

DOING BUSINESS IN THE CZECH REPUBLIC

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MAZARS IN THE CZECH REPUBLIC

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ESTABLISHING AN ENTITY

Both natural individuals and legal entities may engage in business practice in the Czech Republic under one of the available legal forms specified below.

Generally, there is **no limitation on the level of foreign participation** in a Czech legal entity. Foreigners/foreign companies can establish both joint-ventures and wholly-owned subsidiaries in the Czech Republic.

The types of companies include a joint-stock company, a limited liability company, a limited partnership and an unlimited partnership.

Joint-stock and **limited liability companies** are the most commonly-used types for business purposes; both of these legal forms must fulfill the minimum capital requirements.

A joint-stock company can be set up by one or more legal entities or individuals. The minimum registered capital requirement is CZK 2 million or EUR 80,000.

- A limited liability company can be set up by one or more legal entities or individuals. The minimum registered capital for a limited liability company is CZK 1.
- A restriction on the "chaining" of sole-member companies was cancelled as of 1. 1. 2014 (the chaining of sole-member companies is a situation if a limited liability company with a sole shareholder is the sole founder or sole shareholder of another limited liability company).

Besides companies, **a business may be conducted by means of the following legal forms: a co-operative, a branch, a silent partnership, a European Company (Societas Europaea) and a European Economic Interest Grouping. An association can also do business, but only as its secondary activity.**

A branch (of a legal entity) does not form a separate legal entity, and thus any actions by the branch are seen as actions of the entity registering the branch. A registered branch may generally undertake the same scope of business activities as a Czech legal entity.

The authorisation of a foreign entity to carry out business activities in the Czech Republic takes effect on the date that such an entity or its branch is registered in the Commercial Register and corresponds to the scope of business activities of such an entity or branch registered in the Commercial Register. Companies, co-operatives, as well as branches and foreign non-EU or non-EEA sole proprietors are required to be registered in the Commercial Register.

Prior to being registered in the Commercial Register, a Czech legal entity or a branch of a foreign entity must follow certain procedures which include, in particular, **obtaining a trade license or other business authorisation, appointing statutory representatives, and satisfying the minimum capital requirements** (if applicable).

Special authorisation may be needed to carry out activities in certain areas that are not governed by the general trade licensing regime. Such industries that are subject to regulation by special legislation include, inter alia, certain financial services (such as banks, security brokers, insurance companies, investment funds, investment companies/unit trusts, and pension funds), telecommunications, utilities, pharmaceuticals, broadcasting, gaming and employment mediation (recruitment, executive searches, etc.).

FOREIGN BUSINESS RESTRICTIONS

The Czech law, investment protection treaties and the Treaty establishing the European Community (in relation to EU Member States) guarantee the right to repatriate profits abroad.

Bilateral investment promotion and protection agreements have been signed with a wide range of countries.

(a list of bilateral agreements is available at www.mfcr.cz)

INVESTMENT INCENTIVES

The system of investment incentives is incorporated in the Czech legal system. The Act on Investment Incentives (Act No. 72/2000 Coll.) was discussed with the European Commission and is in compliance with European regulations on state aid.

By fulfilling the minimum conditions specified by the Act, projects are supported in the form of corporate tax relief for a period of 10 years. Furthermore, projects located in regions that are affected by the worst unemployment rate can obtain job creation grants and training and retraining grants.

Businesses set up in the Czech Republic can also obtain financial support from the **EU structural funds**.

INCENTIVES LISTED IN THE ACT ON INVESTMENT INCENTIVES

Tax incentive:

Corporate tax relief for up to ten years for new companies;

Partial tax relief for up to ten years for existing companies.

Job creation grants:

Financial support for the creation of new jobs (as of 1.2.2014 CZK 200,000 per employee).

Training and retraining grants:

Financial support for training and retraining new employees (a basic grant for up to 25% of the total training and retraining costs in districts with unemployment that is at least 50% higher than the national average; higher grants for small and medium sized companies and for the training and retraining of disabled employees).

Site support:

The transfer of public land at a favourable price.

Purchase of assets grants:

Financial support for capital investment is only available for strategic investment projects at up to 5% of the costs, in addition to the standard investment incentives, or up to 7% for technology centres.

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

CzechInvest, the Investment and Business Development Agency, is exclusively authorised to file applications for investment incentives at the competent governing bodies and prepares draft offers to grant investment incentives. Its task is also to provide potential investors with current data and information on the business climate, investment environment and investment opportunities in the Czech Republic, as well as locally support existing and new entrepreneurs and foreign investors.

Notes:

The maximum limit of the investment incentives were decreased from 40% to 25% of the relevant costs based on new rules approved by the EU as of 1.7.2014. Further to the decrease of the maximum limit a new amendment to the Act on Investment Incentives has been prepared including more advantageous limits of grants (expected to be applied as of 2015).

For more information see www.czechinvest.org.

TAXATION

FOR 2014 THE FOLLOWING RATES ARE APPLIED:

Standard VAT rate = 21%. Reduced VAT rate = 15 %.

The reduced VAT rate is applicable, for example, on groceries, medical/sanitary goods, and books.

Corporate Tax Rates

Statutory	Surtax	Local	Effective	Branch Tax
19	--	--	19	19

Branches are taxed at the same rates as domestic companies. There is no branch remittance tax.

Dividend Withholding Tax Rate: 0 / 15 / 35

Dividends paid to both residents and non-residents are subject to a final withholding tax of 15%, unless the rate is reduced under an applicable tax treaty. A special 35% rate is applicable to residents of states who are not EU tax residents or with which the Czech Republic has not concluded a double tax treaty or a contract for the exchange of tax information.

Under the EU Parent-Subsidiary Directive, dividends paid by a Czech company to a parent company (as defined in the directive) located in other EU Member States are exempt from withholding tax if the parent company holds at least 10% of the distributing company for an uninterrupted period of at least 12 months. As from 2009 the exemption applies to dividends paid to parent companies from Iceland, Norway and Switzerland. Further, dividends are exempt if paid to a parent company that:

- Is a tax resident in a non-EU country with which the Czech Republic has concluded a tax treaty;
- Has a specific legal form;
- Satisfies the conditions for exemption under the EU Parent-Subsidiary Directive;
- And is subject to home-country tax similar to Czech income tax at a rate of at least 12%.

Royalties and Interest Withholding Tax Rate: 0 / 15 / 35

A 15% withholding tax is imposed on interest paid to non-residents unless the rate is reduced under an applicable tax treaty or the payment is made to a qualifying associated company under the EU Interest and Royalties Directive. A special 35% rate is applicable to residents of states that are not EU tax residents or with which the Czech Republic has not concluded a double tax treaty or a contract for the exchange of tax information.



WORK PERMITS AND VISAS

Visas:

EU citizens do not need a visa to enter the Czech Republic and stay there, though if their stay exceeds thirty consecutive days they have to register with the Czech Foreign Police. Non-EU citizens from particular countries may be obliged to apply for a visa before entering the Czech Republic and even if there might be no visa

duty for visiting the Czech Republic for tourist purposes stipulated for the citizens of a particular non-EU/EEA country, in most cases they have to have the relevant visa in order to be entitled to work here.

Work permit:

EU and EEA nationals do not need a work permit to work in the Czech Republic. Non-EU nationals generally need to obtain a work permit (with certain exemptions: a spouse of an EU/EEA citizen, a holder of master's degree from a Czech university, etc.). Nevertheless, Czechs have a reporting duty towards the Czech Labour office regarding the employment of foreigners entitled to work without a work permit. Such a report must be filed no later than on the date of the commencement of employment.

Residency permits:

EU/EEA citizens have to register at the Foreign Police if their stay in the Czech Republic exceeds thirty consecutive days. Alternatively, they can apply for a Residency Confirmation for an EU/EEA citizen, which is valid for a longer period. From the beginning of their stay in the Czech Republic non-EU/EEA citizens must have a short-term (up to 90 days of stay) or long-term (up to one year of stay) residency visa according to their purpose of stay, which is issued by a Czech embassy in the country of their residence or in certain cases by any Czech embassy. The long-term residency visa can subsequently be extended and converted into a long-term residency permit, issued by the Czech Ministry of Interior. Finally, a new document called an Employee Card, combining the work permit and residency visa/permit, has been introduced by Czech legislation in 2014 to be used for most of the cases of employment of non-EU/EEA nationals in the future.

AUDIT AND ACCOUNTING

The area of accounting and the requirements of audits are governed in the Czech Republic by the **Act on Accounting** and the **implementing regulations**:

- Act on Accounting
- Order implementing the Act on Accounting for entrepreneurs using double-entry book-keeping
- Order on the implementation of the Act on Accounting for banks
- Order on the implementation of the Act on Accounting for insurance companies
- Order on the implementation of the Act on Accounting for health insurance companies

The obligation to keep accounts applies only to **accounting units**, including legal entities having a registered office in the Czech Republic, and foreign entities, if they are doing business in the Czech Republic or carrying on another activity under specific legislation. The **Czech Accounting Standards for entrepreneurs** specify the obligations of **accounting units**.

Certain companies are obliged to keep accounts and compile accounts that comply with **International Accounting Standards** (IAS). These are companies whose securities have been listed for trading on a regulated market in one of the EU Member States.

A decision to use IAS for keeping accounts and compiling individual accounts may also be taken by accounting units in consolidation, as long as they use IAS for compiling consolidated accounts:

- International accounting standards IAS/IFRS ("Full IFRS")
- International accounting standards IAS/IFRS as adopted by the European Commission

Accounts consist of:

- A balance sheet,
- A profit and loss statement,
- An annexe explaining and supplementing the information contained in the balance sheet and the profit and loss statement.

A financial statement may also include an overview of cash-flows and changes to equity capital. Financial statements are compiled as at the balance sheet date. Accounting units that are obliged to have their accounts verified by an auditor must also produce an **annual report**.

The financial statements and the annual report are published in the **Commercial Register**. Accounting units must archive financial statements and annual reports for at least ten years.

Under Czech law, all the accounts of the following accounting units must be verified by an auditor, unless specified otherwise:

- i. Joint stock companies, if, at the end of the balance sheet date of the accounting period for which the accounts are being verified and the accounting period immediately prior to this, at least one of the three following criteria is exceeded or achieved:
 - o Total assets of more than CZK 40,000,000,
 - o Total net annual turnover of more than CZK 80,000,000,
 - o An average of more than 50 employees during the accounting period, calculated using the method laid down by specific legislation,
- ii. **Other companies and cooperatives**, if, at the end of the balance sheet date of the accounting period for which the accounts are being verified and the accounting period immediately prior to this, at least two of the three criteria set out above are exceeded or achieved; for cooperatives an 'employee' shall also mean a member of the cooperative;
- iii. Natural persons who fulfil the criteria applying to other companies and cooperatives;
- iv. Accounting units having this obligation under specific legislation.

The performance of mandatory audits is governed in the Czech Republic by the **Act on Auditors**.

The **Council for the Public Supervision of Auditing** is the institution which supervises the Chamber of Auditors of the Czech Republic and the activities of auditors.

The verification of accounts is carried out in accordance with the **Code of Ethics** and the **International Standards of Auditing** (ISA) as modified by the European Commission and the standards issued by the Chamber of Auditors of the Czech Republic.



Mazars is present on 5 continents.

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