# Tax Card 2017

Tax Services

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KPMG in the 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 |
| • Incorporation expenses | 60 |
| • 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.

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 Switzerland 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 and it is expected that the OECD initiative against tax base erosion (Base Erosion and Profit Shifting or BEPS) will influence future developments in this area.

Transfer prices are one of the priority areas of the Czech tax authorities. Transfer pricing audits have become a regular part of initiated corporate income tax reviews with a focus on the value chain within the group and proof of service charges. In 2015, Czech Tax Authority initiated a nationwide audit. Based on the recent results the total adjustment of the tax base hit nearly CZK 3 billion (in 2014 approximately CZK 0.5 billion).

Taxpayers must file an appendix to the income tax return containing information on transactions with each related party, e.g. transaction types, their volumes and the registered office of each related party. Data from the appendices are used to select tax payers for a tax inspection, in addition to other risk indicators, e.g. long-term losses, transactions with "tax havens", etc.

To minimise any transfer pricing risks, transfer pricing documentation is recommended. Although there is no legal obligation to keep transfer pricing documentation, the tax authorities regularly request it during tax audits. It is also possible to request a unilateral or bilateral advance pricing agreement to further mitigate transfer pricing risks.

### 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).

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

# 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 1,355,136 in 2017) is subject to a 7 percent 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 for any non-Czech employees who are not subject to Czech social security and health insurance is calculated as the gross salary plus a notional amount corresponding to the 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.

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 44,000) per year is 29 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 13,404 |
| • 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 | 0 | 2.3 |
| • Employment insurance fund | 1.2 | 0 | 1.2 |
| Health | 9.0 | 4.5 | 13.5 |
| **Total (%)** | 34.0 | 11.0 | 45.0 |

The annual cap on the calculation base for social security equals 48 times the average wage (CZK 1, 355,136 in 2017). No cap applies to health insurance.

Employers are obliged to pay their employee's salary for the third to the 14th day of an illness. 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. 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 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 acquired before 1 January 2014 are exempt after a holding period of 6 months if the investor's direct participation in the capital or voting rights of the issuer did not exceed 5 percent at any time during the 24-month period preceding the sale. If the conditions are not met, the gains are tax exempt after a holding period of 5 years. Capital gains on securities acquired after 31 December 2013 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;
**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, video-game 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).

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 2017:

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
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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
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 changes, 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 are:**

– income tax relief (tax holiday) for up to 10 years;
– job creation grants of CZK 100,000 - 300,000 in selected regions;
– financial support for employee training in selected regions;
– transfers of land at advantageous prices;
– grants of up to 12.5 percent of the cost of fixed assets relating to an approved investment in the manufacturing and the technology sectors;
– 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 public support can be up to 25 percent of the investment amount in the case of large companies (35 percent for medium-sized and 45 percent for small enterprises). Financial support for employee training is 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.

The EU has introduced new rules on state aid, effective from 1 July 2014, to limit the maximum amount of investment incentives that can be granted.
This does not affect incentives approved before the end of June 2014. An amendment to the Investment Incentives Act came into effect on 1 May 2015.

**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 second round of calls of the new programmes started at the end of 2016. Another calls in selected programmes for large companies are expected to be published in summer 2017.

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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 2017.