

13. Taxation

The system of taxation described below is derived from the Czech tax legislation effective on 1 January 2017 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 in 2017:

Tax	Tax rate
Corporate income tax	19% standard corporate income tax rate; 5% corporate income tax rate applies to basic investments funds; 0% corporate income tax rate applies to pension funds Withholding tax rates are 5%, 15%, 35% (for more information see "FS 14 Corporate Tax and Depreciation")
Personal income tax	Flat tax rate of 15% for calendar year 2017, the solidarity contribution of 7% applies to high-earning individuals
Value added tax (VAT)	10 % (certain books, infant food, certain pharmaceuticals), 15% (food, eating services, certain books, certain pharmaceuticals, special healthcare products) and 21% (most goods and services).
Excise tax	Levied on petrol and petrol derivatives, alcohol (beer, wine and spirits) and tobacco
Road tax	CZK 1,200 – CZK 4,200 (cars), CZK 1,800 – CZK 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 acquisition tax	Flat tax rate of 4%
Inheritance tax and gift tax – abolished	From 1 January 2014 is income from inheritance and/or donations is subject to income 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 income 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).

A **legal entity** is tax resident of the Czech Republic if its registered office or place of effective management is in the Czech Republic.

CORPORATE INCOME TAX

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

Taxation of non-resident legal entities – Permanent establishment

A permanent establishment is not a legal entity; however, it is a taxable presence of a foreign entity and therefore its existence triggers taxation of income of the foreign entity in the Czech Republic.

Rendering of services in the Czech Republic

A permanent establishment of a foreign company can be created when the company's employee(s) is (are) rendering services in the Czech Republic for more than six months in any 12 consecutive calendar months. Each single employee counts as presence of the foreign company. 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.

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 are of 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, i.e. person having and exercising an authority to conclude contract binding on the foreign entity.

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 2017. 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%.

A solidarity contribution was introduced in 2013. It applies only on employment income and self-employment tax base. The solidarity contribution represents a contribution amounting to 7 % of the employment income / self-employment tax base over the annual social security cap (CZK 1,306,560). Individuals paying the 7% solidarity contribution also have an obligation to file a personal income tax return for 2017.

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 2017.

The income of an employee is subject to the Czech mandatory social security and health insurance contributions (both employee and employers parts) 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 social security contributions is capped. For 2017 the cap amounts to 48 times the average monthly salary (i.e. CZK 1,306,560). There is no cap for health insurance contributions.

VALUE ADDED TAX

The Czech VAT Act is based on EU Directives relating to VAT. VAT is generally imposed on:

- supplies of goods and provision of services in the Czech Republic
- goods imported to the Czech Republic or acquired in the Czech Republic from other EU member states

Businesses are generally entitled to reclaim input VAT. Certain supplies are VAT exempt without entitlement to reclaim input VAT (e.g. healthcare, education, financial services, insurance services and long-term rent of immovable property).

Export of goods and supplies of goods to EU are VAT exempt with a right to recover input VAT. Generally, services provided to businesses established abroad are not taxable in the Czech Republic. On the other hand, businesses are, in general, obliged to account for VAT in terms of the reverse-charge principle once they acquire a service from a foreign provider.

There are **three VAT rates**:

- **21% for most goods and services;**
- **15% for some selected goods and services** (e.g. eating services, food products, certain books, certain pharmaceuticals and special healthcare products);
- **10% for some selected goods** (e.g. certain books, infant food, certain pharmaceuticals)

Businesses seated in the Czech Republic whose turnover exceeds CZK 1,000,000 (approx. USD 40,284) in any consecutive 12-month period must register as a VAT payer with the tax authorities.

For non-resident businesses, there is no registration threshold, but they must register as a VAT payer if they:

- make any supply subject to Czech VAT (unless the liability to declare and pay VAT is shifted to the recipient of the supply), or
- supply goods from the Czech Republic to another EU member state.

Under certain circumstances, businesses not registered for VAT to whom VAT liability arises due to acquired goods or services become persons identified for VAT. A person identified for VAT only pays VAT from received supplies without being entitled to recover related input VAT.

The basic taxable/reporting period is a calendar month. A VAT payer can opt for a quarterly taxable/reporting period provided that certain conditions are met (e.g. his turnover in the previous calendar year did not exceed CZK 10 million).

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 the producer (importer). Tax levied on cigarettes 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

Energy 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 selling energy in the Czech Republic to end-users, or operators of distribution or transmission systems. 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 30.60 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 of caloric value. End-users can utilise tax exemptions when the energy products are used for specific purposes.

ROAD TAX

Road tax is payable on road vehicles and their trailers, registered and operated for business purposes in the Czech Republic. The tax is calculated according to the engine size for passenger cars or weight and number of axles for other commercial vehicles. The rates range from CZK 1,200 (cars with engines up to 800 cm³) up to CZK 4,200 (cars with engines over 3000 cm³) and from CZK 1,800 up to CZK 50,400 (on trucks over 36 tonnes). The tax period is a calendar year.

Freight vehicles weighing up to 12 tonnes with an electric or hybrid engine, or running on LPG (liquefied petroleum gas), CNG (compressed natural gas), or E85 are exempt from the road tax.

Taxpayers are required to submit their tax return for the 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 and units (building and unit tax) based on the situation as of 1 January of the relevant tax year. Real estate tax is generally payable on an annual basis by the owner, although in specific cases the user or the lessee is the taxpayer. All property owners must file tax returns for the respective calendar year with the relevant Tax Office by 31 January of that calendar year. The tax return generally does not have to be filed if conditions relevant for the tax assessment have not changed from the previous tax return.

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. The rate is CZK 2 per square meter for building plots (multiplied by indices based on the municipality where the land is located) and CZK 0.2 per square meter for the other types of land. Agricultural land is taxed based on its value. Paved areas (generally, land covered by a flat structure) used for business are subject to 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, certain roads, etc.

Building and unit tax is calculated according to the registered built area. The tax rate 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 premises and garages. The tax rate may be increased by CZK 0.75 per square meter for each additional floor exceeding 1/3 of the building built-up area.

Tax rates are multiplied by coefficients according to the location of the real estate (determined by the municipalities).

REAL ESTATE ACQUISITION TAX

Real estate acquisition tax is charged at a flat rate of 4% of the higher of:

- sale price of a property or
- 75% of the comparative tax value (usual market price determined by a statutory expert or calculated based on guidelines, taking into account the location, size and type of real estate).

As of 1 November 2016, the tax is payable by the buyer. Certain transactions (e.g. mergers and demergers) are not subject to real estate acquisition tax.

INHERITANCE AND GIFT TAXES, EXEMPT INCOME

As of 1 January 2014, the Inheritance and Gift Taxes are abolished and the relevant types of income are subject to income tax. Inheritance is generally tax exempt, gifts are exempt if donated between certain family members.

As of 1 January 2015, the taxpayer is obliged to report any exempt income that exceeds CZK 5,000,000 (approx. USD 201,418) per one individual income. Taxpayers must file the notification 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).

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.