



BAKER TILLY  
CZECH REPUBLIC

# TAXCARD 2009

# Corporate Income Tax (CIT)

All companies registered in the Czech Republic are liable for corporate income tax which is payable on worldwide taxable income and capital gains. Permanent establishments and branches of foreign companies are taxable only on income and gains arising in the Czech Republic.

	<b>2009</b>	<b>2010</b>
• <b>CIT rate</b>	<b>20%</b>	<b>19%</b>

CIT rate for investment, mutual and pension funds is 5%.

- **Tax period**

The tax period can be either calendar year or fiscal year (12 successive calendar months).

- **Depreciation**

Category	No. of years of depreciation
1. IT equipment, certain machinery	3*
2. vehicles, office equipment, certain machinery	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 category 1–3 can be increased by 10% or 20% in the first year of depreciation.

Intangible assets acquired after 1 January 2005 (only straight line depreciation is available)

Category	No. of months of depreciation
Audiovisual work	18
Software and R&D results	36
Incorporation expenses	60
Other intangible assets	72

- **Loss utilisation**

Tax losses incurred in taxable periods that commenced in 2004 or later may be carried forward for up to 5 years. Tax losses incurred earlier may be carried forward for up to 7 years.

There is no carry back of tax losses.

There is no tax consolidation.

\* Assets acquired between 1.1. 2009 and 30.6.2010 can be depreciated over 12 months (24 months in case of 2. category).

## • Capital gains

Dividends received by a Czech company or a permanent establishment of an EU resident company from subsidiaries based in the EU or a country with which the Czech Republic has signed a double tax treaty are exempt from tax. Generally at least 10% of the subsidiary should be held for 12 months.

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

## • Thin capitalisation

Tax deductibility of financial costs (i.e. interests on loans from related parties and other related costs such as arrangement fees, commitment fees, etc.) is subject to thin capitalization rules. The permitted debt/equity ratio 4:1 (debt/equity ratio of 6:1 in case of insurance companies and banks) applies to related-party loans.

## • Transfer pricing

Transactions with related parties are subject to specific transfer pricing rules. Transfer prices are required to be justified by extensive documentation. In this respect an advance pricing agreement can be requested from the tax authority.

## • Withholding taxes

### Domestic

Dividends 15% / 0%

### Foreign

Dividends <sup>1</sup> 15% / 0%

Interest <sup>2</sup> 15% / 0%

Royalties <sup>3</sup> 15% (finance lease rentals 5%)

The withholding tax rates may be reduced by double taxation treaties (see the list overleaf). Withholding tax normally becomes payable when the payer of the income accounts for the liability.

<sup>1</sup> Dividends paid to a parent company registered in the Czech Republic or another EU member state are not subject to withholding tax provided that certain conditions are met (i.e. specific legal forms of companies, minimum 10% shareholding, 12-month uninterrupted holding of the shares). The same approach is applied for Czech/Swiss relationships.

<sup>2</sup> From 1 May 2004, interest paid by a Czech resident company or Czech permanent establishment of a company registered in another EU member state to any associated company resident in another EU member state is not subject to withholding tax in the Czech Republic provided that certain conditions are met (e.g. uninterrupted direct share holding for at least 24 months).

<sup>3</sup> The Czech Republic has been granted derogation from the Interest & Royalties Directive in respect of royalties until 1. January 2011.

## Double Taxation Treaties

Czech Republic has signed Avoidance of Double Taxation with 76 countries. All treaties follow the OECD model.

Country	Dividends*	Interest**	Royalties***
Austria	10/0	0	0/5
Belgium	5/15	10	0/10
Cyprus	10	0/10	0/5
France	10	0	0/5
Germany	5/15	0	5
Greece	Local rates	0/10	0/10
Hungary	5/15	0	10
Ireland	5/15	0	10
Italy	15	0	0/5
Latvia	5/15	0/10	10
Lithuania	5/15	0/10	10
Luxembourg	5/15	0	0/10
Malta	5	0	5
Netherlands	0/10	0	5
Poland	5/10	0/10	5
Russia	0	0	10
Slovakia	5/15	0	0/10
Slovenia	5/15	0/5	10
Switzerland	5/15	0	10/5
Ukraine	5/15	5	10
United Kingdom	5/15	0	0/10
USA	5/15	0	0/10

## Personal Income Tax (PIT)

Individuals who are resident in the Czech Republic are subject to tax on their worldwide income. Non-residents in the Czech Republic are subject only for their Czech source income.

**Flat rate            15%        (years 2009, 2010)**

### Personal income tax base

- Employment income
- Self-employment income
- Capital gains income
- Rental income
- Other income

\* The lower rate applies if the recipient is a company that owns at least a certain amount of the capital or a certain amount of the voting shares of the company paying the dividend directly (mostly 25%).

\*\* The lower rate applies mostly in situations when the interest is received by the government or a state-owned institution or it is paid by the government.

\*\*\* The lower rate applies mostly to cultural royalties.

## Employment taxable income

The payroll tax base from which the tax liability is calculated is increased, as it is calculated from the so called “super-gross” salary (salary increased by social security and health insurance contributions paid by the employer). Therefore in case of payroll the effective tax rate is 20.1%.

### Tax free benefits

- Housing provided by the employer in case of relocation up to CZK 3,500 per month
- Pension and life insurance premiums up to CZK 24,000 annually
- Recreation, tours up to CZK 20,000 annually
- Lunch, lunch tickets
- Beverages consumed at workplace
- Education
- Language courses
- Non-monetary gifts up to CZK 2,000 annually

### Taxable benefits

- Housing provided by the employer in case of relocation above CZK 3,500 per month
- Company car - 1% of the purchase price of the company car per month
- Per diems above statutory limit
- Private life and pension insurance paid by an employer above CZK 24,000 annually
- Recreation, tours above CZK 20,000 annually
- Medical care
- Monetary gifts
- Non-monetary gifts above CZK 2,000 annually

### Personal annual tax allowances/reliefs

#### *Tax base allowances*

- Gifts up to 10% of the tax base (minimum of 2% of the tax base or CZK 1,000)
- Paid housing interests up to CZK 300,000 per year
- Pension premium with state contribution up to CZK 12,000 (subject to certain conditions)
- Life insurance premium up to CZK 12,000 (subject to certain conditions)
- Paid labour union contributions up to 1,5% of employment income, maximum of CZK 3,000 annually
- Special exam fees up to CZK 10,000 annually

## Tax reliefs

• Basic relief	CZK 24,840
• Child relief	CZK 10,680
• Spouse relief	CZK 24,840
• Partially disabled people relief	CZK 2,520
• Fully disabled people relief	CZK 5,040
• Seriously disabled people relief	CZK 16,140
• Student relief up to age of 28 years	CZK 4,020

## Travel expenses reimbursed to employee

Daily per-diems up to CZK 172 for business trip within the Czech Republic and between EUR 35 – 55 in foreign countries. (e.g. Austria EUR 45, France EUR 45, Germany EUR 45, Great Britain GBP 40, Poland EUR 35, Russia EUR 45, Slovakia EUR 30, USA USD 50)

Reimbursement for use of employee's private car	CZK 3.30 per km
Reimbursement for fuel consumption	CZK 26.30 – CZK 29.00 per one litre of fuel or actual expenses

## Social and health insurance

Fund	Employee %	Employer %
Pension scheme	6.5	21.5
Sickness and other sick benefits		2.3
Unemployment insurance		1.2
Health insurance	4.5	9.0
<b>Total</b>	<b>11.0</b>	<b>34</b>

There is an annual cap on social and health insurance contributions equal to 48-times the average national salary (CZK 1,340,640 in the year 2009).

Employers are obliged to pay salary compensation to employees for the first 14 days of illness. Statutory sick pay is paid from the 15th day onwards.

## VAT

Standard rate	19%
Reduced rate	9%

Registration level - taxable turnover in 12 proceeding consecutive months exceeded CZK 1,000,000

De-registration level - taxable turnover in 12 proceeding consecutive months has not exceeded CZK 1,000,000

## Other Taxes

### Excise duties

are payable on hydrocarbon fuels and lubricants, spirits, wine, beer and tobacco products.

### Energy Taxes

are levied on supplies of electricity, natural and other gases, and solid fuels.

### Real Estate Transfer Tax

of 3% is levied on the sale or transfer of real estate.

### Real Estate Tax

is payable by the legal owner of land or building located in the Czech Republic.

Road Tax applies for vehicles used for commercial purposes. In case of passenger cars the tax liability is based on the vehicle's engine capacity and ranges from CZK 1,200 to CZK 4,200 annually. For semi-trailers and other vehicles such as trucks and trailers the tax liability is based on combination of the maximum permitted weight and the number of axles, and ranges from CZK 1,800 to CZK 50,400 annually.

### Inheritance Tax and Gift Tax

Inheritances and gifts from the closest family members are free from taxation. For other individuals and legal entities the tax is levied on a scale of progressive tax rate ranging from 3.5% to 20%, depending on the value of inherited or donated property. In case of the gift tax, normally the recipient is the taxpayer, unless the gift is donated abroad, in which case the donor is the taxpayer.

## Statutory deadlines for filing tax returns

### Corporate income tax

by the end of the third month after the end of taxable period (taxable period is either calendar year or fiscal year-12 consecutive months)

### Personal income tax

by 31. March of the following calendar year (taxable period is calendar year)

If corporate or personal income tax return is submitted by registered tax adviser the statutory deadline is prolonged by another three months.

### VAT

monthly quarterly (up to annual turnover of CZK 10,000,000)

## Tax Fines and Penalties

Penalty representing one-off fine of:

- 20% if the originally declared tax is increased or the tax deduction decreased
- 5% if the originally declared tax loss is decreased

Default Interest for tax late payment

15.5%\*

\* subject to change during the year



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