



# Tax Card 2020

Tax Services

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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 basis 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 2018 the tax authorities reported additionally assessed tax of CZK 1.2 billion and reduced tax losses of more than CZK 12.7 billion.

The focus of the tax authorities is on the value chain within the group, functional and risk profiles, pricing, 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, usually 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 is 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 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 mostly apply to the subsidiary's passive income (i.e., interest, dividend, royalty).

## 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 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 have to be reported if they monthly exceed CZK 100,000 per taxpayer. This duty includes dividends, royalties, interest paid abroad, and 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 also be implemented from 1 July 2020. However, taxpayers or their advisors will also be obliged to 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

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## Rate

15%

## Solidarity tax surcharge

7%

Employment and/or business taxable income in excess of 48 times the average wage (annual income of CZK 1,672,080 in 2020) is subject to a 7percent solidarity tax.

## Tax base for employees

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	2.1	0	2.1
Employment insurance fund	1.2	0	1.2
Health	9.0	4.5	13.5
<b>Total (%)</b>	<b>33.8</b>	<b>11.0</b>	<b>44.8</b>

The annual cap on the calculation base for social security equals 48 times the average wage (CZK 1,672,080 in 2020). No cap applies to health insurance.

Employers are obliged to pay their employee's wage compensation from the first to the 14th day of sickness. Statutory sick pay is paid from the 15th day.

## Tax base for self-employed persons

Self-employed persons cannot deduct social security and health insurance contributions from their tax base. Instead of claiming actual expenses, they may apply lump sum deductions 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 from the transfer of real estate are included in an individual's tax base. Gains on assets held for non-business purposes can qualify for a tax exemption if the necessary holding periods have been met.

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

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

# VAT

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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, 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 is subject to 10 percent VAT starting on 1 January 2020. Supplies of drinking water, and water and sewerage services are subject to 10 percent rate starting on 1 May 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).

Input VAT claimed in connection with the purchase of assets (i.e. long-term 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

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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

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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

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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. It is payable by the end of May for the relevant year.

## Tax on the Acquisition of Real Estate

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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 75 percent of the reference value of the property or 75 percent of the value assessed by an expert. The tax payer chooses which value is used for the comparison. Nonetheless, the reference value is calculated based on prices for similar transactions and can therefore only be used for some types of real estate. The tax is payable by the end of the third month after the entry in the land register has been made.

## Gift and Inheritance Taxes

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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

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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

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Treaties with the following countries are in force as at 1 January 2020:

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

# Tax Incentives

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## 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. software centres, data centres, repair centres or shared service centres).

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

- corporate income tax relief (tax holiday) for up to 10 taxable periods;
- cash grant for creation of new jobs\*;
- cash grants for training and staff retraining\*;
- cash grants for the acquisition of tangible and intangible fixed assets for strategic investment action\*;
- transfer of land including related infrastructure at a discounted price\*;
- exemption from real estate tax in preferential industrial zones\*.

*\*aid is intended only for selected regions / locations of investment project.*

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

The incentives legislation was amended in September 2019. The new version is more restrictive than previous legislation. The main goal of the Government is to focus on higher added value investments. In addition, all applications will be subject to government approval, whilst decisions at the Ministry level was sufficient before. An important part of evaluation will be based on the quantification and justification of the expected benefit of the investment project for the region and state which should be documented by the investor.

## 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

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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 calls for the selected programmes are being published on an ongoing basis.

**For more information, please contact us:**

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This card was prepared as a quick-reference tool for the most common tax rates and amounts and represents the status at 1 January 2020.

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