

Setting up your Business in Czech Republic

Issues to consider



Located at the crossroads of Europe, the Czech Republic is a nation of vast cultural and historical heritage as well as inspiring natural beauty. Its economic performance has ensured its successful entry into the European Union and established it as an important economic player in the increasingly globalized world.

However there are a number of issues which you must consider when you are looking to set up your business in the Czech Republic. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

After many years of preparation the civil and commercial law has been changed significantly on January 1st 2014 when the new Civil Code (no. 89/2012 Coll.) and the new Business Corporations Act (law no. 90/2012 Coll., on trading companies and co-operatives) have come into force.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Joint stock company

- It is established by articles of association by one or more shareholders (whether individuals or legal entities). The articles of association must be executed in the form of a notarial deed.
- A joint-stock company can issue registered shares in the form of either certificated or book-entered shares.
- After January 1st, 2014 the bearer certificated shares are no longer allowed
- The minimum share capital requirement is CZK 2 million for companies set up without public offer for share subscription (or EUR 74 000 for companies which are allowed by a special law to keep their accounts in EUR). At least 30 percent of the registered capital must be paid up before the application for the registration of the company in the Commercial Register is filed.
- Two systems of corporate governance are available for the joint-stock companies. The articles of association shall state which system has the company opted for. In the dualistic system the company has a board of directors (the statutory body) and the supervisory board (the controlling body). Members of the board of directors are elected and removed by the general meeting (or by the supervisory board if the articles of association so stipulate). The board of directors decides on all matters that are not reserved for the general meeting or the supervisory board. The supervisory board oversees the activities of the board of directors and operations of the company. It is not possible for one person to hold a position both in the board of directors and the supervisory board.

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- In a monistic system the company's statutory body is represented in the function of the managing director and the supervision role is left for the administrative board. However the number of members of the administrative board might be changed by the articles of association and the managing director can be a member of this board.
- Czech term for joint stock company is "akciová společnost" and the abbreviation "a.s." is used.

Limited Liability Company

- Limited Liability Company may be established either by means of (i) a founder's deed by one entity (either an individual or a legal entity) or (ii) a memorandum of association concluded by several entities or individuals. Founder's deed or memorandum of association must be executed in the form of a notarial deed and it also stipulates whether or not the company will issue the articles of association.
- The registered capital of a company is made of the shareholders' contributions. The minimum contribution of each shareholder to the registered capital is CZK 1. Non-monetary contributions are allowed and must be fully settled before the company's registration in the Commercial Register. At least 30% of subscribed monetary contributions must be paid up before the registration of the company into the Commercial Register.
- A limited liability company with a sole shareholder may not be the sole founder or sole shareholder of another limited liability company. This restriction applies to foreign-held limited liability companies and their shareholders as well. The registered capital of a sole-member company must be fully paid before registration into the Commercial Register.
- Czech term for limited liability company is "společnost s ručením omezeným" and abbreviations "s.r.o." or "spol. s r.o." are used.

Other types of business entities

- Branch office
- General commercial partnership
- Limited commercial partnership
- Cooperative
- European Company (Societas Europaea)
- European Economic Interest Grouping
- European cooperative company

How much Corporation Tax will the business pay?

Current Income Tax rates for Corporations:

Standard rate 19%

Investment, pension and collective investment funds 5%

Investment income received from abroad by Czech companies 15%

Dividends distributed to non-residents 15%*

*) rate also depends on contracts for the avoidance of double taxation

N.B.: rates are for the tax year to 31/12/2016

For dividends a special income tax rate of 15% shall apply to individual or legal entity. The income of parent company from its subsidiaries is exempted (with condition of holding at least 10 percent of the share capital for a period of at least 12 months). There are no changes in tax rates expected in the near future.

What if we use Czech Republic to set up our holding company?

The Czech Republic is a very attractive place for setting up a holding structure. As mentioned above, income (revenue) of the parent company in respect of the payment of dividends, or dividends (subject to the above conditions) are exempt from income tax and meeting the condition of tenure for a minimum of 12 months has an retroactive effect. Also income (revenue) from the sale of shares of a subsidiary is exempt from income tax under similar conditions.

The Czech Republic is the ideal location to receive profit shares of subsidiaries or for the sale of shares in these companies.

What if we make cross-border transactions between group companies?

International transfer pricing rules apply in the Czech Republic, especially rules based on the OECD guidelines (Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations). The price and terms shall be the same as if the transactions had been completely independent between parties.

However, the great advantage, in the Czech Republic is the fact that it is not necessary to process documents for transfer prices for every transaction. The only legal obligation is that the prices between these subjects are at the market rate. Consequently it is the company's obligation to prove market rate conditions and prices. For significant transactions we recommend the preparation of transfer pricing documentation.

What Employment Taxes and Social Security will need to be paid?

Health and social insurance is regulated by European Parliament and Council Regulation (EC) No. 883/2004 and Regulation of the European Parliament and Council Regulation No. 987/2009 similarly to the other EU member states.

We would advise any new entrant to the Czech Republic or person who spends time working in the Czech Republic to take professional advice to determine whether they are the Czech tax or insurance resident.

Current personal income tax rates in the Czech Republic

Band of income (EUR)	Tax rate
0 – 46 000	15%
Over 46 000	22%*

*(15% + 7% solidarity tax surcharge)
N.B.: rates are for the tax year to 31/12/2016

The tax base for personal income tax is increased by premiums paid by employers, which means income multiplied by a factor 1.34 (effective tax rate is 20.1%). The resulting tax is then reduced by the tax payer deduction (920 EUR / year) and other deductions (such as tax allowances for child).

Apart from the income tax, the social security contributions are also mandatory for both employers and employees. These consist of two parts: the social and the health insurance.

Current Social Security rates

Band of income (EUR)	Social insurance	Health insurance
Employer Up to 46 000	25%	9%
Over 46 000	0%	9%
Employee Up to 46 000	6.5%	4.5%
Over 46 000	0%	4.5%

N.B.: rates are for the tax year to 31/12/2016

It is the employer's legal responsibility to carry out both income tax and social security deductions for its employees. The Czech Republic has a Reciprocal Agreement with the USA, EU member countries and many others whereby when a national of those countries is seconded to the Czech Republic for a defined period of time and continues to pay social security in their home country, then the employer and employee are exempt from paying Czech social security.

What is Value Added Tax (VAT) and should the business be registered?

VAT is a “goods and services tax” on supplies made, the standard rate of which is 21% (or 15% on specified services and goods, i.e. food and the second lowered rate at 10%). If a business makes taxable supplies in excess of EUR 37 000 in any 12 months then it must be registered for VAT. Registration for VAT is mandatory for any business with taxable supplies in excess of one million CZK (approx. EUR 37 000) in any 12 months.

For foreign companies additional rules apply and the registration might be mandatory immediately with the first transaction. Please consult a tax professional for assessment of the legal obligations.

There are three types of supply

- Taxable – must charge VAT on supplies, can reclaim input VAT
- Exempt – must not charge VAT, cannot reclaim input VAT
- Outside the scope – not in the Czech VAT system

The supply of most types of goods and services in the Czech Republic would be classed as taxable supplies. However when these supplies are made to companies which are outside of the Czech Republic advice shall be sought as to what rate of VAT, if any, to apply.

If a Czech entity sells goods or provides services to a parent entity registered outside EU then there is no VAT chargeable on this overseas supply, however on the basis that the supply would be subject to VAT if made in the Czech Republic then the entity will be able to reclaim all its input VAT.

Can we provide share option plans to our staff?

Many companies see share option plans as being an important way of attracting, motivating and retaining key staff. However, in most cases it is considered a taxable income of employee and as such it is a subject of income tax as well as health and social insurance. It is however possible for employer to provide this benefit.

How else can we compensate our employees?

The Czech Republic has a very comprehensive range of compensation and benefit options available for companies to offer their employees. Some of these benefits are exempt from income tax.

Pensions, life insurance and allowance for meal are currently commonplace benefits provided by many Czech businesses to their workforce. Other options include contributions for leisure activities, extra vacation days or interest-free loans (all in compliance with statutory requirements).

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To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or [email](#) us directly.

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The information in this document was prepared as at 1st January 2016.

All figures stated in EUR are approximate conversions from CZK.