This report provides helpful information on the current business environment in the Czech Republic. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the Czech Republic

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- Koruna (CZK)

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Source: www.goodbusinessday.com.

Types of Business Structure

Under Czech law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Joint stock company

as (*Akciová spole nost*). This is a company whose shares are tradable on a public stock market. This requires a minimum paid up share capital of CZK 2 million, of which 30% of cash contributions must be fully paid up at the time of incorporation and contributions in kind must be fully paid up. If the company is founded on the basis of an initial public offering, the minimum share capital required is CZK 20 million. The company must have at least three board members.

Private limited liability company

sro (*Spole nost s ru ením omezeným*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum share capital of CZK 200,000, of which 30% of each shareholder's contribution must be paid up (unless there is only one shareholder, in which case 100% must be paid up) at the time of incorporation. The minimum contribution from each equity shareholder is CZK 20,000.

General partnership

vos (*Ve ejná obchodní spole nost*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital, but there is a CZK 5,000 fee for registering the partnership with the Commercial Register.

Limited partnership

kom (*Komanditní spole nost*). In a limited partnership, some partners enjoy limited liability (individuals or legal entities) although they are not permitted to exercise managerial control. Other partners are considered general partners (individuals or legal entities) and have unlimited liability. This requires a limited partner contribution minimum of CZK 5,000 each.

Cooperatives

Družstvo. A cooperative requires a minimum share capital of CZK 50,000 and members generally have limited liability.

Other organizational types

Czech companies are entitled to form European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. An EEIG is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Czech companies are entitled to establish a branch or a representative office in the Czech Republic. A branch's activities are subject to Czech company law, although it is considered part of the company's head office and therefore not a separate legal entity. Branches require no minimum share capital. To open a branch, a company must file a number of documents with the Commercial Register. Branches are only permitted to conduct business activities which have been listed on their application for registration to the Commercial Register.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must have a registered office, or its principal establishment or centre of management, in the Czech Republic.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (CZK) accounts outside the Czech Republic and foreign currency accounts both within and outside the Czech Republic.

Non-residents are permitted to hold local currency and foreign currency accounts in the Czech Republic.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder. Natural persons are identified with reference to a valid verified identification card, while legal persons are identified with respect to their registration documentation.
- Financial institutions are required to identify the persons acting on behalf of the legal entity as well as the beneficial owner.
- Financial institutions must maintain the validity of customer information so that the level of risk can be assessed.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at July 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Czech law, financial and insurance services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet banking and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with some enterprises using third-party payroll agencies. They are also the most common method of payment for business-to-business transactions. Card payments are increasingly popular for consumer transactions, with debit cards much more popular than credit cards. Pre-authorized direct debits are used primarily by utility and insurance companies to collect domestic payments. As in other Central and Eastern European countries, cheques are not commonly used in the Czech Republic.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (CZK billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	0.37	0.32	– 13.5	37.41	36.10	– 3.5
Credit transfers*	386.93	408.66	5.6	174,788.53	162,907.21	– 6.8
Direct debits*	24.28	26.90	10.8	75.63	86.11	13.9
Debit cards	119.00	135.89	14.2	133.07	146.91	10.4
Credit cards	10.41	11.62	11.6	92.74	99.73	7.5
E-money transactions	60.18	84.93	41.1	0.51	0.67	31.4
Total	**601.17**	**668.32**	**11.2**	**175,127.89**	**163,276.73**	**- 6.8**

* Items only cleared by CERTIS.

Source: ECB Payment Statistics, September 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (CZK-denominated unless otherwise noted)	Value dating rules	Cut-off time(s) in local Central European Time (CET)
High-value and urgent domestic and intra-EEA transfers	Settlement in real time with immediate finality	15:30 CET for domestic transfers (denominated in CZK) 17:00 CET for international payments (denominated in EUR)
Non-urgent, low-value domestic consumer payments denominated in CZK	Payments are settled on a same-day or next-day basis	15:30 CET
Non-urgent intra-EEA credit transfers with a maximum value of EUR 50,000*	Settlement either same-day or next-day	13:00 CET for same-day settlement or 22:00 CET for overnight or next-day settlement

* SEPA credit transfers are not subject to a maximum value threshold.

Central Bank Reporting

The Czech National Bank (CNB) collates balance of payments statistics from the responses to a number of surveys covering international trade and different forms of investment activity.

The CNB selects a representative sample of companies to report. When reporting, companies are required to give information on transfers between resident and non-resident entities greater than CZK 1 million, all transactions involving residents abroad or performed through non-residents, and any bond issuance abroad.

Only those companies contacted by the CNB are required to complete a survey.

Exchange Arrangements and Controls

The Czech Republic applies few currency exchange controls. There are some restrictions on foreign investment in airlines, lotteries and other games, and real estate, excluding certain circumstances.

Cash and Liquidity Management

Managing cash on both a domestic and international basis is relatively straightforward, although there are a few restrictions.

Physical Cash Concentration

Physical cash concentration is available from all large Czech and international banks. Resident and non-resident companies (including accounts held by different entities) can participate in the same domestic cash concentration structure.

Pools can be denominated in local currency (CZK) and some foreign currencies. However, cross-currency cash concentration structures can only include a single entity. International banks offer cross-border, cross-currency physical cash concentration.

Charges usually apply to transactions between resident and non-resident accounts.

Notional Cash Pooling

Notional cash pooling is available from banks in the Czech Republic but is not commonly used. Resident and non-resident companies can participate in the same domestic notional cash pooling structure. Multiple entities may participate in a single currency notional pool, but only one legal entity may participate in a cross-currency notional pool.

Some leading international banks offer cross-border notional cash pooling.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from one week to one year, although three-month maturities are common. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms ranging from one month to a year.

Non-bank instruments

Some large Czech companies issue commercial paper, with maturities from a month up to a year, though the market for commercial paper has been slow to develop.

The Czech Ministry of Finance and CNB issue Treasury bills for periods up to 12 months. These can be denominated in units of CZK 1 million. The CNB also issues bills for a maximum maturity of six months.

Czech companies have access to money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in the Czech Republic to both resident and non-resident companies. Banks will usually charge a margin over PRIBOR (the Prague Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Larger companies issue commercial paper, although the market has been slow to develop.

Trade bills can be discounted, but the practice is not commonly used. Factoring (mostly disclosed) is available.

Taxation

Corporate Taxation

- For 2009, resident companies are subject to taxation on their worldwide income at a rate of 20%. This rate will be reduced to 19% from 2010 onwards. A rate of 5% applies to the profits of investment funds, mutual funds and pension funds.
- Non-resident companies are only taxed on Czech-sourced income and are generally subject to the same taxation rules as residents. Proceeds from the transfer of shares in a company that is a Czech tax resident are always Czech-sourced income regardless of the tax residency of the transferor / transferee. Czech tax law, however, requires that certain types of income of non-resident companies be subject to withholding tax even though withholding is not required when payments of a similar type of income are made to Czech tax residents.
- An investment incentive law is in place to encourage investments of at least CZK 50 million. The incentive scheme offers full tax relief for five years for newly established companies or partial tax relief for five years for expanding companies. However, the total amount of the aforementioned investment incentive must not exceed 40% of the investment made into long-term tangible and intangible assets (50% in the case of medium-sized enterprises and 60% in the case of small enterprises).
- Ten percent of the gross taxable income (other than that subject to withholding tax) paid to non-residents must be withheld by resident payers as a “tax securing”. A securing at the rate of 1% applies to income of non-residents derived from the sale of financial instruments (securities and derivatives). The tax secured is used to offset the non-resident’s final tax liability. The securing tax liability may be eliminated if the recipient company is located in a country with which the Czech Republic has a double taxation treaty. The securing does not apply to EU tax residents or tax residents of other countries in the EEA.
- Under the participation exemption, dividends paid by a subsidiary to a Czech tax resident company (or a Czech permanent establishment of an EU company) are exempt from corporate income tax provided:

- the subsidiary is resident in a state with which the Czech Republic has concluded a double taxation treaty;
- its legal form is similar to the local limited liability company;
- there is a parent–subsidiary relationship between them (generally a 10% holding for 12 months); and
- the subsidiary is subject to a corporate tax rate of at least 12%.

Advance Tax Ruling Availability

- A taxpayer may request an advanced tax ruling on the method of establishing transfer prices, the method of establishment of expenses related to the private use of real estate, the division of expenses relating to taxable / non-taxable revenues and the possibility of utilizing tax losses carried forward. The binding consideration may be effective for a maximum period of three years.
- Permanent establishments of non-residents can negotiate with the financial authorities the method of assessing their tax base relating to taxable income derived from Czech sources.

Withholding Tax (subject to tax treaties and other exemptions)

- A withholding tax of 15% is imposed on dividends paid to resident and non-resident companies. Dividends paid to a parent company (requiring a 10% holding for 12 consecutive months) are exempt provided that the parent company is a resident of an EU country or Switzerland and the other conditions for the application of the EU Parent–Subsidiary Directive are met.
- Interest paid to non-residents is subject to a 15% withholding tax. Under certain conditions, interest paid to a resident of another EU country or Switzerland is tax exempt if there is direct capital participation between the companies. Direct capital participation means a relationship where one company directly or indirectly participates in another company's capital or the voting rights of both companies, whereby the holding company has a share of at least 25% for at least 24 months. The exemption does not apply to interest that is treated as dividends according to the thin capitalization rules.
- Generally, royalties paid to non-residents are subject to a 15% withholding tax in the Czech Republic. Royalties paid to a resident of another EU country or Switzerland will be exempt if there is direct capital participation between the companies. According to the Czech Income Taxes Act, this exemption will only apply from January 1, 2011.
- Exemption of interest and royalties from corporate income tax is subject to the approval of the financial authorities.
- The rate of the withholding tax levied on payments to non-residents may be further reduced subject to the provisions of the respective double taxation treaty.

Capital Gains Tax

- Capital gains are subject to corporate income tax. Capital gains chargeable to corporate income tax are generally calculated by deducting the cost from the disposal proceeds.
- Capital gains from the disposal of a shareholding in a subsidiary by a parent company may be exempt from corporate income tax under the local implementation of participation exemption.
- Other capital gains from the sale of securities are fully taxable at the standard corporate income tax rate (for a determination of the corporate income tax rate, see "Corporate Taxation" above). Tax levied on capital gains may be reduced, subject to the provisions of the respective double taxation treaty.
- Capital losses incurred on the sale of securities are tax-deductible unless a shareholding representing a significant participation in the company is established (generally more than 20% of the share capital with certain exceptions). Losses incurred on the sale of shares representing a significant participation are not tax-deductible.
- Unrealized capital gains and losses from securities that are accounted through the profit and loss account are generally reflected in the taxpayer's tax base.
- Expenses relating to the holding of shares by a parent company (with a 10% holding for 12 consecutive months) are not tax-deductible in a subsidiary company resident in the EU or Switzerland. However, in the case of a transfer of shares, these expenses could be deducted from the disposal proceeds. There is no allowance for inflation.

Stamp Duty

- Stamp duties are levied particularly on inscriptions in the Business Register and on certain applications to the state authorities. However, the amounts are usually not significant.

Thin Capitalization

- The Czech Republic has thin capitalization rules that are applied to restrict the deductibility of financial costs (inclusive of interest) paid on loans provided by related parties.
- Under the current Czech thin capitalization rules, parties are deemed to be related when one company directly or indirectly participates in another company's capital or voting rights, or when one company participates in the capital or voting rights of both companies, whereby that company has a holding of at least 25%.
- The debt-to-equity ratio for related parties is 2:1 (3:1 when the debtor is a bank or insurance company), and it applies to both debt provided by related parties and debt secured (e.g., under a guarantee) by a related party even if the creditor is an unrelated party.
- The Czech Income Taxes Act also restricts deductibility of financial costs of subordinated debt and profit participating loans.
- Currently, new thin capitalization rules where the debt-to-equity ratio for related parties is 4:1 (6:1 when the debtor is a bank or insurance company) are proposed and could be effective retroactively (optionally) from January 1, 2008. These new rules apply to debt provided by related parties and to debt the provision of which is dependent on the provision of credit, loans or deposits to the creditor by a party related to the debtor (back-to-back financing). Furthermore, financial costs arising from subordinated debts could be considered tax deductible based on the proposed new thin capitalization rules.
- Any financial costs (inclusive of interest expenses) covered by the thin capitalization rules will be non-deductible and may be reclassified as a dividend payment with the corresponding withholding tax issues if it is paid to a tax non-resident. The application of withholding tax to the non-deductible portion of interest, which is reclassified as a dividend distribution, follows the provision dealing with the taxation of dividends in the particular tax treaty if the definition of dividends in the particular double tax treaty also covers this type of income. Otherwise, the withholding tax applicable to interest generally applies.

Transfer Pricing

- The Czech Republic has transfer pricing rules that apply to transactions between related parties according to arm's length principles. (For a definition of related parties, see "Thin Capitalization".)
- The Czech Republic has not formally implemented the Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines but the guidelines are generally followed.
- Documentation requirements are in line with the OECD and EU recommendations.

Sales Taxes / VAT

- The Czech Republic has adopted the Sixth Council Directive 77/388/EEC on the harmonization of VAT application in the EU. Czech VAT legislation is mainly in compliance with this Directive.
- The registration threshold for VAT is CZK 1 million, i.e., all taxable entities with a turnover exceeding this amount are obliged to register for VAT. There is no registration threshold for non-established entities (entities without a permanent place of business) and branches. Thus these entities must register upon their first provision of taxable supplies in the Czech Republic. The reverse charge mechanism applies to a number of specific services.
- The standard VAT rate is 19%. There is a reduced rate of 9% that applies to a restricted list of goods and services. Exemption applies to specific types of services. Financial and insurance services are exempt from VAT without the right of VAT recovery.
- Businesses within the EU and a number of non-EU countries not registered for Czech VAT with no seat nor fixed establishment in the Czech Republic may recover Czech VAT incurred, subject to compliance with specific conditions (generally in compliance with the 8th and 13th Council Directives).

- Effective from January 1, 2009, group registration for Czech VAT purposes is possible for Czech entities (and Czech establishments of non-Czech entities) under certain capital or other relation requirements. A Czech VAT group can be created, modified or terminated as of January 1 of each calendar year.

Payroll and Social Security Taxes

- Under Czech law, Czech legal entities and branch offices of foreign entities are required to make contributions to the Czech social security and health insurance systems to the amount of 34% of the gross remuneration of all locally employed employees subject to the Czech social security system.
- Employees contribute 11.1% of their gross remuneration.
- When the Czech Republic became a member of the EU in May 2004, the EU coordination rules took effect. Therefore, employees are generally obliged to participate in the social system of the state where they work. If an employer employs an individual who participates in another EU social security system, subject to certain exceptions, the employer is obliged to make contributions to the social security system of that country according to the rules and rates of that country.
- Contributions to social security and health insurance systems are levied on cash remuneration as well as on fringe benefits; these contributions are capped at an annual taxable remuneration of CZK 1,113,640.
- These mandatory contributions are fully deductible for corporate tax purposes provided that they are paid before the end of the first month of the following taxable period.
- The personal income tax rate is 15% and is levied on the sum of gross taxable remuneration (inclusive of certain fringe benefits), increased by the obligatory social and health insurance contributions payable by the employer to the Czech social security system (i.e., by 34%).
- The amounts of social security and health insurance contributions made by the employee (11.1%) do not represent a deductible item for the calculation of an employee's tax base.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 1, 2009.

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