created in the case that the foreign entity operates its business in the Czech Republic via a dependent agent.

PERSONAL INCOME TAX

Generally, **income from dependent activities** paid by a foreign employer to a Czech tax non-resident is tax-exempt if the time spent on such activities performed in the Czech Republic does not exceed 183 days in any 12 consecutive calendar months. This tax exemption shall not apply to income from an activity performed via a **permanent establishment located in the Czech Republic**.

Taxation of expatriates

Taxable income includes earnings from dependent activities including benefits in-kind (e.g., housing allowances, use of a company car for private purposes, etc.), income from business activities, and income from capital, rent and other sources. In general, taxable income consists of all income regardless of whether it is monetary or non-monetary.

Generally, income is declared and taxed through a personal income-tax return that should be filed with the relevant Tax Office within three months after the end of the tax period (or within six months if a power of attorney for filing the tax return is submitted by a certified tax advisor).

An expatriate who is employed directly by a local (Czech) company or by a branch of a foreign company is subject to tax on his/her income from the dependent activity from the first day of his/her employment. The local company or branch of a foreign company withholds monthly tax pre-payments from his/her salary towards his/her annual tax liability. Generally, if the expatriate only has income derived from such an employment contract, the employer can prepare a year-end tax settlement that is a substitute for the expatriate's tax return.

If a foreign company transfers an expatriate to a Czech company under a service agreement, he/she should be registered as an individual taxpayer with the relevant Tax Office. His/her income is taxed via the annual personal income tax return. Additionally, an expatriate makes semi-annual or quarterly advance payments for his/her personal tax liability in the course of the year. These advance payments are based on the previous year's tax liability.

There is a flat personal income-tax rate of 15% in 2012. The gross employment income must be increased by Czech actual or hypothetical social security and health insurance contributions (paid by the employer) and the tax liability is calculated from such increased employment tax base (i.e. super-gross tax base). Therefore the effective tax rate is higher than the nominal 15%.

Social security and health insurance contributions

An employee's social security and health insurance contributions are calculated as 11% of gross salary. Employers must pay an additional 34% of all employees' gross salaries to the Czech social security and health insurance authorities in 2012.

Major changes came into effect on 1 January 2004 which generally also require any foreign national working in the Czech Republic directly for a Czech company or an employer with its registered office in a country with which the Czech Republic has concluded a social security agreement to pay into the Czech mandatory health insurance and social security schemes. In these cases, employer contributions are also required. Upon the accession of the Czech Republic to the European Union in May 2004, any EU national working in the Czech Republic and his/her employer are also generally required to pay Czech social security and health insurance contributions unless otherwise exempt according to EU regulations or bilateral social security treaties (e.g. granting of an A1 certificate/certificate of coverage).

Contributions	Employer (%)	Employee (%)
Health care insurance	9.0	4.5
Pensions	21.5	6.5
Unemployment	1.2	0.0
Sickness and other benefits	2.3	0.0
Total	34.0	11.0

The annual base for employees' social security and health insurance contributions has been capped since 2008. For 2012 the cap for social security amounts to 48 times the average monthly salary (i.e. CZK 1,206,576) and the cap for health insurance amounts to 72 times the average monthly salary (i.e. CZK 1,809,864).

VALUE ADDED TAX

The Czech VAT Act complies with the EU Directives relating to VAT. VAT is generally imposed on:

- all taxable supplies within the Czech Republic
- goods imported to the Czech Republic or acquired in the Czech Republic from other EU member states

Taxable supplies within the Czech Republic include provision of services; delivery of goods; transfer and use of rights and transfer of real estate, buildings and structures; acquisition of goods from other EU member states, etc.

Businesses are obliged to account for VAT on the import of goods from third countries. However, there is an entitlement to reclaim such input VAT connected with the import of goods. Businesses are also obliged to account for VAT upon acquisition of goods from other EU member states. At the same time there is also an entitlement to reclaim such input VAT on acquisition of goods. Certain domestic services are VAT exempt without entitlement to reclaim input VAT (e.g., financial services, insurance services, rent paid to entities not registered for VAT purposes, etc.).

Export of goods is VAT exempt. Generally, services provided to an entity subject to tax with its place of establishment in another EU member state or third country are not taxable in the Czech Republic. The recipient of the services is obliged to account for VAT in the country of its establishment and there is also an entitlement to reclaim such input VAT connected with such services. On the other hand, businesses are obliged to account for VAT in terms of the reverse-charge principle once they acquire a service from a provider in another EU member state or third country.

There are **two VAT rates**:

- **20% for most goods** and services;
- **14% for some selected goods and services** (including essential food products, books, special healthcare products).

All entities (individuals and legal entities) that have a registered office, place of business or establishment for VAT purposes in the Czech Republic and whose turnover exceeds CZK 1,000,000 (approx. USD 54,500) in any consecutive 12-month period must register as a VAT payer with the financial authorities/Tax Office. The obligation to register arises, for example, also upon receipt of services from other EU member state with place of supply in the Czech Republic or upon acquisition of goods from other EU member states worth over CZK 326,000 (approx. USD 17,800) within the calendar year. Individuals and legal entities that do not have a registered office, place of business or establishment for VAT purposes in the Czech Republic but provide a taxable supply on Czech territory for VAT purposes have to register as Czech VAT payers as of the date of provision of the first taxable supply. The tax period for entities registered only for the purpose of VAT is a calendar quarter; otherwise, it is a calendar month or a calendar quarter.

EXCISE TAX

This tax applies to hydrocarbon fuels and lubricants, spirits and distilled liquors, beer, wine and tobacco products (hereinafter referred to collectively as "excise products") that are produced in or imported to the Czech Republic. The tax is calculated as a fixed amount per unit of the product concerned and is levied on

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the producer (importer). Tax levied on tobacco products is calculated as a combination of a fixed amount and a percentage of the selling price.

Excise products can be produced, transported or stored under duty suspension arrangement, i.e. tax liability is deferred until these products are released for free tax circulation.

ENERGY TAX

The tax reform that came into effect on 1 January 2008 introduced a new type of indirect taxes implementing the relevant EU directives in the area of energy taxes. These taxes are levied on supplies of electricity, natural and other gases, and solid fuels (hereinafter referred to collectively as “energy”). The payers of energy tax are either suppliers of energy in the Czech Republic selling energy to end-users or operators of distribution or transmission systems. Those subject to energy tax are also entities that use tax-exempt energy for purposes other than those that are exempt or that use untaxed energy.

The tax on electricity is levied at the rate of CZK 28.30 per MWh. The tax on gas is levied at rates varying from CZK 0 per MWh to CZK 264.80 per MWh, depending on the type of gas, the purpose of its use and the date when the tax liability arises. The tax on solid fuels is levied at the rate of CZK 8.50 per GJ. End-users can utilise a tax exemption when the energy is used for specific purposes.

ROAD TAX

Road tax is payable on vehicles registered and operated for business purposes in the Czech Republic. The tax is calculated according to engine size for passenger cars or weight and number of axles for other commercial vehicles. The rates range from CZK 1,200 (on vehicles with engines up to 800 cm³) up to CZK 4,200 (on vehicles with engines over 3000 cm³) and from CZK 1,800 up to CZK 50,400 (on heavy-duty vehicles over 36 tonnes) and the tax period is the calendar year. In 2008 a new system of reducing the tax rate depending on the date of initial registration of a vehicle was introduced.

Freight vehicles weighing up to 12 tonnes with an electric or hybrid engine, or which use LPG or CNG as fuel are exempt from the road tax. Taxpayers are required to submit their tax return for the previous tax period (calendar year) by 31 January of the following year

REAL ESTATE TAX

Real estate tax comprises a tax on land (land tax) and a tax on structures (building tax) based on the situation as of 1 January of relevant tax year. Real estate tax is generally payable on an annual basis by the owner of the land or building(s), although in very specific cases the user or the lessee is the payer. All property owners must file tax returns with the relevant Tax Office by 31 January of the relevant tax period only for the first tax period (calendar year), and later only when the conditions relevant to tax assessment have changed.

Land tax is imposed on plots of land entered in the Land Registry and is payable by the owner or, in special cases, by the lessee or user. On 1 January 2010 the tax rate on land was doubled, i.e., the rate is CZK 2 per square meter for the building plots (subject to adjustments in relation to the size of the municipality where the land is located) and CZK 0.2 per square meter for the other types of land.

From 1 January 2012 the land that is paved by a special surface is subject to a “Paved area” tax rate of CZK 1 per square meter (agriculture) or CZK 5 per square meter (other business activities). This applies to e.g. parking lots, platforms, ramps, certain roads, etc.

Building tax is calculated according to the registered built area. The tax ranges from CZK 2 to CZK 10 per square meter in the case of business premises and from CZK 2 to CZK 8 per square meter for residential buildings. This amount may be increased by CZK 0.75 per square meter for each additional floor.

Both land tax and building tax are multiplied by a coefficient that varies according to the location, ranging from 1 to 4.5 (the highest coefficient applies to Prague). Municipalities can further determine a local coefficient to increase the taxpayer’s tax liability for certain types of real estate. A new local coefficient was introduced in 2009. This maximum coefficient can vary from 2 up to 5 based on the decision of the respective municipality.

REAL ESTATE TRANSFER TAX

Unless a tax exemption applies, real estate transfer tax is charged at a flat rate of 3% of the sale price of a property or of the usual market price determined by a statutory expert, whichever is higher. The tax is payable by the seller (the buyer is the guarantor). In certain cases, the taxpayer can ask the Financial Directory for a remission of real estate transfer tax.

INHERITANCE AND GIFT TAXES

Inheritance tax is payable in the case of receipt of property by an inheritor due to the death of a testator. Property includes immovable assets (land, buildings), movable assets, securities, etc.

The receipt of immovable assets located in the Czech Republic is subject to inheritance tax, regardless of the residence of the testator/inheritor. The taxation of inheritance of movable assets depends on the residency status of the testator, i.e., if the testator was a Czech resident with permanent residence in the Czech Republic, all movable assets transferred to the inheritor are subject to inheritance tax in the Czech Republic. It does not matter whether the movable assets are located in the Czech Republic or in a foreign country. There are three categories of inheritors based on their relation to the testator. Only the inheritors in Group III (individuals with the weakest relation to the testators and all legal persons) are subject to the inheritance tax.

The receipt of assets for no consideration based on a legal act or in connection with such legal act is subject to gift tax. If property is donated to a Czech individual or legal entity, then the recipient must pay the gift tax. The donator is the guarantor of the gift tax. If property is gifted to a foreigner, the Czech donator must pay the gift tax. There is a possibility of tax exemption on gifts and inheritance when these transactions occurred between persons in Group I and Group II. Group I comprises immediate family members (parents, children) and spouses; Group II comprises siblings, nephews, nieces, aunts, uncles, etc.

Starting from 2011, the gift tax also applies for carbon emission permissions provided for free to the producers of electricity. In this case, special tax rate of 32% applies.

LOCAL TAXES

No local taxes have been introduced in the Czech Republic to date. Some local fees are levied on the waste produced by companies and also with respect to certain business activities such as those related to spas, accommodation, and use of televisions and radios.