

Approach.
Solution.
Business.

ASB Group

DOING BUSINESS IN THE **CZECH REPUBLIC**

ECONOMIC OVERVIEW

Location

Central Europe with its capital Prague



Population

10.6 million inhabitants

Prague: 1.3 million residents

Language

Czech

Currency

Czech Koruna, fully convertible

1 EUR= 25,65 CZK *

1 USD= 21,68 CZK *

*half-year average of 2021 (source: www.cnb.cz)



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.

ECONOMY & ECONOMIC STABILITY

Czech National Bank maintains the currency stability and influences Czech economic environment since 1991. Czech Koruna is fully convertible. The Czech Republic is **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.

As per World Bank ranking from 2021, the Czech Republic is **ranked 41 among 190 economies** in ease of doing business.



These are few main index numbers from 2021 as per ranking of World Bank:



THE CZECH REPUBLIC BUSINESS	LAST	PREVIOUS
Business Confidence	96.20	84.70
Manufacturing PMI	59.10	47.00
Manufacturing Production	- 6.80%	- 26.70%
Ease of Doing Business	41.00	35.00
Unemployment Rate	3.50%	3.70%
Inflation Rate	6.60%	3.30%
Interest Rate	3.75%	0.25%

Investment Risk Ratings of the Czech Republic:
Standard & Poor´s AA-
Moody´s analytics Aa3
Fitch Ratings AA-

HOW TO SET-UP BUSINESS IN THE CZECH REPUBLIC

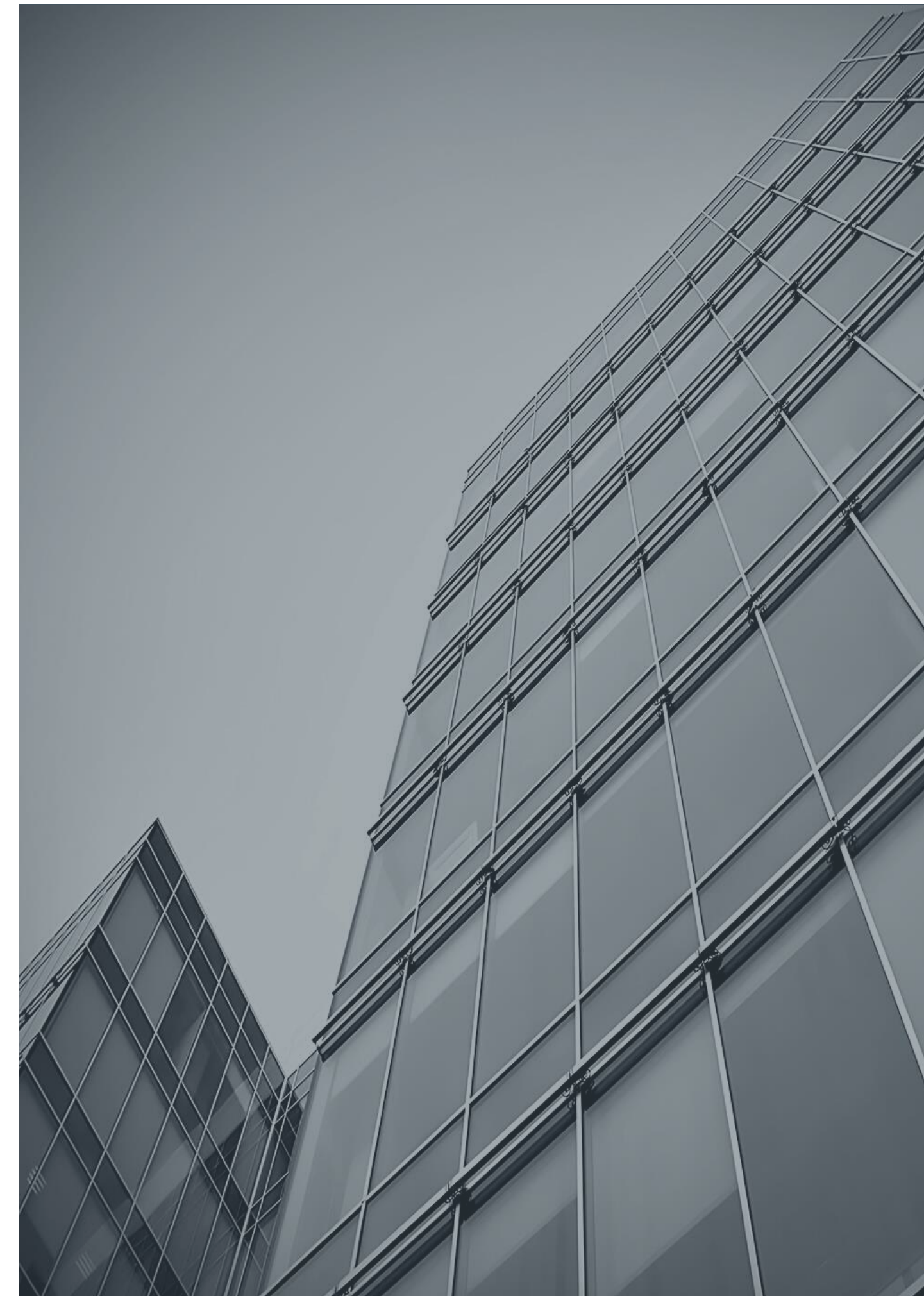
Most common legal entities in the Czech Republic:

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

- **Minimum registered capital:** CZK 2,000,000 (approx. EUR 82,000).
- **Main advantages:** Option to issue different types and classes of shares; shares might be listed under certain circumstance; unlimited number of shareholders.
- Ideal for projects requiring large capital.

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

- **Minimum registered capital:** CZK 1.
- **Main advantages:** Low registered capital; lower administrative burden
- Ideal for small & medium sized companies and SPVs.



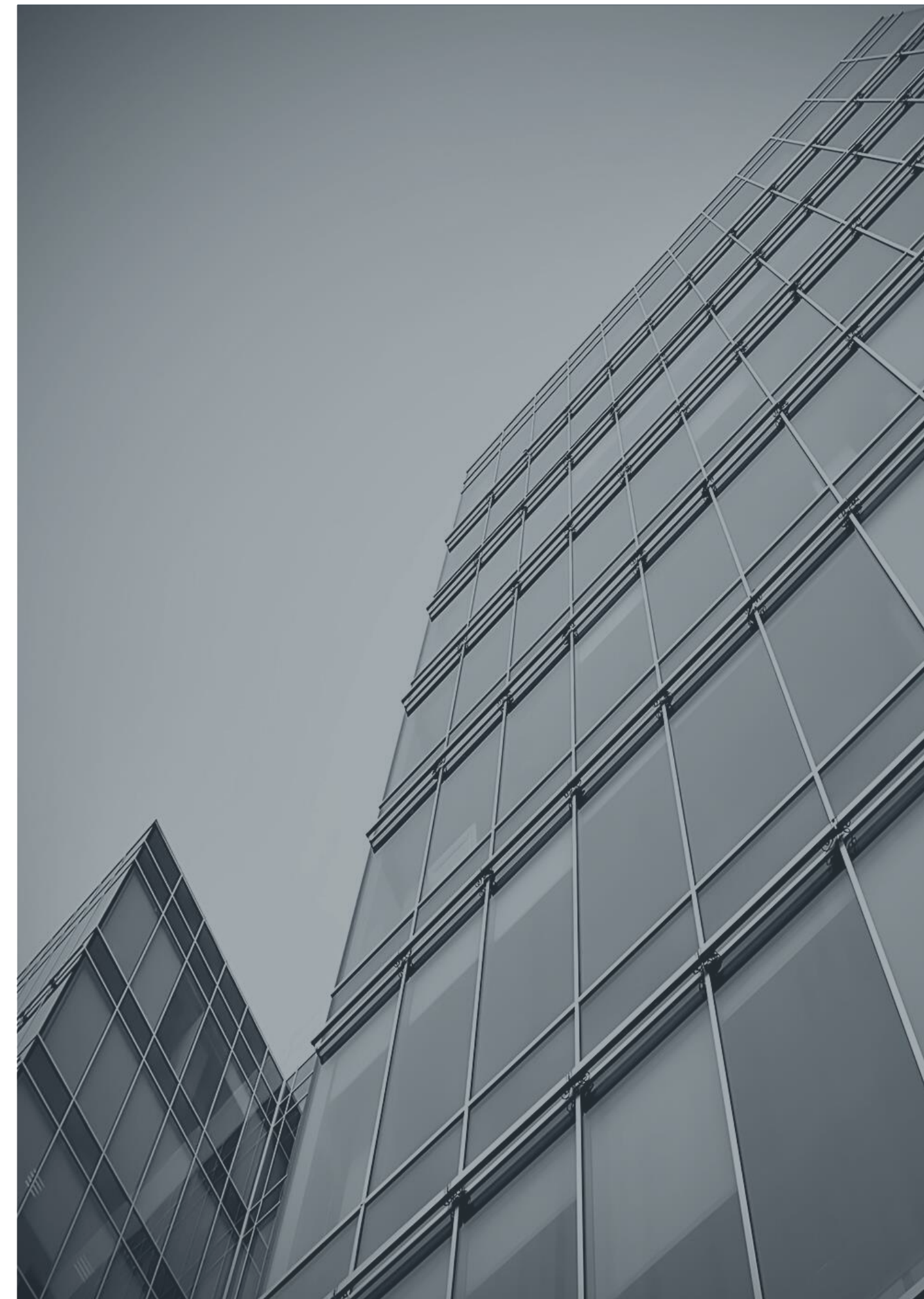
HOW TO SET-UP BUSINESS IN THE CZECH REPUBLIC

Most common legal entities in the Czech Republic:

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

- No registered capital 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.

Foreigners are allowed to conduct trade activities under the same conditions and to the same extent as Czech entrepreneurs.



POSSIBILITIES TO START UP

A) To establish a new company

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/statutes - notary assistance

Approximate costs of a notarial deed on the establishment of the company depends on the amount of registered capital:

- 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.

POSSIBILITIES TO START UP

A) To establish a new company

Company comes into existence upon registration in the Commercial Register and the process can be divided into the following steps

2

Collection of documents required for the registration of the company to the Czech commercial register

- **Establishment of the company's office address**
 - For registration in the Czech commercial register the company needs to have evidence to prove the right of use of certain premises as its seat (either by a lease agreement or a written confirmation of the owner of premises).
- **Statutory declaration of future executive directors/board members and supervisory board members**
 - 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.

POSSIBILITIES TO START UP

A) To establish a new company

Company comes into existence upon registration in the Commercial Register and the process can be divided into the following steps

2

Collection of documents required for the registration of the company to the Czech commercial register

- **Extracts from the police record/criminal register for future executive directors/board members and supervisory board**
 - In the case of EU nationals, the extracts can be obtained through the notary preparing the notarial deed.
- **Establishment of a bank account for deposition of the registered capital deposit**
 - The founder of the company 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.
- **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 (approx. EUR 400).

POSSIBILITIES TO START UP

A) To establish a new company

Company comes into existence upon registration in the Commercial Register and the process can be divided into the following steps

3

Application for a registration in the Commercial Register

- Application for the registration in the Czech commercial register (with all described documents) must be submitted within 6 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 5 business days, or more preferably.
- The application is drafted and submitted directly by a notary public who drafted the notarial deed on the establishment of the company and the company is usually registered on the very same day.

The approximate time necessary for the incorporation of the company and obtaining all the ancillary documents:
14 - 20 days.

POSSIBILITIES TO START UP

B) To buy a shelf company (a ready-made company)

It's the way to start business almost immediately when the buyer is being 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; has the 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, have no employees, and does not have any assets or liabilities (apart from the deposited registered capital).
- Provider has been the only sole founder/shareholder and ensured that all legal requirements are fulfilled which he guarantess in the share purchase agreement.



ACCOUNTING

The system is based on the 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 difference in 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.
- total gross value of assets exceeds CZK 40 mil.
- avg no. of employees exceeds 50

TAXES



Applicable taxes in the Czech Republic

A) INCOME TAXES:

CORPORATE INCOME TAX

- Czech tax residents are taxed on their world-wide income.
- Czech tax non-residents are taxed on their Czech-sourced income.
- Taxable period 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 investment, 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 if it holds at least 10 % share for at least 12 subsequently following months.

35% withholding tax for non-resident of EU or EEA or resident of a state without treaty for avoiding double-taxation or treaty for Exchange with country of 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 recipient of the payment is a tax resident. As of mid-2021, the Czech Republic has concluded double-taxation treaties with more than 90 countries.

PERSONAL INCOME TAX

Tax rate:

Since 2021, the Czech Republic returns to progressive taxation.

- Gross income **up to the 48-fold of an average salary** (the threshold for 2021 is CZK 1,701,168), will be taxed at rate of **15%**.
- Gross income **exceeding the 48-fold of an average salary** (the threshold for 2021 is CZK 1,701,168), will be taxed at rate of **23%**.



Insurance paid from employee's salary:

- Employees pay insurance from their gross salary monthly: 4.5% health insurance + 9% social insurance.
- Employers bears insurance costs on employee's salary as well: 33.8% social and health insurance.



B) **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:

standard rate of 21% most goods & services reduced rate 15% food, construction services, social care (it not VAT exempt), public transports reduced rate 10% books, some of medical and baby goods, some services (like hairdressing and barber, cleaning, clothes and bikes repairs, food in restaurants, cultural events, etc.)

- Compulsory Registration: if the turnover exceeds CZK 1 million (approx. EUR 37 thousand) in 12 consecutive months.
- VAT taxable period: quarterly/monthly depending on the turnover (new company has a monthly period) .

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



C) **EXCISE DUTIES** - on ethyl alcohol, beer, wine and intermediates, mineral oils and tobacco products.

D) **ROAD TAX**

E) **ENVIRONMENTAL TAX** – specific for kind of vehicle

F) **REAL ESTATE TAX** – paid by owner, amount depends on size and location



CONTACT

IF YOU REQUIRE ANY FURTHER INFORMATION,
FEEL FREE TO CONTACT US

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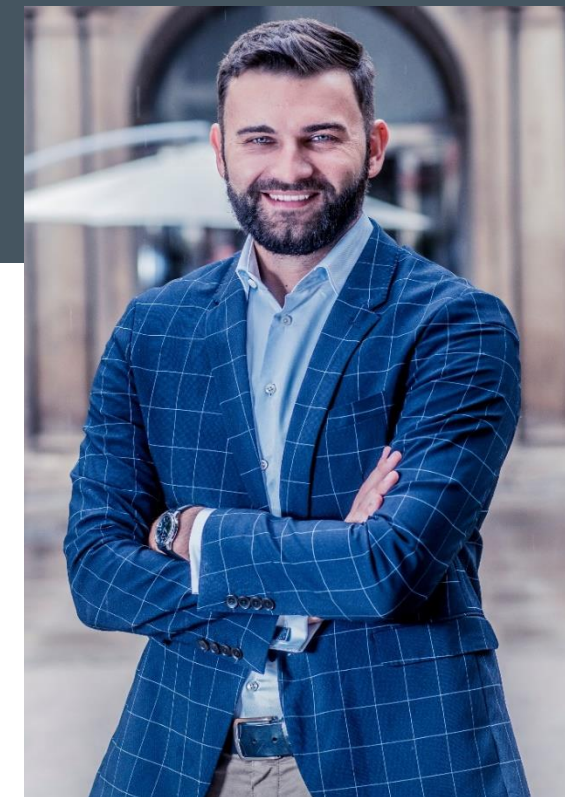


PETR STUDNIČKA

Managing Partner

E: pstudnicka@asbgroup.eu

M: +420 724 351 569



DAN LEDVINKA

Commercial Director

E: dledvinka@asbgroup.eu

M: +420 724 377 998