# Tax Card 2019

**Tax Services**

kpmg.cz
KPMG Czech Republic

# Corporate Income Tax

| | |
|---|---|
| • Standard rate | 19% |
| • Qualified investment funds | 5% |
| • Pension funds | 0% |

## Tax depreciation periods

| Category | Years |
|---|---|
| 1 IT equipment, certain machinery | 3 |
| 2 Office equipment, certain machinery, vehicles | 5 |
| 3 Heavy machinery | 10 |
| 4 Pipelines | 20 |
| 5 Buildings other than category 6 | 30 |
| 6 Administrative and commercial buildings, hotels, department stores | 50 |

Depreciation can be calculated on either a straight-line or an accelerated basis. The depreciation of certain new assets in depreciation groups 1–3 can be increased by 10, 15 or 20 percent in the first year.

Fixed assets used for the production of solar energy must be depreciated on a straight-line over 240 months.

## Tax depreciation of intangible assets

| | Months |
|---|---|
| • Audio-visual work | 18 |
| • Software and R & D results | 36 |
| • Other intangible assets | 72 |
| • Goodwill | 180 |

Only straight-line depreciation is available.

## Loss utilisation

Tax losses may be carried forward for up to 5 years.

– The carry back of tax losses is not allowed.
– Tax consolidation is not possible.

## Withholding taxes on income of non-residents

**For example:**

| | |
|---|---|
| • Dividends | 35/15/0% |
| • Interest | 35/15/0% |
| • Royalties | 35/15/0% |
| • Operating lease rentals | 35/15% |
| • Finance lease rentals | 35/5% |

The withholding tax rates may be reduced by double tax treaties (see a list overleaf). Payments to persons resident in a country with which the Czech Republic has not concluded a double tax treaty or an agreement for the exchange of information are subject to the 35-percent rate. Withholding tax normally becomes payable when the payer of the income accounts for the liability.

Persons from EU and EEA countries who receive income subject to withholding tax (except for dividends) may either apply the withholding tax as a final tax, or file a tax return including expenses and deduct the withholding tax from the final tax liability.

### Participation exemption

Dividends received by a Czech parent company or a permanent establishment of an EU company from subsidiaries registered in EU and EEA countries, or Switzerland are tax exempt provided that certain conditions are met (e.g. specific legal form, minimum 10-percent shareholding, 12-month uninterrupted holding of the shares, entities not tax exempt). Dividends received from subsidiaries which are resident in other countries that have entered into double tax treaties with the Czech Republic are also exempt as long as the profits have been subject to a corporate tax of at least 12 percent (in addition to the above conditions stipulated for EU companies).

Dividends paid to a parent company registered in the Czech Republic, an EU or EEA member state, or Switzerland are not subject to withholding tax provided that certain conditions are met (e.g. specific legal form, minimum 10-percent shareholding for 12 months, entities not tax exempt).

Companies are exempt from tax on capital gains from the sale of shares in a subsidiary resident in the EU, EEA or a country with which the Czech Republic has concluded a double tax treaty and which has a corporate tax rate of at least 12 percent as long as the shares have been held for 12 months. Qualifying holdings are defined in the same way as for the dividend exemption.

### Intercompany interest and royalties

Interest and royalties paid by a Czech resident company or a Czech permanent establishment of a company registered in another EU member state to an associated company resident in another EU or EEA member state, or Switzerland are not subject to withholding tax in the Czech Republic provided that certain conditions are met (e.g. uninterrupted direct shareholding for at least 24 months).

### Transfer pricing

The arm's length principle generally applies to transactions between related companies. The OECD Transfer Pricing Guidelines are followed in the application of domestic transfer pricing legislation. The OECD Base Erosion and Profit Shifting (BEPS) initiative continues to influence interpretations in this area.

Transfer prices are one of the priority areas of the Czech tax authorities. The volume of additionally assessed tax has grown significantly over the years. In the first half of 2018 the tax authorities reported additionally assessed tax of CZK 641 million and reduced tax losses of more than CZK 12.2 billion.
The focus of the tax authorities is on the value chain within the group, functional and risk profiles, restructurings, exit taxes connected with the transfer of intangibles, and proofs of service charges, while they also tend to investigate financial transactions more closely.

Transfer pricing documentation is not obligatory. However, during a tax inspection, companies are expected to provide it upon request within 15-30 days. Most probably, a Czech version will be required. With their income tax return, corporate taxpayers are further obliged to file an appendix reporting related party transactions. The tax authorities use the collected data to pre-select tax payers for tax inspections, while also looking at other risk indicators, e.g. long-term losses, transactions with tax havens, etc. In 2017, Country by Country Reporting was fully implemented.

To manage transfer pricing risks, available transfer pricing documentation, supporting calculations, as well as cooperative and active management during tax inspections is recommended. To further reduce the risk, it is also possible to request uni- or bilateral advance pricing agreements on the transfer pricing methods applied in intra-group transactions. Since January 2018, permanent establishments or branches can also ask for such a ruling.

## Thin capitalisation

Financial expenses connected with credits, loans and other debt instruments (e.g. cash-pooling) are non-deductible if:

- the interest is dependent on the borrower's profits; or
- the total of credits, loans and other instruments from related parties (including back-to-back financing) exceeds four times equity (six times for banks and insurance companies).

## Deductibility of borrowing costs

Exceeding borrowing costs (i.e. the difference between tax deductible borrowing costs and taxable borrowing income) are tax deductible only to a certain threshold calculated for tax purposes from earnings before tax, interest, depreciation and amortisation. Therefore, if borrowing costs exceed this limit, the tax base is increased by the excess amount. Non-deductible borrowing costs may be transferred to the following tax periods. The limit should be CZK 80 million or 30percent EBITDA. The rules apply to taxable periods starting after 1 April 2019.

## Exit tax

The transfer of assets abroad without a change of ownership – for instance a transfer of assets from the head office in the Czech Republic to a permanent establishment abroad or vice versa or a transfer of tax residence abroad – shall be subject to taxation. The rules will apply to transfers occurring after 31 December 2019.

## CFC rules

If a foreign subsidiary qualifies as a controlled foreign company (CFC}, its income from qualifying assets and activities will be taxed at the Czech controlling entity. A controlled foreign company is a company in which a Czech controlling entity holds (directly or indirectly) at least 50 percent and whose effective tax liability is lower than one half of what it would have been in the Czech Republic.

CFC rules will mostly apply to the subsidiary's passive income (i.e., interest, dividend, royalty). The rules apply to taxable periods starting after 1 April 2019.

## Taxation of hybrid instruments

Taxable profit shall be increased by the amount of expenses which as a consequences of their hybrid treatment resulted on the group level in the effective double deduction of this expense or deduction of this expense without being taxed as income. The rules shall apply from 1 January 2020.

## Taxable period

The taxable period is generally the calendar year. However, taxpayers may choose a different taxable period if they notify the tax authorities.

## Reporting duty related to income flowing abroad

Taxpayers should report not only payments to foreign entities from which tax was withheld but also transactions generally liable to withholding tax but exempt from tax in particular cases, either under national legislation or the relevant double taxation treaty.

Untaxed income payments flowing abroad will have to be reported if they monthly exceed CZK 100,000 per taxpayer. This duty will include dividends, royalties and interest paid abroad and also gratuitous income.

The rules apply as of 1 April 2019.

## Mandatory disclosure requirements (DAC 6)

The obligation to report to tax authorities cross-border arrangements meeting hallmarks defined in the EU Directive 2018/822 (e.g. certain arrangements where obtaining a tax advantage is one of the main benefits of such an arrangement ) will be implemented from 1 July 2020. However, taxpayers or their advisors will be obliged to also report arrangements meeting the conditions for reporting whose implementation started after 25 June 2018 (the date on which the directive came into force).

# Personal Income Tax

## Rate
15%

## Solidarity tax surcharge
7%

Employment and/or business taxable income in excess of 48 times the average wage (annual income of CZK 1,569,552 in 2019) is subject to a 7percent solidarity tax.

## Tax base for employees
The tax base for employees is calculated as the gross salary increased by the employer's health insurance and social security contributions.

The tax base of non-Czech employees who are not subject to Czech social security and health insurance, except for employees insured in another EU member state, Switzerland or EEA state, is calculated as the gross salary plus a notional amount corresponding to Czech social security and health insurance contributions that a Czech employer would have to pay if the salary was subject to the normal Czech regime. As of 1 January 2019, the tax base of employees obligatorily insured in another EU member state, Switzerland or EEA shall be calculated as the gross salary plus an employer's part of the foreign obligatory social security and health insurance contributions.

The effective tax and social security rate for a person who is subject to Czech social and health insurance earning CZK 1,200,000 (EUR 47,000) per year is 31 percent.

## Taxable benefits
**Examples:**
- cost of living allowance;
- home leave allowance;
- one percent per month of the purchase price of a company car used for private purposes;
- private fuel paid by employer;
- private medical insurance paid by employer;
- stock option income;
- reimbursement of foreign and/or domestic taxes.

## Tax free benefits/allowances
**Examples:**
- pension and life insurance premiums up to statutory limits;
- housing provided by employer under certain conditions (subject to a monthly limit of CZK 3,500);
- medical care in non-cash form;
- school fees in non-cash form.

## Personal tax reliefs

**Examples:**

| | |
|---|---|
| • Basic allowance | CZK 24,840 |
| • Child allowance for first child | CZK 15,204 |
| • Child allowance for second child | CZK 19,404 |
| • Child allowance for third and any subsequent children | CZK 24,204 |
| • Spouse allowance | CZK 24,840 |

## Social and health insurance

| **Type of insurance** | **Paid by** | | **Total** |
|---|---|---|---|
| | Employer (%) | Employee (%) | (%) |
| Social: | | | |
| • Pension insurance fund | 21.5 | 6.5 | 28.0 |
| • Sickness insurance fund | 2.3 (2.1 from 1 July 2019) | 0 | 2.3 (2.1 from 1 July 2019) |
| • Employment insurance fund | 1.2 | 0 | 1.2 |
| Health | 9.0 | 4.5 | 13.5 |
| **Total (%)** | 34.0 (33.8 from 1 July 2019) | 11.0 | 45.0 (44.8 as of 1 July 2019) |

The annual cap on the calculation base for social security equals 48 times the average wage (CZK 1,569,552 in 2019). No cap applies to health insurance.

Employers are obliged to pay their employee's salary for the third to the 14th day of sickness. Statutory sick pay is paid from the 15th day. From 1 July 2019, employers will be obliged to pay their employee's salary from the first to the 14th day of sickness.

## Tax base for self-employed persons

Self-employed persons cannot deduct social security and health insurance contributions from their tax base. They can apply lump sum deductions instead of claiming actual expenses in the range of 40–60 percent (80 percent for farming activities). However, in some cases the amount of the deduction is limited.

## Investment income

Capital gains on securities are exempt after a holding period of 3 years. No tax is payable if the income from such sales does not exceed CZK 100,000 in a tax year.

Capital gains from participation rights in limited liability companies and co-operatives are exempt after a holding period of 5 years.

# VAT

Three VAT rates apply in the Czech Republic:

**Standard VAT rate – 21 percent:** most products and services;

**Reduced VAT rate – 15 percent:** basic foodstuffs, certain pharmaceutical products, certain medical equipment, heating, social housing;

**Reduced VAT rate – 10 percent:** essential baby nutrition, certain pharmaceuticals, books, mill products and other products suitable for a gluten-free diet and newspapers. Heating will be subject to 10 percentVAT starting on 1 January 2020.

**Zero rate:** exports of goods, intra-community supplies, international transport and related services, services on goods subsequently dispatched outside the EU and other supplies defined in the VAT Act.

Certain supplies (e.g., financial services, real estate) are exempt.

**A local reverse-charge regime** applies to certain supplies effected between Czech VAT payers – e.g. supplies of gold, scrap materials and waste, construction and assembly works, emission rights, cereal and technical crops, metals, mobile phones, integrated circuits, tablets, laptops, videogame consoles, sugar beets, supplies of gas and electricity, selected telecommunication services for entities operating on a wholesale basis and provision of labour for construction and assembly work or various forms of forced delivery of property.

As of 1 July 2017, input VAT claimed in connection with the purchase of assets (i.e. long-terms assets, low-value assets and inventories) has to be returned (partially) if the asset is destroyed, lost or stolen and such a fact is not properly documented.

VAT group registration is available.

# Excise Duties

Excise duties are payable on hydrocarbon fuels and lubricants, spirits, wine, beer and tobacco products. Excise duties are fixed at a set amount per unit for each group of products.

# Energy Taxes

Energy taxes apply to natural gas and other gases, electricity and solid fuels. Only supplies of these products delivered within the Czech Republic are subject to energy taxes.

A wide range of exemptions (e.g. for energy used in metallurgic or mineralogical processes) applies. To claim an exemption, approval needs to be obtained from the customs authority.

# Real Estate Tax

Tax on buildings is based on the area of land occupied. The rates range from CZK 2 to 10 per square metre for buildings. Increased rates apply in certain circumstances. Real estate tax on agricultural land is 0.75 percent of the deemed value. Special rates apply for forests, lakes and ponds. For other types of land, tax is based on the area. For building land, the rate is CZK 2 per square metre, CZK 5 per square metre for improved land surface used for business and CZK 0.20 per square metre in other cases.

Real estate tax is deductible for corporate income tax purposes.

# Tax on the Acquisition of Real Estate

This tax is payable by the buyer of real estate. The rate of tax is 4 percent of the higher of the sale price and the reference value of the property. The reference value is calculated by the tax authorities based on prices for similar transactions. If the tax authorities cannot calculate a reference value, the tax base is the higher of the agreed price and 75 percent of the value assessed by an expert.

# Gift and Inheritance Taxes

As of 1 January 2014, gift and inheritance taxes have been abolished. Gifts and inheritances are instead subject to income tax except for those between close relatives.

# Road Tax

Road tax is generally payable by the operator of a vehicle registered in the Czech Republic. The tax rate varies from CZK 1,200 to CZK 4,200 in the case of passenger vehicles and from CZK 1,800 to CZK 50,400 in the case of other vehicles.

# Double Tax Treaty Network

Treaties with the following countries were in force as at 1 January 2019:

Albania
Armenia
Australia
Austria
Azerbaijan
Bahrain
Barbados
Belarus
Belgium
Bosnia
and Herzegovina
Brazil
Bulgaria
Canada
Chile
China
Columbia
Croatia
Cyprus
Denmark
Egypt
Estonia
Ethiopia
Finland
France
Georgia
Germany
Greece
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Japan
Jordan
Kazakhstan
Kuwait
Latvia
Lebanon
Liechtenstein
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Moldova
Mongolia
Montenegro
Morocco
Netherlands
New Zealand
Nigeria
North Korea
Norway
Pakistan
Panama
Philippines
Poland
Portugal
Romania
Russia
Saudi Arabia
Serbia
Singapore
Slovakia
Slovenia
South Africa
South Korea
Spain
Sri Lanka
Sweden
Switzerland
Syria
Tajikistan
Thailand
Tunisia
Turkey
Turkmenistan
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Venezuela
Vietnam

# Tax Incentives

**The main activities that can be supported are:**

- Launching a new production or expanding an existing production business (production capacity enhancement, production portfolio diversification, significant changes of the whole production process) in the sector of the manufacturing industry;
- Launching a new technology centre (i.e. R&D or innovation centre) or expanding an existing one;
- Launching a new strategic services centre or expanding an existing one (e.g. centre for software development, high-tech repair centre, data centre or customer support centre).

**The main incentives (forms of state aid) are:**

- Corporate income tax relief (tax holiday) for up to 10 taxable periods;
- Job creation grants of CZK 100,000 - 300,000 in selected regions;
- Cash grants for employee training and retraining in selected regions;
- Cash grants of up to 12.5 percent of the eligible fixed assets costs for strategic investments into production and technology centres;
- Exemption from tax on immovable property in selected industrial zones.

The limit on the incentives depends on where the investment is located. For new projects the total value of state aid can be up to 25 percent of the investment amount for large companies (35 percent for medium-sized and 45 percent for small enterprises). Cash grants for employee training are limited to 25 percent of training costs (35 percent for medium-sized and 45 percent for small enterprises).

Work related to an investment project can start only after having submitted an application for investment incentives to CzechInvest agency.

In 2019, an amendment to incentives legislation is expected. While some conditions are to improve, generally the new law is expected to be more restrictive. Therefore, the timing of the application for investment incentives may significantly affect the chances of obtaining the incentives.

**R&D deduction**

Expenses incurred by taxpayers on R&D activities can be claimed as a special tax deduction. As the deduction is up to 110 percent of the eligible R&D costs, more than two times the amount can be deducted for tax purposes.

# EU Cash Grants

Additional cash grants are available from Czech and EU funds. However, individual EU cash grant programmes are usually available for a limited time only and require regular monitoring. The EU budgetary period 2014–2020 is running and next calls for the selected programmes are expected to be published during spring and summer 2019.

## For more information, please contact us:

**KPMG Česká republika, s.r.o.**
Pobřežní 1a
186 00 Praha 8
T: +420 222 123 625
F: +420 222 123 446
**www.kpmg.cz**
or **www.kpmg.com**

**Radek Halíček**
Partner in charge of Tax
and Legal Services
rhalicek@kpmg.cz

**Jana Bartyzalová**
Partner
janabartyzalova@kpmg.cz

**Aleš Krempa**
Director
akrempa@kpmg.cz

**Tomáš Kroupa**
Director
tkroupa@kpmg.cz

**Patrick Leonard**
Partner
pleonard@kpmg.cz

**Jan Linhart**
Partner
jlinhart@kpmg.cz

**Ladislav Malůšek**
Partner
lmalusek@kpmg.cz

**Pavel Rochowanski**
Partner
prochowanski@kpmg.cz

**Daniel Szmaragowski**
Partner
dszmaragowski@kpmg.cz

**Petr Toman**
Partner
ptoman@kpmg.cz

This card was prepared as a quick-reference tool for the most common tax rates and amounts and represents the status at 1 January 2019.