



January 2023 DOING BUSINESS IN THE CZECH REPUBLIC

The Essential Guidebook
on investing in the Czech Republic

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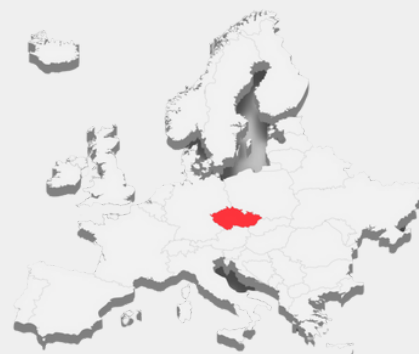
ECONOMIC OVERVIEW

Location Central Europe with its capital Prague

Population 10.52 million inhabitants

Language Czech

Currency Czech Koruna, a fully convertible
1 EUR = 24,551 CZK*
1 USD = 23,363 CZK*
*average of 2022 (source: cnb and eurofx rates)



POLITICAL SITUATION

It is a democratic unitary parliamentary republic with a market economy reestablished after 1989 when communist rule ended. The Czech Republic is a pluralist multi-party parliamentary representative democracy, with the President as head of state and Prime Minister as head of government. The Parliament is bicameral, with the Chamber of Deputies and the Senate.

ECONOMIC STABILITY

Czech National Bank has maintained currency stability and has influenced the Czech economic environment since 1991. Czech Koruna is fully convertible. The Czech Republic has been EU member since 2004 and member of **NATO**, **EBRD**, **WTO** and **IMF** as well.

Main industries of the Czech Republic are engineering (mainly automotive), chemical industry, food industry, metallurgical industry, energy industry and construction industry. These are few main index numbers from 2022 as per the Czech Statistical Office:

Business	Period	Y-O-Y I/D (%)	Release date
Gross domestic product	3Q 2022	1,5 ↑	1/2023
Consumer price index	12/2022	15,8 ↑	1/2023
Inflation rate	12/2022	15,1 ↑	1/2023
Industrial production	11/2022	0,5 ↑	1/2023
Construction production	11/2022	-0,8 ↓	1/2023
Receipts from sales of retail trade (CZ-NACE 47)	10/2022	-9,4 ↓	12/2022
Average gross wages and salaries – nominal	3Q2022	6,1 ↑	12/2022

RATING

Standard & Poor's AA-
Moody's analytics Aa3
Fitch Ratings AA-

COMPANY FORMATION



LEGAL ENTITIES

Joint Stock Company (in Czech: „akciová společnost“) – a.s.

- Used for large companies
- The minimum registered capital is CZK 2 000 000 (EUR 83 000)
- Based on bearer shares (need to be registered at Central Security Depository Prague) or registered shares (common type)
- Main advantages: Option to issue different types and classes of shares; shares might be listed under certain circumstances; unlimited number of shareholders
- Ideal for projects requiring large capital

Czech Limited Liability Company (in Czech: „společnost s ručením omezeným“) – s.r.o.

- Used small & medium-sized companies and SPVs
- The minimum registered capital: CZK 1
- Main advantages: Low registered capital; lower administrative burden

Czech Branch office (in Czech: „odštěpný závod“)

- No registered capital is required
- A branch office is not a separate legal entity and incurs obligations on the founder's company behalf
- Its business name must be the same as the founder's company with the “odštěpný závod” suffix
- Main advantages: No registered capital required; easy to establish and dissolve

The starting of foreigner's business in the Czech Republic:

- Foreign companies might operate through the branch office or by establishing a Czech company
- Foreigners are allowed to conduct trade activities under the same conditions and to the same extent as Czech entrepreneurs

COMPANY FORMATION

Possibilities to start up

ESTABLISH A NEW COMPANY

The company comes into existence upon registration in the Commercial Register, and the process can be divided into the following steps:

1. Preparation and signing of a memorandum of association – notary assistance

Approximate costs of a notarial deed on the establishment of the company (depending on the amount of registered capital CZK 2000 – 40 000 or more (EUR 75 – 1500))

- For limited liability company from approx. CZK 10,000 (approx. EUR 400), including administrative fees for registration in the Czech commercial register.
- For joint stock company from approx. CZK 20,000 (approx. EUR 800), including administrative fees for registration in the Czech commercial register.

2. Establishment of the company's office address

For registration in the Czech commercial register, the company needs to have evidence to prove the right to use of certain premises as its seat (either by a lease agreement or a written confirmation of the owner of the premises).

3. Statutory declaration of future executive directors

The company needs to have certain executives/board members (foreign nationals permitted). The executives/board members need to sign standardized declaration on their eligibility for the performance of executive/board member position.



4. Extracts from the police record/criminal register for future managing directors and supervisory board (in case of a.s.).

In the case of EU nationals the extracts can be obtained through the notary preparing the notarial deed.

5. Establishment of a bank account for registered capital deposit

The company's founder must open a special bank account with the bank in the Czech Republic following the execution of a memorandum of association/statutes in the form notarial deed per point 1 and deposit the registered capital.

6. Arrangement for a trade license

Compulsory notification to the Trade Authority through the standard form, no specific requirements for the retail trading, trade license issued within 5 days, costs CZK 1 000 (EUR 40).

7. Application for a registration in the Commercial Register

Application for registration in the Czech commercial register (with all described documents) must be submitted within six months from the execution of the notarial deed per point 1.

The application may be submitted via the standard form through the respective Court, and the Company is registered within five business days, or more preferably. Costs of legal stamps CZK 6 000 12 000 (EUR 222 – 444).

The application is drafted and submitted directly by a notary public who drafted the notarial deed on the company's establishment. The company is usually registered on the very same day.

The registration is made online. Costs of notarial registration CZK 300 – 8 000 (EUR 12 – 296). Part of this application to the Commercial register is enclosing compulsory documents proving the above arrangements.

The approximate time necessary for the company's incorporation and obtaining all the ancillary documents: are 14 – 20 days. The approximate time necessary for the incorporation of the company and obtaining all the ancillary documents: are 14 – 20 days.

BUY A SHELF COMPANY (A READY-MADE COMPANY)

It's the way to start a business almost immediately when the buyer is given a newly established company ready to do business right away.

Main advantages of shelf company (ready-made company):

- Time-saving.
- The company is already established; it has a bank account open with a fully paid registered capital sitting on this bank account, and it is already registered with the Tax Office.
- The company have not participated in any business activities, has no employees, and does not have any assets or liabilities (apart from the deposited registered capital).
- The provider has been the sole founder/shareholder and ensured that all legal requirements are fulfilled, which he guarantees in the share purchase agreement.
- All legal requirements were fulfilled.



ACCOUNTING

ACCOUNTING & RECORD-KEEPING

The system is based on double-entry bookkeeping, Czech accounting rules are determined by the Ministry of Finance and are based upon the National Accounting Standards

- mostly consistent with the International Financial Reporting Standards, IAS
- minor differences in a few areas such as financial leasing and valuation of fixed assets.
- Publicly traded companies must apply IFRS, as governed by the relevant EU directive, for their books of account and for preparing financial statements.

Accounting Regulation Body

Ministry of Finance of the Czech Republic

Tax Year

The Amendment to Law on Accountancy allows taxpayers to keep accounts in another fiscal period than the calendar year. The fiscal tax year must have 12 consecutive months. Individual taxpayers follow the calendar year.

Accounting Reports

Companies must maintain and annually submit a balance sheet as well as a profit and loss statement at the pertinent court. Accounts must be published in Czech using CZK denominations. Furthermore, companies obliged to have an audit must prepare a statement of cash flows and a statement of equity changes that includes previous and anticipated developments.

The company is obliged to undertake annual closing for each accounting period within:

- By the date of submission of the corporate income tax return (generally within three months after the end of the year or within six months if the tax return is prepared by a tax advisor).
- Within six months after the end of the year for the purpose of the annual general meeting.
- At the latest, within 12 months after the end of the financial year.

Statutory audit and financial statements incl. annual report required if two of following conditions are fulfilled during previous and current accounting period:

- turnover exceeded CZK 80 mil.
- the total gross value of assets exceeds CZK 40 mil.
- avg no. of employees exceeds 50

TAXATION



INCOME TAXES

CORPORATE INCOME TAX

- Czech tax residents are taxed on their worldwide income.
- Czech tax non-residents are taxed on their Czech-sourced income.
- The taxable period is generally one (calendar) year, the same as the accounting period.
- Deadlines for filling CIT return: within three/six months following the end of the taxable period.

Taxation rates on particular corporate incomes:

19 % taxation for corporate incomes

19% capital gains of legal entities

5% – income of certain investments, mutual funds, pension funds

15% withholding tax on dividends, interests paid abroad by Czech debtor and royalties paid abroad by Czech licensee. Dividends can be tax-exempt if the mother company is an EU tax resident and holds at least a 10 % share for at least 12 subsequent months.

35% withholding tax for non-residents of the EU or EEA or residents of a state without a treaty for avoiding double-taxation or treaty for Exchange with a country of a debtor or for any other beneficial owners who are not able to declare its tax residency in EU or EEA.

- The withholding-tax rate may be reduced under a double taxation treaty concluded between the Czech Republic and the country where the payment recipient is a tax resident. As of 2022, the Czech Republic has concluded double-taxation treaties with more than 90 countries.

PERSONAL INCOME TAX

Tax rate. Since 2021, the Czech Republic has returned to progressive taxation.

- Gross income up to 48-fold of an average salary (the threshold for 2023 is CZK 1,935,552), will be taxed at a rate of 15%.
- Gross income exceeding 48-fold of an average wage (the threshold for 2023 is CZK 1,935,552) will be taxed at 23%.

Insurance paid from employee's salary:

- Employees pay insurance from their gross salary monthly: 4.5% health insurance + 9% social insurance.
- Employers also bear insurance costs on employees' salaries: 33,8% social and health insurance.
- A maximum assessment base applies to social security. For the taxable period 2023, the limit is set at CZK 1,935,552. However, there is no maximum limit applicable to health insurance.

VALUE ADDED TAX

- At the moment of sale or receipt of any payment (as stipulated in the contractual documentation), the obligation to issue an invoice or a tax document arises.

VAT rates:

- a standard rate of 21% for most goods & services
- reduced rate by 15% for food, construction services, social care (it is not VAT exempt), public transports
- reduced rate by 10% for books, some medical and baby goods, and some services (like hairdressing and barber, cleaning, clothes and bike repairs, food in restaurants, cultural events, etc.)
- Compulsory Registration: if the turnover exceeds CZK 2 million (approx. EUR 82 thousand) in 12 consecutive months
- VAT taxable period: quarterly/monthly depending on the turnover (the new company has a monthly period)

VAT payers are obliged to submit VAT returns and control statements on a monthly/quarterly basis (and an EU sales list if a taxpayer carries out intracommunity supplies).

EXCISE DUTIES

On ethyl alcohol, beer, wine and intermediates, mineral oils and tobacco products.

ROAD TAX

For trucks over 3,5 tons only.

REAL ESTATE TAX

Paid by owner, amount depends on size and location.



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