

Approach.
Solution.
Business.

ASB Group

DOING BUSINESS IN THE **CZECH REPUBLIC**

ECONOMIC OVERVIEW

Location

Central Europe with its capital Prague



Population

10.7 mln (Prague: 1.3 mln residents)

Language

Czech

Currency

Czech Koruna, fully convertible

1 EUR= 26,3 CZK *

1 USD= 23,9 CZK *

*half-year average of 2020 (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

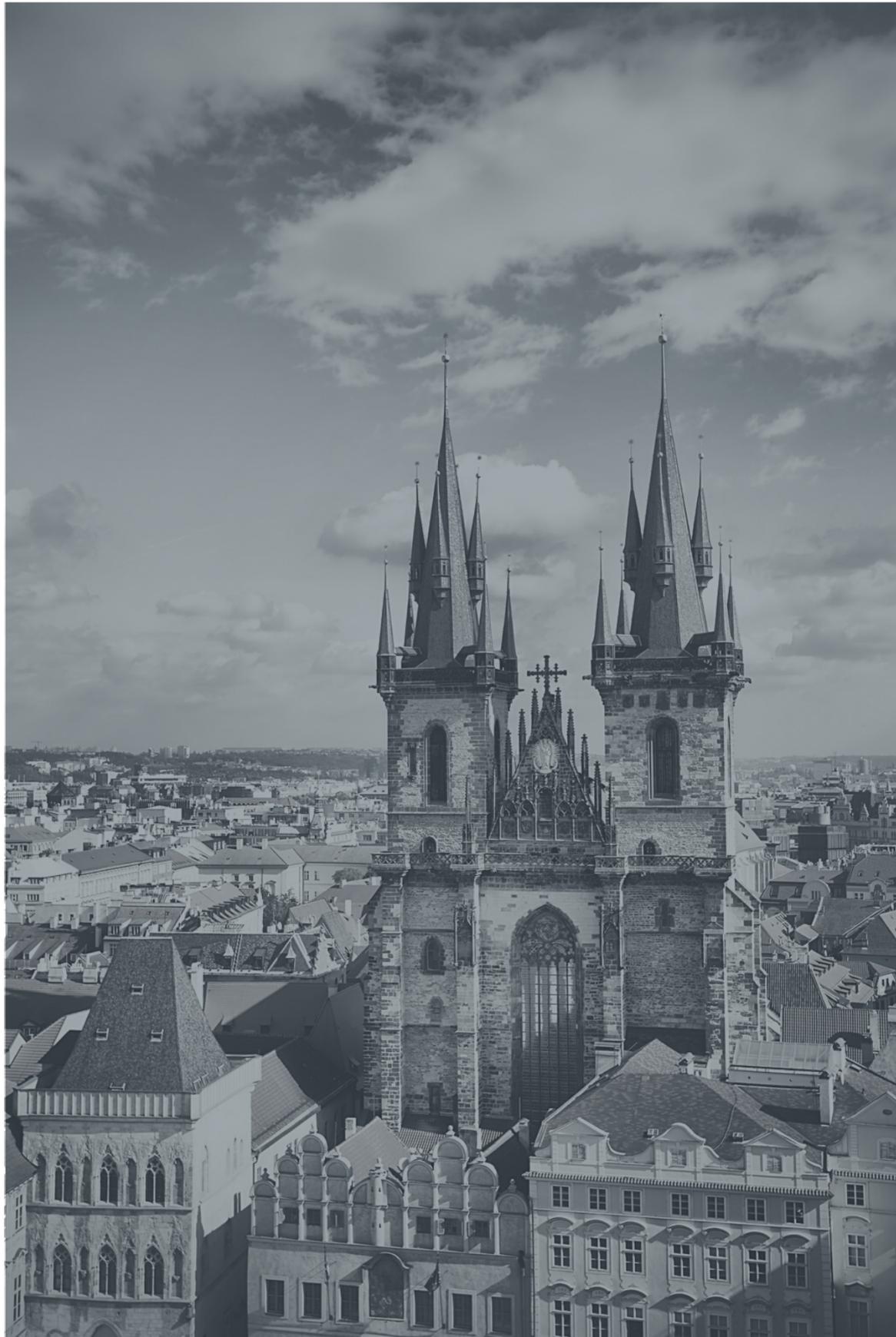
Czech National Bank maintains the currency stability and influences Czech economic environment since 1991. Czech Koruna is fully convertible. The Czech Republic is **EU** member since 2004 and member of **NATO**, **EBRD**, **WTO** and **IMF** as well.

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 2020, the Czech Republic is **ranked 41 among 190 economies** in ease of doing business.



These are few main index numbers from 2020 as per ranking of World Bank:



THE CZECH REPUBLIC BUSINESS	LAST	PREVIOUS
Business Confidence	84.70	73.80
Manufacturing PMI	47.00	44.90
Industrial Production Mom	13.80%	- 23.20%
Manufacturing Production	- 26.70%	- 35.50%
Competitiveness Index	70.85	71.18
Competitiveness Rank	32.00	29.00
Ease of Doing Business	41.00	35.00
Unemployment Rate	3.7%	3.6%
Inflation Rate	3.3%	2.9%
Interest Rate	0.25%	0.25%

Investment Risk Ratings of the Czech Republic:

Standard & Poor's AA-

Moody's analytics Aa3

Fitch Ratings AA

Source: Czech National Bank, 2020

HOW TO SET-UP BUSINESS IN THE CZECH REPUBLIC

Most common legal entities in the Czech Republic:

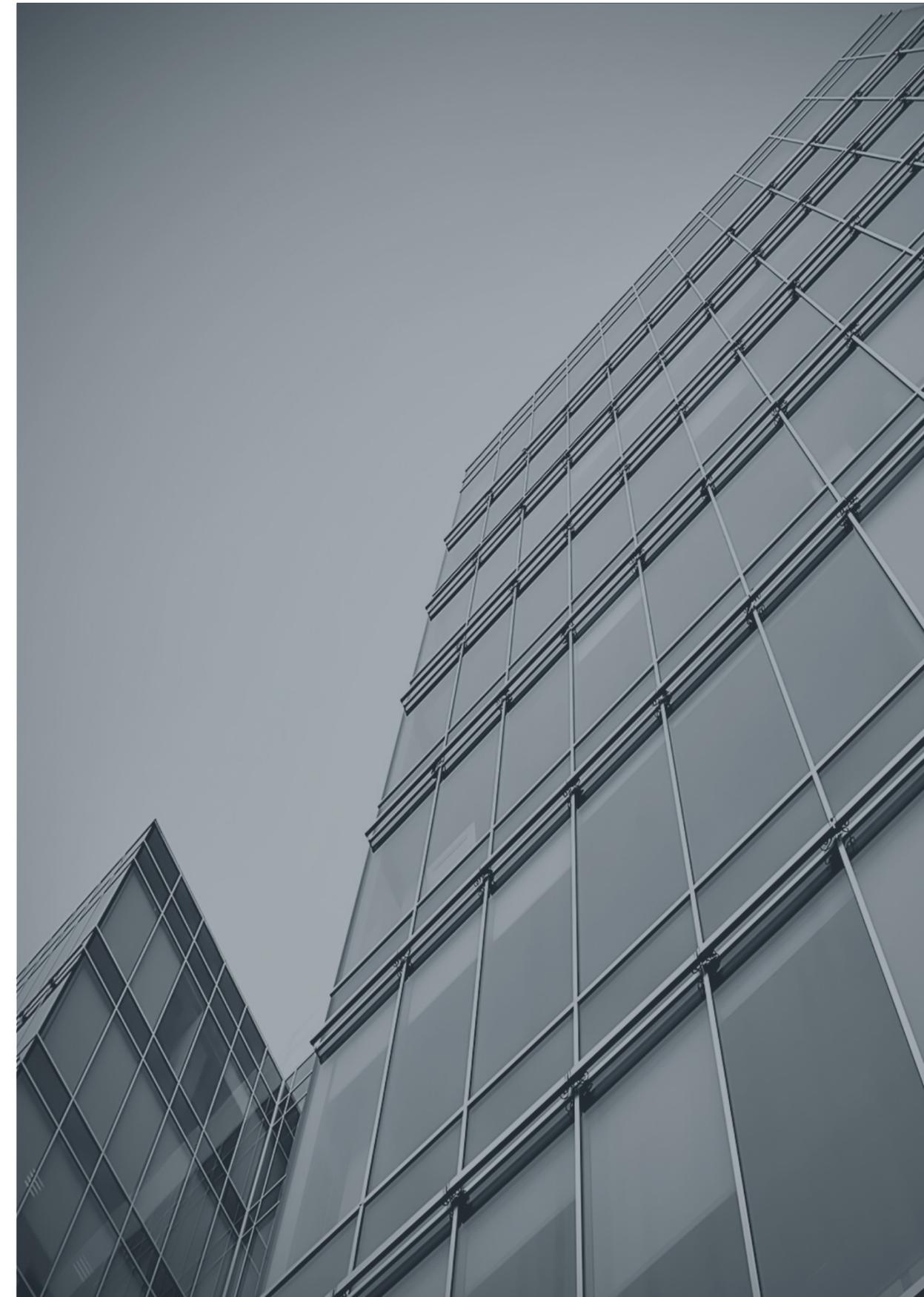
- joint-stock companies ("a.s." company)
- used for large companies
- the minimum registered capital is CZK 2 000 000 (EUR 80 000)
- based on bearer shares (need to be registered at Central Security Depository Prague) or registered shares (common type)

- limited liability companies ("s.r.o." company)
- used for small & medium sized companies
- the minimum registered capital: CZK 1

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.



POSSIBILITIES TO START UP

A) To establish a new company

Company comes into existence upon registration in the Commercial Register. It takes **7 steps** to establish a.s./s.r.o. company:

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 2 000 - 40 000 or more (EUR 75 - 1 500))

2

Establishment of the company's office address

It is necessary for the purpose of registration of the company to evidence company's right of use of certain premises as its seat (either by a lease agreement or a written confirmation of the owner of 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 standardised 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.

POSSIBILITIES TO START UP

A) To establish a new company

5

Establishment of a bank account for registered capital deposit

The founder of the company following the execution of a notarial deed shall open a bank account with the bank in the Czech Republic.

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

Within 6 months, there must be an application for a registration in the Commercial Register

Application through the standard form Registration is completed within 5 business days Costs of legal stamps CZK 6 000 - 12 000 (EUR 222 - 444). The application to the Commercial Register can be replaced by direct registration by a public notary preparing the notarial deed on the establishment of the company. The registration is made online Costs of notarial registration CZK 300 - 8 000 (EUR 12 - 296). The part of this application to Commercial register is enclosing compulsory documents proving above arrangements.

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 within **2 days**, buyer is being given a newly established company ready to do business.

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

- Provider has been the only sole founder/shareholder
- Established, registered in the Commercial Register and Tax Authorities, registered capital paid, bank accounts and accounting reports maintained
- No previous activities, assets, employees or obligations
- All legal requirements fulfilled
- Contract guarantees by a provider



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 depreciation 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-2020, the Czech Republic has concluded double-taxation treaties with more than 80 countries.

PERSONAL INCOME TAX

Tax rate:

15% flat rate (wage tax calculated from “super-gross” salary: sum of income, social insurance and health insurance paid by employer. Calculated tax can be reduced by the tax reliefs).

+ 7% solidary tax for income exceeding 48 multiple of average wage



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: 31.3% 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, leaning, 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

G) **REAL ESTATE TRANSFER TAX** - 4% paid by transferee

In 2020, The Ministry of Finance has introduced a bill to abolish the real estate transfer tax. At this moment, the bill is still waiting to be approved by the government, however it is highly likely that the bill will be approved and come into the force retroactively.



CONTACT

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

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