

CZECH REPUBLIC BUSINESS GUIDE



2024



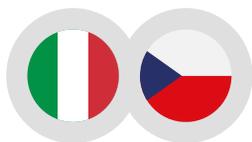
Consiglio Nazionale
dei Dottori Commercialisti
e degli Esperti Contabili



**Fondazione
Nazionale dei
Commercialisti**

RICERCA

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**Fondazione
Nazionale dei
Commercialisti**
—
RICERCA

Dear Colleague,

The exercise of our profession generates for our numerous interlocutors, but also for us, expectations of benefits, efficiency and the sharing of results with respect to a set objective, and the overlapping between the different legislations in which we find ourselves operating calls us to be – as always – capable of giving precise and timely answers. I am confident that this publication and the mission, set to depart while these pages are being printed, will again provide concrete and necessary help to numerous colleagues.

The challenge of internationalization is met through the awareness that sustainability, profitability and social responsibility cannot not be separated from the knowledge of social realities and economic contexts different from ours. We have been experiencing in recent years challenges and dangers that we had never previously imagined, in times of serious crises in Eastern Europe and the Middle East, which have once more highlighted the interdependence of markets.

Enterprises are inevitably involved in international trade processes that range from the simple supply of goods and services to carrying out a complete delocalisation of an entire production process. Moreover, services can today be provided in a remote and innovative way, with technologies that amaze or scare us at the same time and which we clearly have to be able to manage.

In this scenario, in the same way as other financial operators and professionals, we have to develop specific capabilities and skills that allow us to be key players in supporting the entrepreneur who wishes to venture into new markets, with appropriate financial and strategic choices, and know how to manage the competitiveness that these markets demand.

At an institutional level, the National Council has taken action in different directions. On the one hand, it is working on planning specific collaboration projects between the professional, academic and institutional worlds, and on the other hand, continues, through specially established associations, to promote training programmes and missions in countries in which it has identified economic potential.

Our intention is to consolidate, also through these initiatives, a more up-to-date interpretation of the figure of the “Commercialista”, especially in his/her function as a business consultant, essential for understanding in advance the risks associated with the extraordinary speed with which geopolitical, social and economic phenomena follow one another nowadays.

This edition sees the light of day just before the start of a new institutional mission to the Czech Republic to reiterate the concrete commitment of the CNDCEC with regards to internationalisation, to promote and reinforce the acquisition of skills and practical experience, tangibly useful, and I would even say indispensable, for supporting our customers today.

Elbano de Nuccio

*Presidente del Consiglio Nazionale
dei Dottori Commercialisti
e degli Esperti Contabili*

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Presentation

Dear Colleagues,

I am pleased to announce that also for this mission to the Czech Republic, we have prepared a special “guide to business and opportunities”, drawn up by the work group that AICEC set up with the support of members of the commissions of the National Council of Chartered Accountants and Accounting Experts and especially with the valuable contribution of our colleague, Luca Savino.

We have often emphasised the importance of having an understanding of the regulations that characterise commercial transactions, production facilities, accounting and tax obligations, commercial practices in use and all those aspects which are essential to know in order to deal successfully with a foreign country and which we, as business consultants, need to be familiar with in order to support our client companies in the best possible way.

The Czech Republic is certainly a particularly interesting economic area in the heart of our Europe, also for its geographical location and, as pointed out by the Italian Ambassador in Prague, S.E. Mauro Marsili, Italy has been able to establish first-rate economic, commercial, political and cultural relations with it.

In a historical phase like the one we’re living through at the moment, in which, on the one hand, there is the need to relocate supply chains and various trade links from a geopolitically different perspective and, on the other hand, relations between European countries are taking on particular importance and it’s becoming increasingly advantageous to know their particular aspects in order to strengthening ties, it seemed to us appropriate to choose the Czech Republic as the destination of our “brief” mission, and we have considered it equally appropriate to outline its characteristics through this short but, I hope, comprehensive guide.

In wishing you an enjoyable read, I express my most sincere thanks.

Giovanni Gerardo Parente

Presidente Associazione Internazionalizzazione

Commercialisti ed Esperti Contabili

1. Country presentation

1.1. The history of the Czech Republic

The Czech Republic, situated in the heart of Europe, has a rich and complex history that reflects its deep roots and the evolution of the continent itself. This country, with its capital, Prague, has experienced a wide range of historical events that have shaped its national identity and economic development.

Its history begins in the Middle Ages with the formation of the Kingdom of Bohemia in the 10th century, a powerful state under the Premislidi dynasty. This period was characterised by significant economic, cultural and political development, with Prague as one of the most influential centres in central Europe. From 1526, the Czech lands became part of the Hapsburg Empire, marking a period of foreign domination that profoundly shaped the region, influencing the economy and society. The Thirty Years' War (1618-1648), with its epicentre in Prague, devastated the country, leading to a drastic reduction in the population and economic decline.

In the 20th century, after the fall of the Austro-Hungarian Empire and thanks to a national political and cultural reawakening, Czechoslovakia was created in 1918, marking the dawn of a new era of independence. The Second World War and the establishment of a satellite communist regime of the Soviet Union after the coup-d'état in 1948, had a deep effect on the economy, with the nationalisation of industries and the collectivisation of agriculture, which limited the country's economic potential.

A turning point came in 1989 with the Velvet Revolution, which marked the end of communism in Czechoslovakia and the introduction of democracy and a market economy. The 1990s was a period of intense transformation, characterised by economic reforms, privatisations and opening up to the global economy.

In 1993, Czechoslovakia divided peacefully into the Czech Republic and Slovakia. Entry into the European Union in 2004 marked a step forward for the Czech territory, strengthening its position as one of the most stable and prosperous of central Europe. Membership of the EU has not only consolidated its economic growth, but has also offered new opportunities for trade and investment.

Today the Czech Republic is a nation with an advanced economy, characterised by a robust industrial sector, a prosperous services sector and an emerging technological sector. Its strategic position, combined with a qualified workforce and policies favourable

to investment, continues to attract international interest, placing the country on a trajectory of growth and innovation.

1.2. The political system

The Czech Republic is a multi-party parliamentary republic. The Head of State is elected with a mandate of 5 years by Parliament in joint session.

The powers of the President of the Republic consist essentially in the appointment of judges of the Constitutional Court, in the power to dissolve Parliament in certain circumstances, veto laws passed by Parliament, appoint the Prime Minister on basis of the political elections and, upon proposal of the latter, appoints the other members of the Government. From March 2023, the office has been held by Petr Pavel (Planá, 1 November 1961), currently in his first mandate.

Parliament has a bicameral structure: the lower Chamber of Representatives (Poslanecká sněmovna) and the higher Chamber, that is, the Senate (Senát).

The lower Chamber is composed of 200 representatives elected for 4 years with a proportional system based on subdivision into fourteen constituencies with a threshold of 5% of valid votes.

The higher Chamber, the Senate, is composed of 81 senators, elected with a double-round single-member majority system: the first round requires an absolute majority, the second requires a simple majority between the first two candidates. The Senate is renewed every two years with respect to one third of its members.

Executive power is exercised by the Prime Minister, who guides domestic and foreign policy. The Government, after being appointed by the President of the Republic, must receive a vote of confidence by Parliament. Petr Fiala, born on 1 September 1964 in Brno, has been Prime Minister since 17 December 2021. In the context of parliamentary republics, his mandate, as well as that of his government, does not have fixed a term. Their duration in office depends solely on the confidence granted by Parliament.

At the top of the country's judicial system there is the Supreme Court and the Superior Administrative Tribunal.

Finally, there is the Constitutional Court, guarantor of the Constitution, composed of 15 members appointed by the President of the Republic, who remain in office for a period of 10 years, not renewable.

1.3. The legal system

The Czech Republic follows the civil law legal system, known also as the continental system, characterised by the adoption of codes that compile and systematize legal rules. This approach differs from the common law system, which is primarily based on the jurisprudence and decisions previously issued by the courts. Rooted in the traditions of continental European law, the Czech legal system has undergone significant transformations, especially following the peaceful division of Czechoslovakia. With membership of the European Union on 1 May 2004, it embarked on a process of continuous evolution to comply with European standards and regulations.

Laws are promulgated by Parliament with a single bicameral approval process. The body of Czech legislation extends beyond codes, regulating various aspects of social, economic and personal life, including the civil code, the penal code, and codes of civil and criminal procedure. Although founded on principles of legality, which requires a legislative foundation for every legal act, rulings issued by higher courts, such as the Supreme Court and the Supreme Administrative Court, exert a significant influence on the interpretation of laws, acting as interpretive guides.

Centrally organised around a series of codes that regulate various areas of law, including civil, commercial, criminal and administrative law, the Czech legal system offers a codified structure for managing national legal matters. The Constitution of the Czech Republic, adopted in 1992, is the fundamental legislation of the country, outlining the state organization, the rights and freedoms of citizens, as well as the separation of powers between legislative, executive and judicial bodies.

For an analysis of the fundamental provisions governing entrepreneurial activity and relationships between entrepreneurial entities in the Czech Republic, reference needs to be made to the new Civil Code – Law 89/2012 (“občanský zákoník”) and to Law no. 90 of 25 January 2012 on Companies and Cooperatives (“zákon o obchodních společnostech a družstvech”), both coming into force from 1st January 2014. The new Civil Code, with which the 1991 Commercial Code was repealed, is composed of 3081 paragraphs and is divided into five parts: general provisions, family law, inheritance law, real estate law and obligations.

The creation of the new Code marked a substantial transformation of Czech private law, aiming at modernizing and harmonizing the legal system with European and international standards. This legislative reform has led to a unified codification of civil and commercial regulations, ensuring a more modern and flexible approach, while respecting the boundaries imposed by law. The strengthening of the protection of personal rights, property, human dignity and privacy has been a key element, reflecting the commitment

to adapt to the principles and regulations of European law. These changes have brought Czech private law more in line with the needs of a contemporary society and an open market economy.

The legal system, autonomous in its structure, is organised into a number of levels, including district and regional courts, of first and second instance respectively, as well as the Supreme Court, the Administrative Supreme Court and the Constitutional Court. This organisation guarantees the right to judicial review and to appeal against judicial decisions, consolidating the integrity and effectiveness of the national legal system.

Alongside the three levels of judgment of the classic legal process, there are two bodies designed to facilitate the resolution of disputes within their areas of competence: the Arbitration Tribunal, mainly aimed at disputes between entrepreneurs, and the Financial Arbitrator, to protect consumers.

1.3.1. Land registry law

The “Katastr nemovitostí” (Land Registry) in the Czech Republic is a legacy of the administrative and legal systems developed during the Austro-Hungarian Empire, which dominated the region until the end of the First World War in 1918. These land registry systems were very advanced for the time and aimed at guaranteeing the legal security of real estate ownership and transparency in transactions. The creation of the Land Registry in its modern form can be traced back to the codification of real estate registration laws and procedures that evolved during the 19th century within the Empire. These reforms were motivated by the need for a clear and reliable system for registering land ownership and other real rights over real estate, facilitating economic development and legal stability.

After the dissolution of the Austro-Hungarian Empire and the creation of Czechoslovakia in 1918, the new state adopted and adapted the existing administrative structures, including the land registry systems, according to its needs. Despite subsequent political and administrative transformations, the principle of a public register for real estate ownership has remained a constant in the management of real estate rights in the territory that is today the Czech Republic. The land registry system was maintained during the communist period (1948-1989), albeit with modifications that reflected the ideology and politics of that regime, particularly regarding the property of the state and centralised planning. After the velvet revolution in 1989 and the subsequent transition of the Czech Republic towards a market economy and the democratic rule of law, the land Registry system has been further developed to align with European and international standards, guaranteeing the security of real estate transactions and the protection of property rights. With Law no. 120/2000 Coll., the digitalisation of the land registry in digital form was introduced to facilitate remote access to data by the general public.

Managed by the Land Registry Office, this public register provides important information on every property in the territory, such as position, detailed description of the terrain, identity of the owner, and the presence of any encumbrances, such as mortgages and surface rights. Public access to this information ensures that the registered data have legal force, establishing clarity and security in the Czech real estate area. Law n. 256/2013 Coll. introduced further reforms, establishing that the land registry function as a public registry of land, buildings, and other real and immovable rights. This law precisely defined registrable rights, the cadastral data required for registration, and set out the order of inscription of rights, establishing that the legal effects start from the submission of the registration application. To be legally recognised and enforceable against third parties, every real estate transaction must be duly registered in the land registry, guaranteeing its validity. To insert new real state rights or modify those existing in the register, it's necessary to submit an application to the Land Registry Office, accompanied by required documentation that justifies its validity, such as a sales contract. The office proceeds with the registration after a careful assessment of the application on the basis of the laws in force. This registration process is important for maintaining the integrity and reliability of the register, ensuring that all the information accurately reflects the legal situation of the registered real estate so as to guarantee greater stability in the country's real estate market.

1.3.2. The Court of Arbitration

The Court of Arbitration in the Chamber of Commerce and the Agricultural Chamber of the Czech Republic offers a rapid and effective arbitration procedure to settle both national and international property disputes, excluding disputes relating to bankruptcies, creditors' recovery actions and foreclosures. The process is appreciated for its rapidity, confidentiality, the choice of arbitrators, and the possibility of a non-public and informal procedure. The arbitration clause, necessary in contracts to access this type of judgement, ensures that disputes are definitely resolved by any odd number of arbitrators chosen by the parties or appointed the President of the court. The final arbitration verdict has the same value as a sentence of an ordinary court, and is, therefore, legally enforceable. Compared to ordinary courts, however, arbitration verdicts have the great advantage of wide applicability worldwide. According to the New York Convention, which allows for the recognition and enforcement of arbitration verdicts in all the states that have ratified this treaty, it's possible to apply the arbitration verdict in 144 states in the world.

Fees vary according to the procedures chosen, with proceedings that generally last from a few weeks to a few months to reach a final sentence, which can also be requested

in paper form. The Tribunal operates, in fact, primarily online, significantly simplifying procedures and reducing dispute resolution times.

1.3.3. The Financial Arbitrator

The financial arbitrator is an extrajudicial body established by the Czech State to resolve certain disputes in the financial market. Starting from 1 February 2016, the financial arbitrator has acquired the competence to decide in cases otherwise pertaining to the Czech courts, if the dispute relates to a consumer and various parties, such as the suppliers of payment services, issuers of electronic money, creditors or consumer credit intermediaries, insurers, investment fund managers, and others.

The procedure before the financial arbitrator is free; there are no costs for initiating proceedings, and each party is responsible for their own costs, including the optional costs of legal representation. The application to initiate the procedure can be submitted in written or electronic form, and must include identification of the parties, proof of unsuccessful attempts to resolve the dispute with the financial entity, detailed description of the facts and claims, and a declaration that the applicant has not initiated a similar procedure with other courts or arbitrators.

The duration of the procedure depends on the complexity of the case and on the collaboration of the parties. Only consumers can initiate the procedure, and after receiving the application, the arbitrator invites the financial entity to express itself and provide relevant documents. The arbitrator can extend the terms for the submission of documents and, after having collected all the necessary documents, both parties are invited to examine them. Where possible, an amicable settlement is sought. Appeal against the decision can be made to the competent court, which will act independently of the arbitration decision.

1.4. The economic system

1.4.1. GDP

The economy of the Czech Republic has gone through various phases in the last few years, influenced by internal factors and global events such as the COVID-19 pandemic, the supply chain crisis and the energy crisis.

Production and turnover 2023

		July	August	September	October	November	December
Growth of industrial production	%y/y	-3.3%	-2.2%	-4.7%	+1.2%	-2.8%	-0.5%
Growth of the building industry	%y/y	-0.1%	-2%	+0.3%	-0.2%	-5.1%	-3.4%
Growth of retail sales	%y/y	-2.1%	-2.8%	-4.3%	-1.6%	+0.1%	+1.2%

Data source: Trading Economics (<https://tradingeconomics.com>)

Consumer price index and inflationary index 2023

		July	August	September	October	November	December
Consumer price index (CPI)	y/y	0.7	0.3	-1.1	0.1	0.1	-0.6
	m/m	0.3	0.5	0.2	-0.7	0.1	0.1

Data source: Trading Economics (<https://tradingeconomics.com>)

Foreign trade 2022 and 2023

		2022	2023
Exports	USD (m.)	241,689.13	253,327.52
Export trend y/y	%	+6.39	4.81
Imports	USD (m.)	236,320.01	228,913.30
Import trend y/y	%	+11.21	-3.13
Balance of payments	USD (m.)	5,369.12	24,414.22

Data source: Trend Economy (<https://trendeconomy.com/>)

Nominal and real gross monthly salary

		2022	2023
Gross monthly salary	Kč	38,444	41,282
	Nominal salary index	106	107.55
	Real salary index	94	96.15

Data source: Czech Statistics Institute (https://www.czso.cz/csu/czso/prace_a_mzdy_prace)

Unemployment in 2024

		January	February
Unemployment	%	4	4
	Number of people	295,546	269,107

Data source: Trading Economics (<https://it.tradingeconomics.com/czech-republic>)

Macroeconomic data

	2020	2021	2022	2023
Annual growth/fall of GDP (% , constant 2015 prices)	-5.5	3.6	2.4	-0.4
Average annual inflation (%)	3.2	3.8	15.1	10.7
Annual growth/fall of real wages (%)	1.4	1.8	-8.5	-4.2
General unemployment rate (%)	2.6	2.8	2.2	2.7
Average CZK/EUR exchange rate	26.44	25.65	45.57	24.01
Current account balance of payments compared to GDP (%)	2.0	-2.8	-6.1	0.2

Data source: Czech Statistics Institute (https://www.czso.cz/csu/czso/hmu_cr)

1.4.2. Economic activity and market trend

In 2023, the economy of the Czech Republic faced difficult conditions, marking a year of challenges and adjustments. According to the OECD (Organization for Economic Cooperation and Development), the country's GDP recorded a modest growth of 0.3%, a slowdown compared to previous years, influenced by high energy prices, restrictive financial conditions and a general feeling of uncertainty. This modest growth phase is expected to improve in 2024, with a forecast GDP growth of 2.4%, supported by an increase in real salaries and a drop in inflation, which should approach the target of 2% only towards the end of 2024.

Inflation reached levels not seen for almost thirty years, with a rate of 12.7% at the beginning of 2023, underlining the urgent need for restrictive macroeconomic policies in order to control inflation expectations. The European Commission reported a real contraction of GDP of 0.4% in 2023, with private consumption exerting significant downward pressure on GDP due to the high inflation, which eroded consumer confidence and real purchasing power. Net exports could have a lower effect than internal demand compared to 2022 and 2023, in the context of the expected GDP increase. This is because it is expected that the strengthening of external demand, particularly in the automobile sector, will not keep pace with the increase in imports, stimulated by internal demand. The high propensity for foreign trade and the significant energy dependence of the Czech economy could be factors of risk in the event of potential interruptions in the global supplies of raw materials or in the energy procurement chain; at present, however, forecasts assume that there will not be significant procurement problems.

Despite these challenges, investment continues to grow, benefitting from an increase in public investments supported by EU funds and investments in equipment.

Looking towards the future, GDP is expected to gradually recover, with an estimated growth of 1.1% in 2024 and 2.8% in 2025, supported by a high household savings rate in the last few years, an expected fall in inflation and an increase in real wages, besides a further change in financing conditions. To this end, between June 2021 and June 2022, the Czech National Bank (CNB) increased the official interest rate from 0.25% to 7%, then reduced it to 6.25% in 2024. This move is interpreted as a signal of a more accommodating approach on the part of the central bank, in a context of falling inflation and a need to support the recovering economy.

1.4.3. Tourism

In the heart of Europe, the Czech Republic, and in particular, its capital Prague, is confirmed, year after year, as one of the most visited tourist destinations in the continent. With its rich history and architecture, Prague attracts visitors from all over the world, acting as a catalyst for the national economy through tourism. Tourism is a vital element of the Czech economy, contributing significantly to the national GDP. The revenues generated from tourists not only support the hotel and catering sector, but also benefit the retail sector, transport services and cultural activities.

Although in 2022 there was a reduction in tourism, in 2023 the performance of the Czech Republic is positive, aligning once more with pre-pandemic numbers. The country welcomed over 22 million tourists (13.5% up against 2022) of which 43.3% foreign, that is, around 10 million, and 12.5 million Czech holidaymakers. Most of the visitors stayed in hotels; the number of arrivals in these structures, in fact, increased by 10.3% on an annual basis, with 3.8 million guests. Boarding houses have also recorded an increase in the number of guests on an annual basis of 1.6%. On the other hand, the number of guests in campsites and holiday homes fell, by respectively 7.9% and 14.6%.

In a comparison between regions, tourism increased throughout the Czech Republic, but the leading city remains Prague. The Czech Statistics Office (CSZO) has reported that in the first quarter of 2023 there were 3.8 million visitors to the capital. In the last quarter of 2023, the Czech Republic saw the arrival of a large number of international visitors, with Germany confirmed as the main country of origin of tourists. Around 24% of foreign visitors come from Germany, with over 542,000 Germans visiting the country, marking an increase of 6.3% compared to the previous year. Slovakia is in second place, with 203,000 visitors and an increase of 5.9%, while the United Kingdom is in third place with 135,000 visitors, recording a remarkable increase of 38.8%. Over 40% of foreign tourists come from surrounding countries. Analysing the origin of foreign visitors, there is a predominance from nearby countries such as Germany, Slovakia and Poland, and there is also a significant presence of Italian tourists, who are in sixth place after the United

States and the United Kingdom. In 2023, 390,000 people came to the Czech Republic from Italy, an increase of 55% with respect to the previous year. Peaks of visitors were recorded: in spring, with the recovery of school tourism; during the summer, when the levels of 2019 were exceeded and Italian explored areas beyond Prague (which, in any case, remains the preferred destination of 80% of visitors); and in December, with a record of 150,000 Italian overnight stays during the Christmas period.

1.5. The banking system

The banking system of the Czech Republic stands out for modernity, efficiency and a strong integration in the European and global financial landscape. Thanks to the presence of a wide variety of banking institutes, both national and international, the system offers a vast range of financial services, guaranteeing competitiveness and innovation. The regulation and supervision of this system are largely assigned to two bodies: the Czech National Bank (Česká národní banka - CNB) and the Czech Banking Association (Česká bankovní asociace - ČBA). The CNB, as a central bank, carries out functions such as monetary policy, financial supervision, the issuance of currency and the maintenance of price stability, ensuring that financial entities comply with rigorous prudential standards. The Banking Association, on the other hand, represents the interests of the sector, promoting professional standards, ethical and sustainable practices, besides playing a role of informing the public.

Another point of strength is technological innovation: Czech banks are pioneers in the adoption of digital solutions such as online and mobile banking, electronic payments and other digital financial services, responding effectively to the growing demand for accessible and convenient services. Financial stability also forms part of the cornerstones of the system, with the CNB that imposes rigorous prudent measures, including adequate capital requirements and risk management plans, to prevent financial crises and maintain confidence in the system high. This well-regulated structure ensures that the banking system not only responds effectively to current needs, but is also well-positioned to face future challenges.

The Czech Republic's financial sector is mature and sophisticated, with a vast range of banking, insurance and financial services that serve both the domestic and international market. The Czech financial institutions are well integrated in the European financial system, offering stability and reliability.

Here in detail are the main banking institutions operating in the country:

ABN Amro Bank N.V.	J & T Banka
AirBank	Komerční banka
Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. Prague Branch	LBBW Bank
Calyon S.A.	mBank
Citibank	Oberbank
Commerzbank Aktiengesellschaft	Poštovní spořitelna
Česká Exportní Banka	PPF banka
Českomoravská záruční a rozvojová banka	Privat Bank AG der Raiffeisenlandesbank Oberösterreich
Deutsche Bank Aktiengesellschaft Filiale Prag	Raiffeisenbank
FioBanca	Raiffeisenbank im Stiftland eG
Fortis Bank SA/NV	Trinity bank
Ge Money Bank	UniCredit Bank
HSBC Bank	Všeobecná úvěrová banka-Intesa San Paolo
ING Bank N.V.	Waldviertler Sparkasse von 1842

1.6. The flag and the currency

1.6.1. The flag

The Czech Republic's flag, adopted officially on 1 January 1993 after the division of Czechoslovakia, has a distinctive design with two horizontal bands of white (upper) and red (lower), united by a blue isosceles triangle running from the flagpole to the centre of the flag. This composition symbolises the unity, independence and aspirations of the Czech people for freedom and national sovereignty. The white and red colours derive from the ancient coat of arms of Bohemia (silver lion on a red background) and also symbolizes Moravia, while the blue represents Slovakia and the pan-Slavic colours, underlining the cultural heritage shared with other Slavic nations. The addition of the blue triangle serves to distinguish the Czech flag from the Bohemian one, as well as those of other Slavic nations, highlighting the cultural wealth and innovative spirit of the Czech Republic.

1.6.2. The currency

The currency currently in force in the Czech Republic is the Czech crown (Crown česká), with the symbol Kč and ISO code CZK. The currency was introduced in 1993 following the peaceful division of Czechoslovakia into two sovereign states.

The decision to maintain the Czech Crown, despite discussions regarding the adoption of the euro, reflects the desire to preserve a certain monetary autonomy and has led to the indefinite postponement of entry into the Euro Area. Over the years, the Czech

Crown has undergone various phases of inflation and stabilisation, heavily influencing the national economy. The Czech national Bank has the task of managing the country's monetary policy, with the objective of maintaining price stability and supporting a sustainable economic development.

1.7. **International relations**

Since obtaining independence in 1993, the Czech Republic, has followed a foreign policy strategy focused on integration into European and international structures, aimed at strengthening its global presence. Membership of the European Union in 2004 and NATO in 1999 were key steps in this process, highlighting its commitment to cooperation in terms of security and the sharing of democratic values. The country is also an active member of the OCSE and the OMC and takes part in United Nations initiatives, contributing to peace missions and global debates.

The Czech Republic's bilateral relations with neighbouring countries, such as Slovakia, Poland, Germany and Austria, are based on solid economic, cultural and security ties. In addition, it has developed strategic relations with world powers such as the United States and China, seeking to balance its economic and political interests at global level.

Looking to the future, the Czech Republic is expected to continue to perform an active role in international relations, exploiting its membership of international organisations to promote national interests and contribute to global initiatives. Its objective remains that of further strengthening international cooperation and integration, supporting, at the same time, stability and prosperity at global level.

2. Starting a business in the Czech Republic

2.1. Foreign investments

2.1.1. The main bodies

The main intermediary for foreign investors in the Czech Republic is the **CzechInvest** agency under the Ministry for Industry and Trade. CzechInvest has been a state support tool for businesses and investments since it was founded in 1992. The institute aims at strengthening the competitiveness of the Czech economy through the support of small and medium businesses, corporate infrastructures and the acquisition of direct foreign investments in the field of production, strategic services and technological centres. It's the only entity authorised to submit requests for investment incentives to the higher authorities. The body helps investors to process and submit applications for subsidies and investment incentives, but also supports the setting up of new business activities and the finding of properties and land suitable for economic and productive activities, suppliers and business partners.

Another important body is **CzechTrade**, the contributing organization of the Ministry of Industry and Trade, which has the aim of promoting the expansion of Czech companies in global markets. Since it was founded in 1997, the main objective of the agency has been that of assisting Czech businesses, with a particular focus on small and medium enterprises (SME) that encounter obstacles in the entry into or expansion in international markets. Through a vast range of services that include the supply of pertinent information, specialist consultancy and practical support, CzechTrade seeks to optimise the Czech Republic's foreign trade performance and strengthen the presence of its commercial entities abroad. This commitment is supported by a network of branch offices distributed throughout the world, which help Czech businesses and provide global market opportunities.

The Italian-Czech Chamber of Commerce and Industry (**CAMIC**) has rapidly established itself as a point of reference for Italian entrepreneurs operating in the Czech market since its foundation in 2001.

Officially recognised as an Italian Chamber of Commerce abroad by the Czech Ministry of Industry and Trade, CAMIC operates from its office in Palazzo Trauttmannsdorf in Prague, with a secondary office in Brno. With over 400 members, which include both Italian, Czech and international enterprises and bodies, most of which operate in the Czech Republic, CAMIC is actively committed to promoting economic development and inte-

gration between the Italian and Czech communities. Through a busy calendar of physical and digital events, the organisation aims at facilitating new business opportunities, encouraging dialogue between Czech institutions, local associations and the business community. As a no-profit organisation, it focuses its efforts on the strengthening of economic and commercial relations between Italy and the Czech Republic. Thanks to the constant collaboration with the Italian Embassy in Prague, institutions, chambers of commerce, associations and other economic entities both in Italy and in the Czech Republic, it organises economic missions, trade fairs, promotional workshops and other initiatives aimed at supporting enterprises in the internationalization processes.

2.1.2. Current trends

Last year, Czech companies produced a total income from foreign investments that reached almost 565 billion crowns. At the same time, new foreign investments were recorded for the amount of 281 billion crowns. The main factors attracting foreign entrepreneurs include tax advantages, lower labour and professional service costs, less bureaucracy, competitive energy costs and government protections to facilitate economic settlement. The economic growth achieved by the country, an industrial policy open to foreign investment and a strategic geographical position make the Czech Republic a crucial hub for international investments.

Although the pandemic crisis in 2020 affected the number of exchanges taking place, some sectors still nevertheless prospered. In 2021, in fact, the first sector that increased its exports was the agri-food sector, exceeding 322 million euros. One of the most traded products is wine from Italy, with a share of 23.5% compared to 16.6% for German wine and 4.9% French. Another key sector is the automobile sector, a cornerstone of the Czech economy, which generates almost 9% of national GDP. Another point of strength of the Czech Republic is the transport network which enables it to be an economic hub for other central and eastern European countries. A further sector with constant growth in the last few years is high-tech and medium-tech, which guarantee various opportunities for Italian operators in the supply of equipment and components in the machinery supply chain. In 2022, in fact, there was a strong increase in investments in ICT technologies and equipment arriving at around 344 billion crowns, 44 billion more than the previous year.

2.2. Companies and contracts

The Companies and Cooperatives Law provides for and regulates the following types of companies:

general partnership	<i>("veřejná obchodní společnost" – v.o.s.)</i>	Arts. 95 – 117
limited partnership	<i>("komoditní společnost" – k.s.)</i>	Arts. 118 – 131
private limited company	<i>("společnost s ručením omezeným" – s.r.o.)</i>	Arts. 132 – 142
joint stock company	<i>("akciová společnost" – a.s.)</i>	Arts. 243 – 551
cooperative	<i>("družstvo")</i>	Arts. 552 – 773

The European Company, the European Economic Interest Grouping and the European Cooperative Society are also regulated to the extent admitted by directly applicable regulations of the European Union (TITLE I – Chapter 1 – Art. 1 – Paragraph 4). There are certain requirements to be able to establish a European company: the registered and central administration office must be situated in the EU; the company must be present in a number of member states; subscribed capital must be a minimum of 120,000 euro and the employer and workers' representative must have entered into an agreement regarding the participation of employees the corporate bodies, specifying how they will be consulted and trained.

All the above legal entities listed in the Companies and Cooperatives Law, including European companies, must be registered in the Commercial Business register, a public list kept by the competent court and under the control of the Czech Republic's Ministry of Justice. For Czech law, a company is established the day in which it is registered in the Commercial Business Register and is dissolved with its cancellation.

Business activity can be carried on not only in the form of a legal person (be it a partnership, joint-stock company or cooperative) but also as an individual (self-employed worker). Carrying on a business activity as a self-employed worker, or better, "freelance worker", means acting as an individual, whether carrying out the activity as a single individual or whether through a form of contractual entrepreneurial cooperation (association of individuals).

A Trade License ("živnostenský list") is obligatory for all entrepreneurs to be able to carry on business activities, whether they are natural or legal persons, and is an authorization to carry on a determined business activity.

2.2.1. Natural persons (or self-employed workers)

In the Czech Republic this is the form most used for carrying on a business activity. Starting an activity as a natural person is very simple. Generally, the entrepreneur personally directs and manages all the activity, normally of a small size, and often deals with all the administration. In practice, there is often a form of business cooperation between natural persons: an association of natural persons is, in any case, regulated by the Civil Code. The following are natural person entrepreneurs:

- › People that carry on a business activity on the basis of an operating license
- › People registered in the commercial register (at their own request or by law in the event revenues or income have reached or exceeded on average the limit of 120 million Czech crowns in the last two consecutive financial periods);
- › People that carry on a business activity on the basis of a different authorisation according to special regulations;
- › Private farmers registered in the appropriate register for their sector.

2.2.2. Extract from the License Register (formerly Trade License)

Issued by specific offices, called License Offices, the extract from the License Register, the new name of the trade license (*živnostenský list*), is an authorisation to carry on a certain business activity or trade and is obligatory for all entrepreneurs, whether natural or legal persons, before embarking on a business activity.

The law that regulates in the Czech Republic the fundamental conditions for carrying out an entrepreneurial activity for natural and legal persons is the Law on licensed business activity (*Živnostenský zákon no. 455/1991 Coll. 1.7.2008*). Business activity with a license is defined as follows:

“The profession is a systematic activity carried out independently, in one’s own name, under one’s own responsibility, in order to accrue a profit and under the conditions established by this law”.

We will look in detail at licenses registered in the name of natural persons, that is, autonomous entrepreneurs that carry on an activity in their own name.

The law on licenses lists specifically all the types of work and activities in specific annexes and the party will only be able to identify among these the one that corresponds to their own. All the activities are therefore subdivided into four types of “professions” according to a classification associated with the nature of the activities and the requirements necessary to carry them out:

- › Free (volné živnosti): activities that can be carried on without any particular professional qualification. They include a vast range of services and trades, such as retail sales or consultancy services;
- › Conditioned (vázané živnosti): these activities require professional qualifications or proven experience. These include many traditional professions and professional services such as electricians, plumbers, mechanics and other professions that require specific training and, sometimes, exams to obtain the license;
- › Craft (remeslné živnosti): these professions require specialised manual abilities and technical skills. To carry on these activities, it's necessary to have determined professional qualifications, experience and, sometimes, to pass specific exams;
- › By concession (Koncesované živnosti): they are activities that, for their nature or impact on health or safety, or for reasons of public interest, require a special authorisation from the State. These could include a number of activities linked to the health sector, to the production and sale of alcoholic drinks, and other services that can have a significant impact on society or the environment.

Detailed lists of all the types of activity are set out within these four groups. The first three correspond to so-called “notification professions”: this means that the future entrepreneur is obliged only to “notify”, that is, communicate to the License Office the type of profession that they will carry on without the requirement for any approval or authorization.

This applies only if the person complies with the fundamental requirements of adult age, the ability to act and carry out legal acts and a clean criminal record. The notification of profession, always for the first three groups, can be submitted to any license office of the Czech Republic through a form to be completed in the website page of the license office. Any other documents requested by law, depending on the type of profession notified, must be attached to the form, such as documents certifying professional suitability (education and/or experience in the sector).

The procedure is concluded with the payment, finally, of 1,000 Czech crowns, and then the applicant has to wait for the issue of the Extract from the license register, which the License Office is obliged to issue within five days from submission of the documents; the person can start he activity once this process is finished. The term of 5 days includes the period necessary for the license office to obtain supporting documents from other institutes (such as, for example, the extract from the criminal register). The identification number (ICO) is also reported on the extract from the license register, next to the general details of the entrepreneur and the exact description of the profession. For conditioned and craft activities, which require verification of professional qualifications, the process

could require more time, but usually the license is issued within 30 days from receipt of the complete application.

Activities on concession, which require special approval due to their nature or the potential impacts on public health and safety, can have longer waiting times due to a more detailed examination of applications.

If the notification lacks certain requirements (such as data or documents) or is erroneous, the License Office will summon the subject to respond to the Office's requests within a set deadline (at least 15 days).

2.2.3. Legal persons

The commercial code defines and regulates legal persons established to carry on a business activity, so-called "commercial companies" and cooperatives.

These commercial companies are categorised into partnerships and companies, distinguished on the basis of parties that contribute with their own capital and the presence of a requirement to pay a specific sum within the company. In partnerships (v.o.s. – general partnership, k.s. – limited partnership), there are partners that participate personally in the management of the enterprise and have unlimited and joint liability. For joint stock companies (s.r.o. – private limited companies, a.s. – joint stock companies) there is the obligation to make a contribution to the company's share capital. The amount of the contribution is established by law and changes according to the type of company. Generally, the commercial company is established through a corporate contract signed by all the founding members. In the event there is a single founder, the corporate contract is replaced by a deed of incorporation.

Cooperatives are formed by an unlimited number of people (minimum 5) and are established for entrepreneurial purposes or in order to provide for the needs of their members. The capital is composed of contributions.

All the above legal persons must be registered in the commercial register, the public list in which the types of organisations provided for by law are set out, kept by the competent court and under the control of the Czech Republic Ministry of Justice.

2.2.3.1. Private limited companies

This is the most common form of corporation in the Czech Republic. The number of members of this type of company may vary from one to fifty. The prohibition to establish a private limited company whose single member is itself a private limited company with a single member lapsed with the reform of company law, (the prohibition of creating corporate chains is therefore abolished to a certain extent). The rule for which the same

natural person can hold at the same time the role of single member in up to a maximum of three private limited companies, however remains.

The reform has also introduced the possibility of establishing a private limited company with a minimum share capital of 1 CZK. This fact, although implying an important simplification in the process of incorporating an s.r.o., should not, however, lead the entrepreneur to underestimate the process of setting up a company.

Shares

There are no limitations regarding the registration of shares to foreign citizens or to foreign companies. A number of different types of shares in private limited companies are introduced in the reform, such as, for example, shares that imply a different participation in the distributed profits or also shares that imply a limited right to vote on the part of the shareholder.

Before registration of the company in the commercial register, any issuing premium and, with regards to contributions in money, at least thirty percent of their value, must be paid in full so that, in all events, the sum of the contributions of all the members corresponds to at least fifty percent of the share capital.

In the event that the company is set up by a single founder, the contribution must be fully paid before its registration. In addition, also contributions in kind must be fully made before registration of share capital in the business register in order to ensure that the assets contributed are effectively available to the company from the beginning.

Once registered in the commercial register, the company can freely make use of the share capital which becomes part of its equity. Unlike other systems, in fact, in which the inviolability of the share capital is established, the Czech legal framework prefers the principle of free availability. This principle is fundamental for the transaction of joint stock companies, as it guarantees that the financial resources raised through the contributions of the members can be used to pursue the corporate objects, such as the development of entrepreneurial activities, investments, the purchase of goods and services, and others.

Unless the bylaws of the s.r.o. provide otherwise, any transfer of shares can be made only subject to the prior approval of the shareholders' meeting and must be registered in the commercial register to become effective. Approval of voluntary capital payments made outside the share capital contribution process falls to the board of directors and a notarial deed is no longer required after the reform.

Legal representation

Legal representation of the s.r.o is attributed to the directors, who must be appointed in the deed of incorporation. The name of the directors is an integral part of the company's bylaws, and every subsequent modification implies a change in the corporate agreements and, for this reason, is subject to approval by the competent court.

A director of European nationality does not need a Czech Residence Permit to be registered with the Commercial Court. It is advisable, however, for said director to establish a reference domicile in the Czech territory, requesting the granting of a residence permit (5 years) which makes it possible to carry out their business activity without particular bureaucratic obstacles.

The administrative body of the limited liability company can be represented by one or more directors. In this latter case, each of them is entitled to act independently in the name of the company unless the deed or incorporation or the bylaws imposes particular limitations.

It's important to keep in mind that the powers of signature and representation of the administrative body are not easily limited in the bylaws, as any exception clauses may not be approved by the competent court.

Conversely, shareholder agreements are legitimate and widely used, provided they are written with authenticated signatures. This means that they are valid only between the parties and do not provide guarantees to a third party contracting in good faith that has made reference to a director indicated in official documents. On the other hand, powers of signature regarding bank dealings can be limited.

A director is responsible for the good management of the company, for the regular keeping of its accounts and for dealings with public officials, but only for the most significant areas of responsibility. A director is, however, subject to a non-competition obligation which, on the basis of the agreement of the members, can be expanded but never restricted.

After its reform, the Companies and Cooperatives Law, Art. 194 provides for and regulates the possibility for private limited companies to establish a collegial administrative body that replaces single directors. Paragraph 2 states, in fact, "a number of directors form the collegial body, if the corporate contract so provides".

A director of a private limited company is entitled to a fee, which must be legitimized through approval by the shareholders' meeting. The general meeting of shareholders can approve directors' fees in various ways:

- › Single resolution: the meeting can resolve the recognition of a fee for activity already performed, for a limited period of time, until a subsequent resolution, etc.;

- › Approval of the contract for the exercise of the office of director (if entered into);
- › Approval of an internal provision that regulates directors' fees.

The right to compensation for the exercise of the office of director must be contemplated in a specific contract, called, precisely, Contract for the Exercise of the Office (“smlouva o výkonu funkce”), which needs to be in written form but which however does not require a notarial report.

A director can also have a working relationship with the same company, but the content of the latter relationship must be different from the exercise of the office of director.

The fee is subject to the payment of the health insurance contribution (the director is registered with the competent insurance institute as an employee) and the social security contribution (if the fee exceeds the threshold established by law). The director's fee does not automatically constitute a deductible cost for the company, but contribution to the achievement and maintenance of the company's taxable income must be demonstrated.

Other bodies

The supreme body of the limited liability company is the shareholders' meeting. Among the most important tasks attributed by law to this body is the appointment and revocation of the directors.

It's possible to also set up a control body. Art. 201 of the Companies and Cooperatives Law after the reform states, in fact, in paragraph 1 “the company sets up the board of statutory auditors if the corporate contract or legal provisions or regulations so provide”. Unless otherwise provided for, the board of statutory auditors so formed has the main tasks of controlling the activities of the directors and of examining and controlling commercial and accounting records and the financial statements. Neither directors nor other persons authorized to act on behalf of the company, resulting from the entries in the company register, may form part of the board of statutory auditors.

2.2.3.2. Joint stock company

It's a form of corporation in which the share capital is fundamental. This capital is distributed among a certain number of shares of pre-established nominal value. The joint stock company can be established by a legal person or by two or more natural persons.

If the shares are offered via a public offering, the share capital of the company must amount to at least 20 million CZK, unless the Law provides for a higher amount, such as, for example, in the case of banks. The share capital of a joint stock company

established without a public offer must, instead, amount to at least 2 million CZK. In addition, companies can issue ordinary or preference shares, and contributions to share capital can be both financial and non-financial. These latter, however, require an independent appraisal upon exceeding certain values or if they consist in specific contributions such as know-how.

After the reform, the Companies and Cooperatives Law imposes for public limited companies the obligation to have a company website, through which to publish documents such as financial statements and general meeting convocations. In addition, a joint stock company belonging to a holding company with management and control functions is obliged to declare the corporate structure on its website.

With the reform of company law, it has also been established that joint stock companies can choose between a dualistic or monistic management system. Besides the Shareholders' Meeting, the dualistic management system provides for a Board of Directors and a Board of Statutory Auditors as other corporate bodies. A Board of Statutory Auditors is not envisaged in the monistic system and the B.o.D. is, instead supported by a Statutory Director.

The reform also introduced the right of joint stock companies to provide in its by-laws for the figure of Sole Director as an alternative to the B.o.D., and the figure of Single Statutory Auditor or Single External Auditor instead of the Board of Statutory Auditors. Another effect of the coming into force of the new company law provisions was the abolition of the possibility of issuing bearer shares starting from 1 January 2014, the date on which previously issued bearer shares became registered. With regards to the value of the shares, they can now have a nominal value or, alternatively, a value expressed as a percentage of the share capital.

The shareholders' meeting

The Shareholders' Meeting is the supreme body of the company, in which all the subscribers of shares can participate upon the meeting of certain conditions linked to the effective percentage paid on the subscribed shares.

The meeting can be held for the first time only in the event that shares have been fully subscribed for the value of the proposed share capital and, at the same time, at least 30% of the nominal value of the shares and any full issue premium has been paid. The meeting is able to resolve if the subscribers represent at least half of all subscribed shares.

In the event that the meeting is convened to resolve approval of the financial statements or the powers of directors, convocation must be accompanied respectively by the financial statements in question and the proposal of directors' fees.

In addition, proposal for the transfer of substantial and significant “assets”, which can be, for example, productive assets or equity investments in other companies, must be approved by the meeting convened in an extraordinary session. The meeting also has the power to impart to the directors general binding instructions regarding the company’s management policies. This power can be exercised by the meeting also with respect to the directors of subsidiaries.

The Board of Directors

The B.o.D., a collegial body composed of at least three members (except in the case of companies with a single member) headed by a chairperson who directs the activities of the company and acts in its name. It guarantees commercial management, including regular accounting activities, and submits to the shareholders’ meeting the closing accounting documents and the profit distribution proposal for approval.

The reform of company law extended the principle of directors’ liability and, specifically, regulated the director’s mandate agreement. It established, for example, that this agreement has to contain all the elements underlying their compensation and if this is not the case, the office of director is to be considered as without remuneration. With regards to the resignation of directors, a member of the B.o.D appointed by the shareholders’ meeting that intends to resign is obliged to do so at the same meeting and their resignation from office takes effect a month after the date on which the shareholders’ meeting is held or should have been held.

The board of statutory auditors

The Board of Statutory Auditors monitors the B.o.D.’s activities and the carrying out of business activities. Its members are authorised to examine all documents relating to the company and check the correctness of accounting records. In addition, the board of statutory auditors has the task of controlling whether the company’s business activity complies with legal provisions, the bylaws and the decisions of the shareholders’ meeting.

The body is composed of three or more members, elected for a fixed term and for a period not exceeding five years; they take part in shareholders’ meetings and are obliged to communicate to the meeting the results of their control actions.

2.2.3.3. The corporate group

In terms of the Corporate Group, three types of relationships are envisaged with the reform:

- › Influence: in the case that there are elements of temporariness with regards to the actual exercise of influence on the part of one company with respect to another;
- › Control: when the influence appears higher and more prolonged over time;
- › Holding: in the event that management is aligned with the will of the parent company.

2.2.4. The business register

The Business Register (Obchodní rejstřík) is kept by the competent court for the territory. The company assumes a legal status and can start business activity only after its registration in the register. The Business Register (consultable online: www.justice.cz) reports the following information:

- › the business name of the enterprise and the registered office;
- › the number and identification of the enterprise;
- › the share capital;
- › the corporate object;
- › the legal form;
- › the general details of the directors and respective powers of signature;
- › data relating to the branches and managers;
- › general details of the members (natura and legal persons) and the respective stakes contributed and paid.

2.3. Currency system and import-export regime

2.3.1. The currency system

From a historical point of view, the Czech Crown has gone through various stages of valuation and devaluation, influenced by a series of internal and external economic factors. The economy is strongly oriented towards exports, in particular towards the European Union, and this makes the currency sensitive to fluctuations in international trade and the monetary policies of other EU member countries.

The exchange rate between the Czech crown (CZK) and the euro (EUR) plays a crucial role in the economic and financial situation of the Czech Republic, which has been a member of the European Union since 2004 but is still outside the euro area. Since the country entered the Union, this exchange rate has had periods of volatility alternating with phases of relative stability. Global and regional economic crises, together with mon-

etary policy moves, have had a great impact. In March, the euro-crown exchange rate stood at around 1EUR=25.27, while 1CZK=0.042.

March 2023	23.54
April 2023	23.50
May 2023	23.66
June 2023	23.71
July 2023	23.82
August 2023	23.98
September 2023	24.19
October 2023	24.48
November 2023	24.46
December 2023	24.52
January 2024	24.73
February 2024	25.13

Despite these events, the question of the adoption of the euro by the Czech Republic continues to generate much debate. On the one hand, there are those in favour who argue that the introduction of the European single currency can offer greater stability, favouring trade and investments. On the other hand, there are concerns linked to the possible loss of control in monetary policy, besides fears for negative repercussions on public finances and the economy in general. In this divided context, the Minister for European Affairs, Martin Dvořák, has appointed the economist Petr Zahradník as coordinator for the euro accession process, a move that has aroused further discord in the government coalition parties.

2.3.2. Import-export regimes

The Czech Republic has been a member of CEFTA (Central European Free Trade Association) since 1992, together with Slovakia, Poland, Hungary, Slovenia and Romania. The agreement provides for a preferential treatment of goods, with the aim of accelerating efforts for integration in the institutions of eastern Europe. The member countries have already signed a stabilisation and association agreement with the EU, which, in fact, served as preparation for full entry into the EU with a view to an open free trade market. These countries include Poland, which accounts for almost 10% of imports into the Czech Republic for a value, in 2022, of 22.4 billion dollars; exports, on the other hand, were worth 16.2 billion dollars. The constant growth of the Polish economy and geographical proximity favour such exchanges is. In more detail, exports are mainly characterised by

the automobile sector (8.77%), transmission equipment (7.9%) and motor vehicles (4.4%); imports, instead, mainly relate to the electric vehicles (6.81%), energy (6.15%) and coal (3.88%) sectors.

With entry into the European Union, there has been a change in customs procedures that has seen the elimination of regular controls at state borders with other EU member states, maintained only for external borders and in the Czech international airports. These changes reflect the country's adoption of a policy of the free circulation of goods inside the European territory.

With Regulation (EU) 312/2009, the European Commission introduced the Economic Operator Registration and Identification system (EORI), that is, a unique registration and identification code of the economic operator, assigned at European level, to be used in dealings with customs authorities of the Union. Pursuant to the provisions of art.9 of Regulation no. 952/2013 of the European Parliament and Council, economic entities have to register with customs authorities before submitting a customs declaration or before submitting an application for a decision. In the Czech Republic EORI numbers are assigned in all customs offices, or registration of the economic identity is carried out by all customs authorities, regardless of the local jurisdiction (address of registered office or residence). The application for registration can also be made via an electronic form sent automatically to the data file of the chosen customs office or to the reference electronic mail address of the competent office. For non-commercial natural persons not considered as economic entities and who therefore do not for a standard EORI number, a form of application is used that can generate a temporary ad hoc number necessary for customs procedures (for submitting a customs declaration). Foreigners that wish to establish a company in the Czech Republic will receive a unique Czech number if the company is registered as a Czech company. Foreign subsidiaries that operate in the Czech territory or in any other EU state do not have the right to receive an EORI number, as the registration of the natural person under which they operate is valid. Extra-EU companies interested in import-export activities will also have to apply for this number before starting transactions, complying with customs requirements.

The Czech republic's most important commercial partner is Germany, which has the highest share of exchanges, especially in the automobile sector. The dimensions and the geographical proximity of the German economy play a key role for commercial relations. Foreign-owned companies account for almost 75% of Czech exports, and Germany is by far the largest direct investor in the Czech Republic. The combination of Germany's reputation for its strong manufacturing and technological base, and the Czech Republic's qualified and relatively low-cost workforce, has favoured a strong economic collaboration between the two nations over the years. German enterprises have invested heavily

in in the automobile and mechanical sector, contributing also to the growth of the Czech Republic. The current poor state of the German economy and the continuous slowdown in the automobile sector, however, threaten exports, requiring Czech enterprises to invest in other markets. Starting from the second half of 2023, in fact, the Czech automobile sector has suffered a strong slowdown due to the negative developments in Germany. This is creating great challenges for the Czech Republic in finding other sufficiently valid and solid commercial partners like Germany.

Another country with which the Czech state has enjoyed a positive trend over the years in terms of the volume of commercial exchanges is Italy. In 2022, Italian exports to the Czech territory reached around 8,515 million euros, with an increase of 17.1% compared to the previous year. Imports from Italy cover various sectors, including agricultural, food, pharmaceutical products, machinery and motor vehicles. At the same time, Italian imports from the Czech Republic reached a total of 9,068 million euros in the same year, showing a growth of 19.2%. This shows how today the Czech territory is not only a market for exports, but is also a supplier of various goods and services, from electronics to machinery, from pharmaceutical products to motor vehicles.

2.3.3. Facilitating regimes

There are facilitating regimes that favour trade in the Czech Republic at extra EU level. One example is the UE-Vietnam free trade agreement that came into in 2020, which eliminates customs duties, bureaucracy and other obstacles that enterprises have to face when exporting towards the Asian country, facilitates the exchange of certain goods and opens the Vietnamese market to exports of EU services. After 2020, around 84% of the EU's imports of pharmaceutical and petrochemical products from Vietnam have been exempt. More specifically, with regards to the Czech Republic, there was an increase in exchange between the two countries after a series of meetings between the Vietnamese state authorities and various Czech leaders in the 1990s, which then continued in the following years. The bilateral commercial volume of trade has constantly grown, exceeding 130 million dollars in 2006, with Vietnamese exports focused on the agricultural, food and textile sectors, while imports include machinery, glass and pharmaceutical products. From an analysis of the volume of current exchanges, unexplored potential promises a significant expansion of commercial dealings.

The creation of the Intergovernmental Committee for Economic and Trade Cooperation (OECD) marked a significant step towards reinforcing bilateral relations in this context. With almost 35 million dollars invested in Vietnam, the Czech Republic has demonstrated a growing interest towards sectors such as the production of crystals, breweries and electrical equipment manufacturing. Both countries recognise significant possibili-

ties for collaboration in energy, means of transport and engineering, leading to promising prospects for further investment. The Czech Republic's Official development assistance (ODA) programme, which includes donations for health and environmental protection, as well as humanitarian efforts in response to natural disasters, reflects strong ties with Vietnam. These initiatives, together with support for controlling bird flu and the development of infrastructures highlight the role of the Czech Republic as a key partner in Vietnam's social-economic development.

Since 2011, South Korea has also had a free trade agreement with European countries that has eliminated customs duties on almost all products (98.7%), including fish and agricultural products and has eliminated non-tariff barriers to exports of key products, such as automobiles, pharmaceutical product, electronics and chemical products. In the first five years of the agreement, EU exports to South Korea increased by 55%, European enterprises saved 2.8 billion EUR in reduced customs duties and the exchange of goods between the EU and South Korea reached a record level of over 90 billion EUR. In 2015, in fact, South Korea was the third extra-EU commercial partner of the Czech Republic. For this reason, in the same year, the two countries signed a strategic partner agreement with the aim, on the basis of what was affirmed by the then Czech Prime Minister Sobotka, of expanding commercial ties beyond the production of automobiles, towards defence, infrastructures, nuclear energy and rail transport. In support of this, in November 2022, the Czech company ČEZ (České energetické závody), declared to have received final offers for the construction of a new nuclear plant in Dukovany, including from the South Korean company Korea Hydro & Nuclear Power (KHNP). These constant commitments and engagements demonstrate a solid relationship between the two nations, which is expected to continue for many more years.

2.4. Opportunities

2.4.1. Investment incentives – Law 72/2000 Coll.

Law no. 192/2012 Coll., which amended Law no. 72/2000 Coll. on investment incentives, came into force on 12 July 2012, modifying the law on taxes on income.

The most important amendment relates to investors in the manufacturing industry sector, in strategic services and new and existing technological centres. Specifically, these parties can receive an income tax discount, which has been extended from 5 to 10 years.

The possibility, instead, of using the financial subsidy to create new jobs, for training and requalification, is unaltered, as is the investment incentive in the form of the acquisition of land and infrastructures at an advantageous price.

What was completely new in the amendment was the introduction of strategic investment actions. This means that, besides the standard incentives, projects defined as such can obtain a financial subsidy for the investment of capital for up to 5% of the costs. This subsidy relates to the manufacturing industry and technological centres and is particularly attractive to large investors. The Government of the Czech Republic decides on the subsidy of projects that meet the requirements.

In order to be able to access said incentives, the law provides for the following main requirements:

- › Registration of the company with CzechInvest;
- › Production must have a minimum duration of five years from the first day of use of the incentive;
- › At least 60% of the investment must be allocated to machinery, which must not be over 2 years old;
- › The minimum amount of the investment is 100 million Czech crowns (around 4 million Euro), which the investor can finance with a mortgage loan for 50% - 75% depending on the region in which the investment is made.

2.4.2. The new INOSTART programme to support innovation

The Czech Republic Ministry of Industry and Trade's INOSTART programme aims at encouraging innovation in small and medium enterprises (SME), offering support to entrepreneurs that face difficulties in accessing funding due to the high risk associated with their projects. The main goal of to facilitate access to credit for innovative startups, guaranteeing a part of their financing through the Swiss-Czech Cooperation Programme. The programme not only offers guarantees of up to 70% of the amount of the loan, but also includes consultancy on the strategic management and development of the business plan, covering up to 10% of the loan amount. For interested candidates, it's necessary to submit to Česká spořitelna both the financing application to which to attach the project (from 0.5 to 15 million CZK to mainly cover the purchase of tangible and intangible assets and operating expenses) and the guarantee request, with the possibility of consultancy from the Erste Grantika Advisory. In the event of a positive outcome, the entrepreneur enters into a loan contract with the Czech Savings Bank and a Guarantee contract with the National Development Bank (Národní rozvojová banka, NDB). The funds can be used to finance those activities necessary for the implementation of the industrial plan, that

is to say, the purchase of tangible and intangible assets and the acquisition of reserves and small intangible assets. The consultancy subsidy will consist of a sum of up to 10% of the loan, up to a maximum of 150,000 CZK. The aim of the programme is to contribute to the reduction of economic and social disparities between the Czech Republic and more advanced countries of the European Union and, at the same time, reduce economic and social disparities between the dynamic urban centres and a number of regions of the Czech Republic that have been hit by structural changes..

2.4.3. The OP TAK 2021-2027 programme

The OP TAK (Operační program Technologie a aplikace pro konkurenceschopnost) 2021-2027 programme is an initiative managed by the Czech Republic Ministry of Industry and Trade to support Czech SMEs. This programme has been conceived to increase the competitiveness of enterprises through innovation and the application of new technologies. With a total financing of around 81.5 billion CZK (3.2 billion EUR) provided by the European Regional Development Fund (ERDF), the programme aims at supporting the development of new innovative projects, the acquisition of advanced technologies and the development of innovative solutions also in terms of energy efficiency and sustainability. Activities supported by the programme include initiatives for renewable energy, such as biomethane, and various projects focused on innovation and sustainable development. The OP TAK also provides for measures for the protection of industrial property rights and offers innovation vouchers for this purpose.

2.4.4. The RIS3 2021-2027 national strategy

The research and innovation National Strategy for intelligent specialisation of the Czech Republic 2021-2027 (RIS3) aims at allocating European, national and regional funds in a targeted manner towards applied research and innovation, focusing on priority areas with competitive potential. This process is based on the points of strength of the Czech Republic and its regions, with the aim of growth based on know-how and innovation. At the same time, the existence of an intelligent specialisation strategy is a fundamental condition for implementation of the European Union (EU) cohesion policy in these fields. A key element is the use of available resources to maximise the impact on economic development, underlining the importance of a competitive economy not based on low costs, but rather, on innovation. The Authority responsible for meeting this condition in the Ministry of Industry and Trade, together with the Office of the Government of the Czech Republic (RVVI) and the Ministry of Education, Youth and Sport.

3. The tax system

3.1. Tax system

In the Czech Republic taxes are divided into:

- › Direct taxes (personal income tax, tax on the income of legal persons);
- › Indirect taxes (value added tax and consumption tax);
- › Property taxes (road tax, gift tax, inheritance tax, real estate tax, real estate transfer tax).

At the beginning of, 2024 a tax reform was introduced, composed of 58 measures, applicable in the 2024-2025 two-year period, with the aim of containing the escalation of public debt, today at record levels. This reform makes significant changes to a number of the major taxes and updates the accounting system in order to respond better to market developments. For details on the specific changes, reference should be made to the individual dedicated paragraphs.

3.1.1. Direct taxes

3.1.1.1. Personal income tax

Law no. 586/1992 Collection as amended

The income of natural persons is subject to a tax which provides for two tiered rates, respectively 15 and 23%. The threshold for application of the higher rate is, starting from 2024, 1,582,812 CZK, that is, three times the annual salary of residents in the Czech Republic.

Natural persons resident in the Czech Republic or who regularly stay there (for at least 183 days during a calendar year) are subject to this tax. The tax obligation also relates to income earned abroad by individuals with fiscal residence in the Czech Republic.

For people not resident in the territory of the Czech Republic or that generally do not stay there, the tax obligation relates only to income from sources accruing in the Czech Republic.

The following are subject to personal income tax:

- › Income from employed activity and assignments;
- › Business income and income from other self-employed activities;
- › Financial income;
- › Rental income;
- › Capital gains;
- › Other income.

The tax payable by employees is paid directly by the employer, self-employed workers pay advances and submit, on an annual basis, a tax return with a tax adjustment.

Tax base

Income is always reduced by the costs that are incurred to accrue, guarantee and maintain the income itself. It is possible to accrue a tax loss by generating negative income only in the case of business income and income from other self-employed activities and rental income. This loss can then be used as a reduction of the taxable base for up to five years following the year in which it was created.

Income exempt from tax is not included in the tax base; these are taxed at a special tax rate on an autonomous tax base. The tax base may be reduced by certain items which, according to the law, are not taxable. Here is a list of the most widely used:

- › Donations: their value must be at least 1,000 crowns or greater than 2% of the taxable base. In these cases, they are deductible up to a maximum of 10% of the donation.
- › Interest payable on a savings loans or mortgage loans granted for residential purposes, to the maximum annual amount of 300,000 crowns, provided the home is the property of the taxpayer.
- › Contributions paid for supplementary pension insurance: the amount that can be deducted equals the total of the contributions paid less 6,000 crowns, up to a maximum amount of 12,000 crowns per year.
- › Insurance paid in the calendar year or for own private life insurance. The duration of the contract must be at least 5 years and the right to reimbursement is linked to reaching 60 years of age: an annual maximum amount of 12,000 crowns is deductible.

The tax base can be further reduced by tax deductible items, such as, for example, the aforementioned tax loss or costs associated with research and development projects.

“Flat” cost items

In their tax return, self-employed workers (OSVČ – Osoby samostatně výdělečně činné) have the possibility of deducting a flat cost item in percentage terms (%), avoiding having to specify and document single costs incurred during the year.

This approach is an advantage for self-employed workers as it allows them to reduce the tax payable (if the effective costs for the year have been less than the flat rate cost item) and also to simplify the compilation of the tax return as the costs do not need to be listed or documented.

The flat cost rates vary based on the type of income linked to the activity carried out:

- › 80% - income from agricultural and forestry production and income from artisanal activities;
- › 60% - income from other non-artisan activities;
- › 40% - income from other business activities, income from the use or transfer of rights from industrial or other property, royalties, income from the exercise of an independent profession that does not constitute a trade or business activity, income of appraiser, interpreter, intermediary of collective disputes, arbitrator or income from the activity of insolvency practitioner;
- › 30% - income from leasing of commercial assets and rental income (§ 9 income tax law).

Since 2013 the 30% and 40% rates have been subject to a maximum deductible limit:

- › 40%: applicable cost item up to the maximum amount of 800 thousand CZK;
- › 30%: applicable cost item up to the maximum amount of 600 thousand CZK.

This means that the cost items corresponding to the 30% and 40% flat rates can be applied only self-employed workers that have achieved an income of not greater than 2 million CZK. Those who achieve a higher turnover have the obligation to keep tax records or voluntary accounting.

Starting from 2013, it is no longer possible to apply tax bonuses for spouses without their own income and dependent children in the event of deduction of the flat tax item.

Only entrepreneurs that deduct costs actually incurred and documented can benefit from tax bonuses.

The tax corresponding to the 15% is applied to the taxable base thus calculated (for a maximum amount of tax of 237,422 CZK) and at 23% (for income above this amount).

Changes from the January 2024 tax package

The reforms introduced have a profound impact on the taxation of individuals, modifying, as previously mentioned, the minimum limit for application of the higher rates. Now the limit for benefitting from the lower rate has been reduced to three times the annual salary compared to the previous four times, increasing the number of taxpayers that exceed the threshold and increasing the burden of those who already exceeded it.

Below is a list of other changes for taxpayers:

- › The amount of social security contributions paid by the worker increases to 7.1% (compared to 6.5%) starting from January 2024.
- › The value attributed on the pay slip as non-monetary income for the use of mixed-use zero-emission vehicles falls to 0.25% of the purchase price, VAT included, from the previous 1%.
- › Workers with flexible contracts must pay social security contributions if the income from a single employer exceeds 25% of the average salary (10,500 CZK) or 40% if the income derives from a number of employers (17,500 CZK). In this last case, the social security contribution is paid by the worker.
- › Starting from 01.01.2025, earnings from the sale of securities or shares within the same corporate group will be exempt for up to 40 million CZK, provided that the securities or shares have been held for at least 3 or 5 years respectively, and their purchase value will be calculated at the market value rather than historic cost.
- › The deduction for the dependent spouse will only be possible if there is cohabitation of the home, there is a child under three years of age and if the spouse's income does not exceed 68,000 CZK.
- › Tax discounts for students and daycare are eliminated.
- › Exemptions for some non-monetary benefits are limited.
- › The possibility of reducing the tax base through trade union membership fees and continuous professional training is abolished.

The following changes apply to individual entrepreneurs:

- › The percentage of the tax base for calculating tax has risen from 50% to 55%.
- › The minimum monthly payment for social security has risen from 2,944 CZK to 3,852 CZK.
- › The minimum monthly down payment for health insurance is adjusted on the basis of the average salary, moving from 2,722 CZK to 2,968 CZK.

- › Monthly advances for entrepreneurs that opt for the flat rate regime, for those that have an annual income of less than 2,000,000 CZK (with a maximum of 50.000 CZK of annual additional income) have risen.

3.1.1.2. Tax on the income of legal persons

Law no. 586/1992 Collection and as amended

Starting from January 2024, entities and legal persons that have their registered office in the Czech Republic are subject to a flat tax on income at the rate of 21%. For income produced before the current financial year, the percentage corresponded to 19%.

A branch or stable organisation of a foreign company is subject to tax in the same way as a legal person.

Incomes earned abroad by a foreign stable organisation or branch are also subject to taxation in the Czech Republic (except as provided by treaties against double taxation) if the taxpayer has the registered office or place of management of the company in the Czech Republic.

In some cases, provided for by certain treaties against double taxation, the foreign income of resident Czechs is exempt from tax. In this case the costs associated with said incomes are not deductible. The foreign tax credit on income, taxable also in the Czech Republic, is applicable only if there exists a treaty against double taxation with the relative foreign state. Otherwise, the tax paid abroad is only a cost item.

If the company has its registered office abroad, only income earned in the territory of the Czech Republic are subject to taxation.

The main types of income earned in The Czech Republic for non-residents are, in particular:

- › The income of a stable organisation in the Czech Republic;
- › The income from services performed in the Czech Republic, excepting building assembly design activity, income from commercial, technical or other consultancy;
- › Income from management and intermediation activities and similar activities performed in the Czech Republic;
- › Income from the sale of real estate situated in the Czech Republic and connected rights;
- › Income from the use of real estate (their parts) including flats (their parts) situated in the Czech territory;

- › Income from self-employed activities such as architect, doctor, engineer, legal expert, scientist, teacher, artist, tax or accounting consultant and similar professions carried on in the Czech Republic;
- › Winnings from lotteries and gambling in the Czech Republic;
- › Income from the sale of shares in commercial or cooperative companies that have registered office in the Czech Republic.

Income deriving from the sale of stakes or shares where the transferor is a parent company, holder of at least 10% of the company's shares for at least 12 months with registered office in the Czech Republic, while the transferee is a subsidiary resident in a member State of the EU or a non-member State of the EU but with which the Czech Republic has entered into a treaty against double taxation, is exempt from tax.

Income from the sale of shares or stakes of a Czech company on the part of non-resident parties is taxable, except where the seller is a company resident in the EU and a least 10% of the shares have been held for 12 months.

In the event of the application of a treaty against double taxation, the proceeds from services can be taxed only if the provider of the services has a stable organisation in the Czech Republic and the income from work can only be taxed if the worker is employed by a Czech company or a stable Czech organization of a foreign company and stays more than 183 days in the Czech Republic.

The tax period can, depending on the cases, correspond to:

- › The calendar year;
- › The economic year (12 months starting from the 1st day of the month other than January);
- › The period between the effective day of a merger or the transfer of assets to a member or from the demerger of a commercial company or cooperative until the end of the calendar or economic year in which the merger or transfer of assets to a member or the demerger have been registered in the commercial register;
- › The declared financial period, if greater than twelve immediately consecutive months.

Financial statements and audit

As part of the closure of the financial statements, tax returns have to be completed and submitted to the competent Tax Offices within 3 months from the end of the tax period. Taxpayers represented by a registered tax consultant can submit them within 6

months from the end of the tax period. The same term applies to taxpayers subject to statutory audit.

Joint stock companies that have exceeded or reached at least one of the following three criteria in the current financial year and in the immediately preceding financial year are subject to a statutory audit of the financial statements:

- › Average number of employees above 50;
- › Total assets above 40 million CZK;
- › Net annual turnover above 80 million CZK.

The same obligation applies to other accounting units other than joint stock companies that exceed tot two consecutive periods at least two of the above criteria.

A change in the period corresponding to the administrative year (and consequently of the fiscal period) must be notified at least three months before the start of the following year.

Income subject to tax, exemptions and tax base

In general, income accrued on all activities and on the management of all assets are subject to tax. There is, however, a series of exemptions and particularities pursuant to § 18 of the Law on income tax.

Income accrued from subsidies, business contributions and other support from the state, region or municipality, and from interest on current account deposits are not, for example, subject to tax.

Below is a list of incomes that, pursuant to the law, are exempt from tax:

- › Income from dividends and other shares of the profit paid by a subsidiary company, with registered office or place of management in the territory of the Czech Republic, to the parent company;
- › Income from the transfer of a share to the parent company in the subsidiary company accruing to a taxpayer with registered office or management centre in the territory of the Czech Republic, or to a company that is tax resident in another member state of the European Union;
- › Income from dividends and other profit quotas accrued by the subsidiary company, tax resident in another member state of the European Union, paid to a parent company that has its registered office or place of management in the territory of the Czech Republic, etc.

The expenses (costs) incurred and documented in order to achieve, guarantee and maintain taxable income, considering their respective objective and temporal necessity in the tax period in question, are deducted from all incomes, except those not subject to and those exempt from tax. Deductible items, therefore, include:

- › tax loss relating to the previous tax period (or part of it), provided used in the immediately subsequent five tax periods;
- › 100% of the expenses (costs) that the taxpayer has incurred in the tax period in question for the development of research and development projects, etc.;
- › tax depreciation and amortisation of tangible and intangible assets;
- › costs incurred for work transfers within legal limits;
- › health insurance paid by the employer to employees;
- › rental fees (deductible according to the accrual basis, excepting financial leasing and which case there are specific legal requirements linked to the nature and value of the asset, as well as the duration of the contract);
- › fees to directors and members of supervisory bodies (statutory boards of auditors).

The tax base adjusted for deductible items can be further reduced by the value of donations, for up to a maximum of 5% of their value. Such donations must be made to support activities operating in specific sectors provided for by the law. The minimum value of the donation must be at least 2,000 CZK. The beneficiary can be a legal person of any member state of the European Union. If the donation is made to a middle school or university, the deduction limit increases by an additional 5% of the tax base.

The tax base reduced by cost items must be rounded down to the nearest thousand Czech crowns.

The following are, instead, non-deductible costs:

- › Capital expenditure;
- › Costs incurred to generate non-taxable incomes;
- › The distribution of profits;
- › Entertainment expenses;
- › The accounting depreciation and amortisation of tangible and intangible assets;
- › Expenses for gifts and entertainment.

Income accrued abroad and treaties against double taxation

Taxpayers that have their residence or regularly stay in the Czech Republic are obliged to declare their income accrued in the Czech Republic, as well as income accrued abroad, without prejudice to the provisions of treaties against double taxation. For the purpose of limiting double taxation of the taxpayer in the Czech Republic and abroad, the so-called bilateral treaties entered into between the Czech Republic and the relative foreign countries, if in force, are, in fact, applied.

In compliance with certain bilateral treaties, moreover, income accrued abroad by residents are subject to taxation exclusively in the foreign country in which they accrued. In this case, the costs relating to the aforementioned income are not tax deductible.

The tax paid abroad must be demonstrated through a declaration by the foreign tax administrator. In some cases, it's possible to demonstrate the payment of the tax abroad with a declaration from the withholding agent or depositary.

In the event that it is more advantageous for the taxpayer, provisions are applied according to which it's possible to exercise only the method set out in the bilateral agreement with the country in question. The methods are as follows:

- › Method of full compensation in which the tax obligation is reduced by the income tax paid abroad, even if it is higher than the tax calculated in the Czech Republic on income accrued abroad;
- › Method of simple compensation in which the tax obligation is reduced by the income tax paid abroad, but only up to the amount of tax calculated in accordance with the Czech Income Tax Act;
- › Method of full exclusion subject to progression which allows income taxed abroad to be deducted from the tax base;
- › Method of exclusion from the tax base (tax losses) which is applied by deducting income that accrues abroad from taxation.

The Czech Republic has entered into an agreement against double taxation with Italy that provides for the application of the Method of full exclusion subject to progression (Law collection no. 17/1985 of 26.6.1984).

Taxation of inbound dividends

Inbound dividends to the Czech Republic paid by a resident party do not contribute to forming the tax base, as they are subject to withholding tax at source of 15%. If the dividend is received by a non-resident company, it is deducted from the total income and

taxed at a specific rate of 15%, unless otherwise provided by the bilateral treaty against double taxation.

Taxation of outbound dividends

The European Directive on parent companies has been implemented in the Czech Republic. As a rule, the outbound dividend paid to a resident company or natural person is subject to withholding tax of 15%. On the basis of the EU «Parent - Subsidiary» Directive, dividends paid from 1 May 2004 by the parent company to a Czech or member State subsidiary are not subject to withholding tax, provided a number of specific conditions are met, such as a minimum equity interest equal to 20% and the preservation of the equity interest for an uninterrupted period of at least 2 years.

Payment of the dividend to foreign companies is generally regulated by bilateral treaties against double taxation.

Interest and royalties

Pursuant to the Directive on interest in the EU and on concession rights, implemented in the Czech Republic, interest and concession rights paid to companies resident in the EU are generally exempt from withholding tax. On the basis of the above-mentioned Directive, exemption from any tax on interest or fees paid by a company or by a stable organisation resident in the Czech Republic will be possible provided that:

- › The effective beneficiary of the interest or fees is a company of a stable organisation of another EU member State;
- › The companies are members of the same group (minimum direct stake of 25%);
- › The minimum 25% stake is maintained for at least 24 months.
- › To obtain the exemption of royalties, a certified from the Czech Financial Administration is obtained. It should be said that this administrative process is rather complicated.

The latest tax reforms issued by the Government have led to significant changes in the taxation of business income, involving a rate increase of 2 percentage points.

Legislation has been introduced to deal with unrealised exchange rate differences, which currently are currently included in the tax base only when actually realised.

Significant adjustments have also affected the rules on depreciation. Specifically, for vehicles in category M1, deductibility has been limited to a maximum of 2,000,000 CZK, including any technical innovations. There is also the introduction of anticipated depreciation for electric vehicles, allowing for a reduction in purchase cost of up to 60% in the

first year and up to 40% in the following year, promoting the purchase of zero-emission vehicles.

3.1.2. Indirect taxes

3.1.2.1. Value Added Tax

Legge n. 235/2004 Collection

VAT rates in force in 2024 are 12% (reduced rate) and 21% (ordinary rate). VAT is applied to any supply of goods or provision of services carried out by VAT taxpayers in the territory of the Czech Republic. The following transactions are subject to Czech VAT:

- › Purchase of goods inside the Czech Republic including the circulation of goods from another EU member State towards the Czech Republic;
- › Assignment and transfer of real estate within the Czech Republic;
- › Provision of services within the Czech Republic;
- › Importation of goods into the Czech Republic.

Parties obliged to pay tax and register

A natural or legal person that carries on an autonomous economic activity is obliged to pay the tax, as well as a corporate group that is VAT registered. A party with registered office, operating site or place of business activity in the Czech Republic that has carried out taxable transactions for a turnover greater than the threshold of 1,000,000 crowns in the last 12 consecutive months (with the exception of parties that only rent properties) is obliged to register for VAT.

In the case of parties that are obliged to keep accounting records or keep them voluntarily, the turnover is established from the revenues obtained from transactions carried out, with the exception of transactions that are exempt from VAT without the right to tax deduction. For others, the turnover is given by the revenues from transactions carried out, always excepting transactions that are exempt from VAT without the right to tax deduction.

A party that receives a service or goods subject to VAT in the Czech Republic, supplied by a passive party resident in another member State and not registered for VAT in the Czech Republic is also obliged to register for VAT, regardless of the turnover. Foreign parties are not obliged to appoint a tax representative in the Czech Republic.

Non-resident parties that carry out transactions subject to local reverse charge with place of fulfilment in the Czech Republic are also obliged to register for VAT. Non-resident stable organisations of non-resident parties also have to register for VAT.

The application for VAT registration has to be submitted within 15 days from the end of the calendar month in which the limit of 1.000.000 CZK crowns of turnover was reached. The applicant becomes a passive party starting from the first day of the third month after reaching the turnover limit. Voluntary registered is also admitted: in this case, the party becomes passive on the valid day reported on the registration receipt.

If in the first immediately consecutive 12 months the turnover does not exceed 1,000.000 CZK and if the overall value of the goods purchased by another member state has not exceeded in the calendar year 326.000 CZK, and this value was not exceeded also in the previous year, it is possible to cancel the VAT registration. The request for cancellation can be submitted once at least a year has passed from the valid date reported on the registration receipt.

Taxable period and tax return

Under the limit of 10,000,000 CZK of turnover, the VAT taxable period corresponds to the calendar quarter, while above that limit the taxable period corresponds to the calendar month. The VAT return is to be submitted within 25 days of the month following the taxable period through the form prescribed by the Ministry of Finance. The amount of VAT has to be paid by the term of submission of the VAT return. In the event of tax credit, the refund is paid within 30 days from the day of presentation of the declaration, except in the case of a tax assessment, in which case the term is extended, and paid within 30 days from the completion of the procedure.

The VAT declaration has to be submitted exclusively in electronic form, with the exception of natural persons with an annual turnover of up to 6 million CZK.

Tax rate

The ordinary tax rate of 21% or the reduced tax rate of 12% is applied on transactions. As a general rule, the ordinary rate is applied on goods, with the exception of the goods listed in Law no. 235/2004 Coll., which are subject to the reduced rate, which include:

1. **Pharmaceutical and health products:** Medicines for human and veterinary use, and a number of medical or health products.

2. **Books:** They include printed books, e-books and audiobooks. Generally, this category covers educational, scientific and cultural books, but excludes publications mainly composed of advertising or audiovisual contents.
3. **Magazines and newspapers:** Periodical publications, provided they are mostly not for advertising purposes.
4. **Foods for infants and special foods:** Foods specifically formulated to meet the nutritional needs of infants and small children, as well as people with special nutritional needs for health reasons.
5. **Baby nappies:** Nappies and a number of similar products for infants come under this category.

The ordinary rate is applied on services, with the exception of the services listed in Law no. 235/2004 Coll., which are subject to the reduced rate:

1. **The supply of water:** The supply of water for domestic use, excluding, however, bottled water.
2. **Accommodation services:** Services offered by the hotel industry, such as stays in hotels, youth hostels and holiday campsites.
3. **Cultural and entertainment services:** Entry to museums, art galleries, historical monuments and other cultural attractions.
4. **A number of catering services:** The preparation and serving of meals inside restaurant structures, with a number of exceptions.

Exemption from the tax without right to tax deduction

The following transactions are exempt from the right to tax deduction, assuming compliance with legal requirements (§ 52-62):

- › Postal services;
- › Financial, services;
- › Insurance services;
- › The rental of land and buildings;
- › Education and instruction;
- › Health services;
- › Transfer of non-buildable land (buildable land is in fact excluded);
- › Sale of real estate (buildings, apartments and commercial units) five years after the release of the first test certificate (with the possibility of voluntary taxation upon expiry of this deadline);

- › Transfer of goods that have been used for transactions exempt from the right to tax deduction and goods on which the passive party does not have the right to tax deduction, etc.

Exemption from tax with right to tax deduction

The following transactions are exempt from tax with right to tax deduction, assuming compliance with legal requirements (§ 64-71):

- › Sale of goods in another member state;
- › Purchase of goods in another member state;
- › Export of goods;
- › Provision of services to a third country;
- › Transport and services directly connected to the import or export of goods;
- › Transport of people, etc.

Right to the deduction

A passive party that uses passive taxable transactions to carry on their economic activity has the right to deduction.

The right to apply deduction of tax arises, if at all, from the day the obligation arises to declare the tax due, and with the assumption that in the taxable period the passive party has received a tax document.

A passive party can exercise the right to tax deduction on passive taxable transactions that it uses to carry on taxable transactions on which the obligation to declare the tax due arises, for the purpose of carrying out transactions exempt from tax with the right to deduction of the tax and for the purpose of carrying out transactions in the context of their economic activity with the place of performance outside the national territory, if on said passive transactions the passive party has the right to deduction of the tax and if the taxable transactions have the place of the taxable transaction in the national territory.

If the passive party uses passive taxable transactions both to carry out their economic activity and for purposes connected with it, they have the right to deduction of the tax only in proportion to application of the transactions to the purposes of the economic activity.

VAT refund

A refund of VAT is requested on a monthly basis if the annual turnover of the Czech passive party is greater than 10 million CZK, quarterly if the turnover is less than 2 million

CZK or as chosen (monthly or quarterly) if the turnover varies between 2 and 10 million CZK. Non-resident parties that do not have a stable organisation in the Czech Republic can request a VAT refund only on a quarterly basis.

The tax document

The tax document is issued within 15 days from the day of carrying out the taxable transaction or from the transaction exempt from tax with the right to deduction of the tax for a person liable to pay the tax or legal person that is not established or founded for business purposes, or from the day of receiving payment for the above-described transactions.

A passive party that carries out taxable transactions with the consideration in cash, by credit card or cheque, is obliged to request the issue of a simplified tax document upon completion of the taxable transaction or upon receipt of the consideration if the two events coincide. This document can be issued only for taxable transactions at a price, including that tax, not greater than 10,000 CZK.

Tax documents are to be kept for a period of at least 10 years from the end of the tax period in which the taxable transactions took place. The tax document may be transferred in electronic format and stored only in that format. They must, however, bear the recognised electronic signature or the recognised electronic stamp.

Group registration

Group registration is valid only for companies with the registered office, the place of business activity or the operational headquarters in the territory of the Czech Republic. The foreign operational headquarters of a Czech firm cannot participate in the registration, while the operational headquarters of a foreign firm can participate, in which case said operational headquarters must be Czech VAT registered.

The members of a group must therefore be affiliated from a capital point of view (entities having over 40% share in the capital or voting rights of one or more other entities) or in another way (entities in whose management at least one same entity has a shareholding). Sister companies (that is, companies having the same parent company) can be members of a group assuming that the parent company also participates.

For VAT purpose, one of the members of the group is chosen as representative member, which necessarily must have its registered office or place of business activity in the national territory. The application form for VAT registration can be extracted from the Ministry of Finance's web page. The application must contain complete data of all the members, besides those of the representative member. The group is assigned a special identification number for VAT purposes, on the basis of which it acts as an autonomous

entity liable to pay the tax. The original tax identification numbers of the single members cease to have any value for VAT purposes, while they remain valid for other taxes. VAT returns after registration are therefore to be submitted for the group as a whole by the representative member.

Changes from the 2024 tax package

Recent updates to the tax package for the next two years have profoundly changed value added tax. The government has decided to simplify the VAT rates, moving from three to two, (if we exclude the zero rate for exempt transactions). This revision has led to a new classification of goods, with a direct impact on consumer prices which have undergone both positive and negative variations already in the first months of the year.

The other main change relates to the purchase of category M1 (standard) motor vehicles, for which a maximum deductible amount of 420,000 CZK has been established – corresponding to a purchase price of 2,000,000 CZK, VAT excluded. The deduction relating to any technical improvements to the car can be added to the previous deduction, which only took account of the purchase value.

The restrictions do not apply to ambulances, hearses and vehicles used for motor road transport under concession. Leasing companies that rent cars to third parties are not subject to the maximum deduction limit.

3.1.2.2. Excise duty

Law no. 353/2003 Collection as amended

Excise duty is the tax on alcohol, beer, wine and semi-finished products, mineral oil and the tax on tobacco. All natural and legal persons for which the obligation to declare the tax and pay it arises are subject to the tax. This obligation arises, for example, upon the introduction of the relative products in free circulation into the Czech Republic.

Those involved are therefore managers of a fiscal warehouse, importers, tax representatives and other parties. Said persons must register as passive parties with the customs office. A fiscal warehouse is considered as:

- › A company that produces the products subject to the tax in which the fiscal warehouse manager, under the conditions established by law, produces, processes, keeps in store, receives or sends said products;
- › A warehouse of the indicated product, in which warehouse manager keeps in storage, processes, receives or send the chosen products.

The aforementioned products are transported between fiscal warehouses in the territory of the Czech Republic under the conditional tax exemption regime, therefore without being subject to tax. It's necessary, however, to have the prior authorisation of the customs office.

The transport of products between EU Member States depends on the fiscal warehouse manager system. Trade between individual states therefore results from the principle of single taxation. The obligation to declare and pay the tax arises in the Member State of destination.

Transport of products for personal use

The aforementioned products introduced in free fiscal circulation into another Member State for personal use and brought into the fiscal territory of the Czech Republic are exempt from tax. For the purpose of exemption, the quantities for personal use must be less than the following: alcohol and alcoholic beverages for consumption, maximum quantity 10 litres; beer 110 litres, wine 90 litres, cigarettes 600 pieces, cigars of a weight less than 3 g/piece, 400 pieces; other cigars 200 pieces; tobacco for smoking, 1 kg.

3.1.3. Property taxes

3.1.3.1. Road tax

Law no. 16/1993 Collection

All motorized road vehicles used for the purposes of a business activity or other autonomous activity are subject to road tax, provided they are registered and used in the Czech Republic. Road tax is applied to lorries used only for the transport of loads, coming under categories N2 and N3 with a weight above 3.5 tonnes, registered in the Czech Republic with a maximum permitted load of 12 tonnes; these vehicles are subject to this tax even if they are not used for business purposes.

Taxpayers and exclusion from tax

Cars for the transport of people, cars for the transport of loads with a maximum permitted load of under 12 tonnes and with an electric or hybrid (combustion and electric) power supply, hybrid powered vehicles (combustion and electric), LPG cars and others, are excluded from payment.

Starting from the 2022 tax year, cars and trailers are no longer subject to tax in the name of the employer. Instead, the payer of road tax is identified as the person registered as driver of the vehicle in the technical license document or, in the event of death, disappearance or cancellation of the driver's registration, the payer shall be the person that uses the taxable vehicle. This also includes people that use vehicles designated as state material reserves or belonging to organisations with registered office or permanent residence abroad. In the event that a number of taxpayers are associated with the same taxable vehicle, they are required to pay the tax jointly.

Amount of the tax

The sums due vary on the basis of the category of the vehicle, the number of axles of the taxable vehicle and, within these categories, the maximum capacity. Below is a detailed description of the classification:

Tax amount for a taxable category N vehicle with body type BA or BB

Number of axles	Maximum permitted weight in tonnes		Tax amount in CZK
	Minimum	Maximum	
2		12	0
		12	800
		13	2,300
		14	3,200
		15	7,200
3		15	0
		15	1,400
		17	2,900
		19	3,800
		21	5,800
4+		23	9,000
		23	0
		23	3,800
		25	6,000
		27	9,400
	27	14,000	
	29		

Tax amount for a taxable category N vehicle with body type code BC or BD

Number of axles	Maximum permitted weight in tonnes		Tax amount in CZK
	Minimum	Maximum	
2		16	0
		16	400
		18	900
		20	2,000
		22	2,600
		23	4,600
		25	8,000
		28	8,700
		31	12,100
		33	18,400
3+		36	0
		36	11,800
		38	16,300
		40	24,200

Tax amount for a taxable vehicle of the category O

	Maximum permitted weight in tonnes		Tax amount in CZK
	Minimum	Maximum	
		12	0
	12	18	3,600

3.1.3.2. Property tax

Law no 338/1992 Collection

Any party that owns a property or land, except for some types of real estate, is obliged to pay property tax. The taxable period is considered to be the calendar year. If no changes have occurred to your assets, the tax return, which is submitted by the first of February in the current year, does not need to be resubmitted.

Payment of the tax varies depending on its amount: if less than 5,000 CZK, it is due by 31 May; if it exceeds this amount, it's possible to pay in two instalments, falling due respectively on 31 May and 30 November.

The tax is divided into land tax and building tax, specifically identified in the first part of the law.

Land tax

Land situated in the Czech Republic recorded in the land registry is subject to this type of tax. On land used as hop fields, arable fields, vineyards, gardens, orchards and perennial turf, the tax base is given by the price of the land established by multiplying the actual area of the land (in m²) by the average price per m² of the land established by the decree.

Land covered by taxable buildings, forest land, bodies of water, land designated for national defence, land within residential buildings shared by the owners of the residential units, are outside the objective tax limit, as well as specific agricultural or forested land that may be exempted for a certain period or under certain circumstances.

The tax base varies according to the type of land, identified in the “land types” section and is determined on the basis of the value or surface area of the land.

The rates for determining the tax base and the tax rates are summarised below:

Tax rate by Land Type

Land Type	Tax Rate
Selected Agricultural Plots	1.35%
Permanent fields	0.45%
Wooded surfaces	0.45%

Tax rate by Type of Terrain per Square Metre

Land Type	Tax Rate per m ²
Paved Agricultural Surfaces	CZK 1.80
Other paved Areas	CZK 9.00
Building Land	CZK 3.50
Other Unused Areas	CZK 0.08
Other Areas	CZK 0.35
Other Selected Areas	CZK 0.35
Built Areas and Courtyards	CZK 0.35

Tax Rate Multipliers by Municipality Type

Municipality Type	Coefficient
Up to 1,000 Inhabitants	1.0
Over 1,000 and up to 6,000 Inhabitants	1.4
Over 6,000 and up to 10,000 Inhabitants	1.6
Over 10,000 and up to 25,000 Inhabitants	2.0
Over 25,000 and up to 50,000 Inhabitants	2.5

Municipality Type	Coefficient
Over 50,000 Inhabitants, Statutory Cities and Certain Specific Localities	3.5
Prague	4.5

Tax on buildings

Buildings for which certification was issued or buildings used before the certification was issued on the basis of notification from the building office, apartments and commercial spaces recorded in the land registry are subject to tax on buildings.

The owner of a building, apartment or independent commercial space is a payer of the tax. The size of the floor plan of the elevated part of the building in m² according to the State on 1 January of the relative tax period is included in the tax base.

The tax base for tax on buildings and building units for a building subject to taxation is the area in square metres on 1 January of the tax year.

For the purpose of property tax, covered surfaces are considered as the covered area of the building according to the building law corresponding to the upper part of the building subject to taxation.

The tax base for buildings and building units for a unit is the floor area, in square metres, on 1st January of the tax year multiplied by a coefficient of 1.20 (increased to 1.22 if the unit is in a residential area and in cases of joint ownership).

For floor areas of units subject to taxation for the purpose of property tax, the floor area recorded in the land registry or indicated in the owner's declaration is taken into consideration. The floor area of the unit subject to taxation for the purpose of property tax does not include the floor area of the common parts of the property to the extent of the quota attributed to it, which is included in the unit.

The rate is calculated on the basis of the surface area in square metres multiplied by the category coefficient:

Taxable building type	Coefficient (CZK)
Residential buildings	3.50
Other residential buildings with a built surface area greater than 16 m²	3.50
Buildings for family recreational activities	11.00
Other recreational buildings	3.50
Garages	14.50
Primary agricultural production, forestry or water management	3.50
Industrial, construction, transport, energy or other agricultural production enterprises	18.00
Other types of activity	18.00
Other classified buildings	11.00
Other classified units	3.50

The tax rate increases to 1.40 CZK for every floor above ground, if the built surface area of the floors above ground exceeds specific parameters established by the Law.

The above base rate is then multiplied by a coefficient linked to the inhabitants of the municipality where the property is situated, organised as follows:

Municipality (Inhabitants)	Coefficient
Up to 1,000	1.0
1,001 – 6,000	1.4
6,001 – 10,000	1.6
10,001 – 25,000	2.0
25,001 – 50,000	2.5
Over 50,000, statutory cities, Františkovy Lázně, Luhačovice, Mariánské Lázně, Poděbrady	3.5
Prague	4.5

Since 2024, every municipality has the right to change the coefficient, increasing it by a maximum of one category and decreasing it by up to three classes.

3.2. Accounting and Regulations

Pursuant to the law on accounting (no. 563/1991 Collection), the parties obliged to keep accounting records in the Czech Republic are:

- › Legal persons with registered office in the Czech Republic,
- › Self-employed workers/entrepreneurs registered in the Company Register,
- › Other natural persons that keep accounting records by their own decision,
- › Foreign persons that carry on a business activity in the Czech Republic,
- › Administrative units,
- › Other natural persons provided for by law.

Accounting in The Czech Republic follows the Czech Accounting Standards published by the Ministry of Finance which, starting from 2003 replaced the accounting procedures for entrepreneurs. In the last few years, changes in the regulations have brought the Czech accounting system more in line with the IFRS (International Financial Reporting Standards), while maintaining some significant differences.

3.2.1. The chart of accounts

The Czech chart of accounts determines the distribution and naming of account classes and account groups.

On the basis of the direct chart of accounts, every accounting unit draws up its own basic chart of accounts, that is, a list of accounts to use for its accounting. Charts of account differ of the basis of the business activity, the volume of the business's operations, technologies in use for bookkeeping.

Every chart of accounts contains the so-called header accounts and analytical accounts based on the needs of the company. 10 classes of account are identified (0-9), which in turn are divide into account groups pursuant to annex 4 of Decree no. 500/2002 Collection. The first number indicates the account class, the second the account group.

The header accounts are chosen on the basis of the chart of accounts, and have a three-number identification.

Example: account 601 Collections from the sale of own products. This refers to account class 6 – Revenues, group 60 – Collections from own services and assets.

Accounting units

Any party responsible for accounting is called an accounting unit, which can be legal persons, foreign persons that carry on business activities or who exercise other activities pursuant to special regulations, administrative units of the state and natural persons.

All accounting units registered in the Company Register are obliged to keep double entry accounts. Natural persons not registered in the Company Register whose annual turnover does not exceed 25 million Czech crowns are entitled to keep simplified accounts.

Accounting methods and the filing of documents

The accounting records must be kept in the Czech language, in Czech crowns or, by effect of the 2024 tax package which changed also part of the Law on accounting, in the company's functional currency if it is the Euro, US Dollar or British Sterling. The same law also provides a definition of "functional currency", identified as "the currency of the primary economic environment in which the accounting entity operates".

This flexibility is a significant advantage for companies in which the reference currency is different from the Czech crown. This choice, however, implies risks and challenges, as it has to be made at the beginning of the business activity and once taken becomes irreversible. In addition, this choice complicates the company's tax system, as the tax returns and VAT fulfilments have to be carried out in the local currency.

After the closure of the financial period, it's necessary to keep various documents on file for specific time periods in order to comply with regulatory obligations.

On the subject of accounting management:

1. the closing accounts and final report must be stored for a period of 10 years.
2. accounting documents, accounting books, amortisation and depreciation plans, inventories, chart of accounts and figures must be stored for 5 years.
3. The accounting documents used to keep the accounts must be stored for 5 years.

For personnel administration:

4. certified copies of employment records must be stored for 3 years;
5. the pay slips and accounting records relating to pension insurance must be stored for a period of 30 years, with the exception of the seniority pension, which need to be stored for only 10 years;
6. the list of shareholders, members of the statutory body and of the board of statutory auditors in commercial companies must be stored for 6 years.

With regards to tax documents, entrepreneurs subject to passive VAT must file said documents for a period of 10 years from the close of the tax period.

Tax and accounting amortisation and depreciation

Amortisation and depreciation are a key area for entrepreneurs that must declare their effective expenses in the tax returns (in contrast with those that operate under the flat rate). The ways in which durable goods are devalued are mainly defined by tax laws and accounting rules, with slight disparities between the two systems.

For each asset that can be registered according to the respective indications, it is necessary to establish a depreciation plan, the choice of criterion being irreversible. According to Czech legislation, from an accounting point of view, it's possible to adopt a plan based on time, with the option of a linear or accelerated approach, or based on performance and use. With regards to tax accounting, however, only time-based plans are admitted, persuading most enterprises to prefer them in order to avoid discrepancies.

Another distinction between the two accounting methods is the possibility of suspending the depreciation plan. This option is permitted only by the tax regulations, if it is

possible to demonstrate that the asset has not generated income in the financial period in question.

Finally, since 2021, tax accounting has no longer included intangible fixed assets. If the nature of the asset and the expense meet determined requirements, it is still possible to record them in an amortisation plan.

Depreciation of tangible fixed assets

According to the law on income tax, it's possible to fiscally depreciate assets that have a useful life of over a year and which come under the following categories:

7. Buildings, houses, units and other real estate assets, with a number of legal exceptions (for example, a small shelter for hunting in the forest). Land on which there are no buildings are not, instead, except for few exceptions, included in the tax depreciation groups.
8. Tangible movable property whose purchase value was greater than 80,000 CZK. For example, software or the construction of a new website for 100,000 CZK do not come under any tax depreciation group. If, instead, you have purchased a new air-conditioner for your company and its cost is over 80,000 CZK, you can include this item in the tax deductions.
9. Adult animals and their groups, if their purchase value exceeds 80,000 CZK.
10. Other assets provided for by the law on income tax (this includes, for example, a leased car with a value of over 80,000 CZK).

Within annex no. 1 of the Law on income tax, six depreciation groups are identified on the basis of the useful life of the different asset categories:

Depreciation group	Minimum period	Examples
1	3 years	IT equipment, video cameras, agricultural machinery, ...
2	5 years	Motor cars, antennas, office equipment, ...
3	10 years	Air conditioning systems, boilers, cranes, etc.
4	20 years	Wooden or plastic buildings, fences, engineering infrastructures, ...
5	30 years	Production sites, communication routes, ...
6	50 years	Hotels, schools, administrative and commercial buildings, ...

The taxpayer can choose from the following depreciation methods:

- › Linear: with the exception of the first year (when the tax deduction is higher), the tax deductions are the same amount for all subsequent years. The result, therefore, is that for the first year, the calculation will be as follows: (introduction price of the asset x depreciation rate of the first year) / 100; for the following years a constant rate is used: (entry price of the asset x annual depreciation rate) / 100. The resulting rates will, therefore, be as follows;

Depreciation group	In the first year of depreciation (%)	In the subsequent years of depreciation (%)	For increased entry price (%)
1	20	40	33.3
2	11	22.25	20
3	5.5	10.5	10
4	2.15	5.15	5
5	1.4	3.4	3.4
6	1.02	2.02	2

- › Accelerated: the amount of depreciation is constantly reduced during the asset's depreciation period. Accelerated depreciation in the first year is calculated as follows: purchase price/first year coefficient; for the following years the anticipated depreciation calculation will be as follows: (2 x residual value) / (coefficient – year of depreciation). In this case the depreciation rates correspond to the table below:

Depreciation group	First year of depreciation coefficient	Coefficient of the subsequent depreciation years	Coefficient for increase in entry price
1	3	4	3
2	5	6	5
3	10	11	10
4	20	21	20
5	30	31	30
6	50	51	50

Amortisation of intangible fixed assets

As mentioned, the principles relating to this category of fixed assets are exclusively of an accounting nature, as consideration of intangible durable assets was eliminated from the tax laws from 2021. Tax amortisation remains possible for assets already registered as acquired before that date.

Three conditions must be met in order to be able to register an intangible asset:

1. It's durable – its useful life must be greater than 1 year,
2. It's intangible – it has no physical form,
3. Its value exceeds the limit – every company establishes a value limit in an internal policy; if the value exceeds the limit, the asset is accounted for in the 01-accounting group (intangible fixed assets). Companies often fix this limit at 60,000 CZK, according to the definition that the law on income tax gave in the past to intangible fixed assets.

The categories that can be registered by their nature are:

11. Software and other IT programmes;
12. Research and development costs or external investments in the area;
13. Copyright on industrial drawings, trademarks, patents, etc.;
14. Secondary goodwill (that is, deriving from the acquisition of another company or company branch); this item is the only one that does not require the minimum value condition;
15. Other intangible fixed assets: emission permits, preferential limits
16. Technical improvement costs that significantly change the value of the reference asset and/or its intended use.

As the amortisation of intangible fixed assets is exclusively of an accounting and not a tax nature; Czech Law does not identify amortisation groups for this category of assets. The amortisation plan is to be developed independently by the company, in line with the asset's useful life.

Changes from the January 2024 package

The amendment that came into force at the beginning of the year introduced significant new developments regarding net turnover, the sustainability report and the income tax report, with significant impacts on business accounting practices.

Net Turnover: The new definition of net turnover marked a change from the previous one, which defined it as the sum of revenues less any discounts on sales if these had already been deducted from revenues in the income statement. Starting from financial statements for the 2024 financial year, net turnover will be calculated exclusively as the sum of revenues deriving from the sale of products and goods and from the provision of

services which are fundamental in the company's business model. This definition must specifically consider the sector and reference market, as well as the nature of the activity carried on with the clientele. By way of example, a company that sells its products under cost, receiving regular subsidies for this activity, must include the income from subsidies in its net turnover, regardless of the income statement heading in which they are registered, focusing on the commercial substance of the transaction.

Sustainability Report: According to Part Eight of the law on accounting, large accounting entities that have on average over 500 employees during the financial period, and entities of a public interest, are obliged to draw up a sustainability report as part of non-financial reporting, known as ESG. This obligation will be extended also to medium and small enterprises in the coming years.

Income Tax Report: Part Nine of the law provides for the obligatory drawing up of an income tax report. Specifically, tax accounting units (regardless of control or ownership relationships), which operate as commercial companies and have foreign subsidiaries or a foreign stable organisation in the financial period, are obliged to draw up this report for the first time upon exceeding a net aggregate annual turnover of 19 billion CZK for the second of two consecutive periods and for the last time upon the failed achievement of this threshold for the first of two consecutive financial periods.

These changes aim at improving the transparency and improve transparency and compliance with the principles of sustainability and fiscal responsibility, reflecting the evolution of stakeholders' information needs and of financial and non-financial reporting standards.

4. Work and human resources

4.1. Employment legislation

The Czech Labour Code establishes the rights and obligations of both workers and employers, covering areas such as the employment contracts, working hours, holidays, health and safety conditions at work, and disciplinary procedures. The Code provides for two forms of contractual labour regulation:

- › the employment contract;
- › agreements for work carried out outside of an employment relationship, that is, the Work performance Agreement and Work activity Agreement.

4.1.1. The employment contract

Upon the establishment of a working relationship, it is essential to stipulate an employment contract in writing between the employer and the employee, a copy of which is kept by the employee. In order for it to be properly entered into, the contract must be drawn up and signed by and not later than the agreed day for the start of work, also through an electronic communication network or service. Before the signing of the contract, the employer is obliged to inform the person they intend to hire the rights and obligations deriving from the contract, the work conditions and remuneration under which the employee will perform their work duties. Since 2023, there has been an extension to this information, for which the employer must compulsorily also communicate: the duration and conditions of the trial period; the established weekly working hours; the nature of overtime; the social security body to whom insurance premiums are to be paid; the conditions for the electronic delivery of documents and the conditions of posting of employees in the territory of other States. If the contract does not set out the rights and obligations deriving from the employment relationship, the employer is obliged to inform the employee in writing within and not later than 7 days from the start of the employment relationship.

In addition, the employee, also if not an employment agency, can temporarily assign the employee to another employer. Until now, only employment agencies could carry out this task. It's essential, however, that the conditions of the assigned employee are not of a lower level than the previous working conditions.

The contract must necessarily contain:

- › a description of the type of work for which the employee is hired. It should be noted that an employee can work for the same employer in multiple relationships, but cannot carry out work of the same type; the employee can, however, work on the basis of a number of employment contracts with different employers at the same time, but the written agreement of the employee is essential if the business activities of the respective employers are the same;
- › place of work;
- › starting day. If the worker does not arrive on the agreed day without there being an impediment, or the employer is not informed of the impediment within one week, the latter can withdraw from the contract.

The trial period cannot exceed 3 months, extendible to a maximum of 6 months for executives. This enables both parties to evaluate whether the job and the employment contract are appropriate. Failed indication of the trial period renders the contract invalid. This period must be agreed upon at the latest on the day of entry into work and, therefore, cannot be established retrospectively or prolonged. In fixed-term employment, the trial period cannot be greater than half of the agreed duration of the contract.

Besides these essential requirements, further conditions can be written in the contract, such as: individual salary conditions, type of contract, reduced or modified working hours, shift work. In negotiating the contents of the contract, it should always be borne in mind that if it breaches legal regulations, the contract may be void in this part.

The agreed conditions can be changes only subject to agreement between the contracting parties. An employer that violates the obligations established upon the creation of an employment relationship commits an offense under the relevant provisions of the Labor Inspection Act and can be fined for this.

Working hours and rest

The labour Code establishes a maximum ceiling of 40 hours per week, with specific reductions for certain categories: 37.5 hours for those working in continuous shifts or in three shifts; 38.75 hours for those working in a two-shift regime; and 40 hours for workers under 18 years of age. Workers must arrive at the place of work before the starting time and leave after the established time. Fewer working hours must be agreed between the employer and the employee, who has the right to a corresponding wage upon the reduction of the agreed hours.

The employer plans the working hours and determines the start and end of shifts. The working hours can be organised in a regular and irregular manner. A regular regime

means that the shift must not exceed 9 hours per day, while an irregular one can arrive at 12 hours. In addition, the employer is obliged to draw up a weekly working timetable in writing and inform employees of it or its modification within and not later than weeks beforehand. It's possible to adopt flexible working hours, allowing the employee to choose the daily work start and end times, provided the overall duration of the shift does not exceed 12 hours. In the event of flexible hours, the average weekly hours must be completed within a pay period determined by the employer.

The employer is obliged to keep a record of individual employees with all information relating to them, such as: shifts, overtime and agreed overtime and night work. The worker can examine their working time account, their salary account and obtain extracts or copies at the employer's expense.

The employer is obliged to give the employee a lunch break and a rest of at least 30 minutes after 6 continuous hours' work, which can be broken down into intervals of at least 15 minutes each. A minor employee can take a break after a maximum of 4.5 hours of continuous work without exceptions. This time is not included in the working hours. In addition, a rest of 11 hours in a cycle of 24 consecutive hours is guaranteed, while a minor employee is guaranteed 12 hours.

Overtime

Overtime is admitted only in exceptional cases and, for urgent operating needs, during the rest time. The maximum ceiling, however, is 8 hours per week and 150 hours a year. These limits can be exceeded, subject to agreement with the employee, but the average number of overtime hours must not exceed 8 hours per week in a period of 26 weeks, extendible to 52 weeks with a collective contract. The calculation of overtime hours does not include those hours compensated with rest.

When flexible hours are applied, overtime is always considered as work in the context of the specified weekly timetable.

Days of rest from work and holidays

Days of rest are the days on which the worker has a continuous rest during the week and on holidays. Work is permitted on these days in exceptional situations, such as urgent repairs or natural events, and come under certain categories, including the maintenance of essential services and looking after animals. The request for such work, however, can be made only twice every 4 consecutive weeks. In the event of a night worker, the day of rest begins at the time corresponding to the beginning of the shift of those stating first in the week according to the shifts schedule.

The quantity of holidays is at least 4 weeks a year, except for certain employers for which the total is 5 weeks a year. If during the year a worker changes the weekly timetable or reduces it, they shall have the right to holidays proportionate to that period. Starting from 2021, the amount of holidays is determined on the basis of the number of hours worked and no longer on the basis of the days worked. For most employees this doesn't change anything, as the amount of holidays for a working week of 40 hours is 160 hours, that is, 20 working days. For part-time work (20 hours a week), the minimum holiday entitlement is 80 hours. This new system allows employees with many hours of overtime to enjoy an increase in holidays.

Employees that work for a year in the mining sector, or who perform particularly difficult work, are entitled to additional holidays, equal to a fiftieth of the established working hours. Employees who carry out heavy-duty work are those who for at least half of their working hours:

- › work at healthcare providers or in places where tuberculosis patients are treated;
- › are exposed to infections in places with materials;
- › work in the treatment or service of the mentally disabled;
- › educate young people in difficult conditions or work in the penitentiary medical service;
- › work for at least one year in tropical areas or areas at risk of health (for a period greater than a year they are entitled to one twelfth of additional holidays every 21 working days);
- › work in prison in direct contact with defendants detained or sentenced to prison;
- › work as divers under increased pressure in wetsuits or carry out work on the caissons in compressed air in the work chambers;
- › provide emergency medical services;
- › exterminate harmful animals in sewers or come into contact with sewage and biological waste during the operation of treatment plants.

In establishing the holiday schedule, it's necessary to take into consideration the operational requirements of the employer and the employee. If leave is granted in several parts, at least one part must last at least 2 weeks in total, unless otherwise agreed between the parties. When a worker fails to take holiday leave by the end of the following year due to temporary inability or having taken maternity or parental leave, the employer must schedule the holidays after the removal of these impediments. The employer must communicate the holidays to the employee in writing at least 14 days before them, unless the latter agrees a shorter period. It's possible to use holidays also if not entitled to them

if it is presumable that the employee will satisfy the conditions by the end of the year or up to the end of the employment relationship. The worker has the right to reimbursement of expenses incurred if the employer has not changed the period of holidays taken or because the employee has been recalled.

Employees are entitled to a salary allowance for holidays or part of them for an amount equal to the average salary. In the event of termination of the relationship, the employee has right to compensation for holidays not taken. It is not possible to provide compensation for additional holidays not taken, as they must always be taken as a priority. A worker that performs their activity in another Member State is entitled to reimbursement according to the legislation of the latter.

From 2024, leave for other jobs of general interest to better reconcile work and private life is also provided for. This leave is granted to workers engaged in activities for the management of camps for children and young people and related economic and health support activities; to leaders, educators, instructors and paramedical staff in youth camps; and in similar activities for young people. The maximum limit II for this period is 3 weeks per year. For the holiday period, the employee is entitled to a salary compensation for the number of hours of holiday corresponding to the duration of their fixed weekly working hours paid from the start of the first use of work leave. The employee's compensation is calculated on the basis of the average hourly wage, but cannot exceed the value of a fifty-seventh of the average national wage, calculated according to the Czech Statistics Office for the first three quarters of the previous year.

Duration of the working relationship

There are traditionally two types of employment contract: permanent contracts, which don't have a specified end date and continue until they are terminated by one of the parties, according to the conditions provided for by law and contractual agreements; and fixed-term contracts. Fixed-term contracts in the private sector can be entered into for a duration greater than 12 months and with a maximum of 24 months. Until and not after 31 December 2024, it's possible to extend the contract for needs of a technical, organizational and production nature recognizable by company-level and collective bargaining. This extension is subordinated to approval, alternatively, by the competent labour inspection services or one of the offices of the certification commissions.

The rules for obtaining fixed-term contracts of a duration greater than 24 months but not greater than 36 months overall remain valid, however also in 2024, only in case of real existence of technical, organizational and production reasons. There are, however, limitations to the extension of the contract in that it can be extended for a maximum of 4 times in the space of 24 months regardless of the number of contracts. Current legislation

provides that, once the limit of 12 months has been exceeded, in the absence of conditions that legitimise the extension to 24 months, or in the event exceeding 24 months, the contract automatically becomes permanent from exceeding the term.

4.1.2. Termination of the work relationship

The relationship can be terminated:

- › by agreement;
- › for dismissal (employer) or resignation (employee);
- › immediate termination;
- › termination during the trial period;
- › expiry of the agreed term;
- › for foreigners, with expulsion or the expiry of the term for which the residence permit has been issued;
- › for death of the employee.

Agreed termination

When the employer and the employee reach a mutual agreement for the termination of the work relationship, this concludes on the date established between the parties through its formulation in writing in order to be valid. Both parties in question receive a copy of this document, thereby ensuring transparency and clarity in the employment relationship termination agreement. Further to the employee's request, the employer is obliged to set out in the agreement the reason for the termination of the work relationship.

Dismissal and resignation

Pursuant to §52 of the Labour Code, the employer can dismiss only on certain grounds, which are:

- › the employer's undertaking, or its part, is closed down;
- › the employer's undertaking, or its part, relocates;
- › changes such as a change in work tasks, technical equipment and a reduction in the number of staff for the purpose of increasing labour productivity or other organisational changes;
- › inability to perform the work further to an accident at work or threat of occupational disease or if the employee's workplace has exceeded the maximum level of exposure permitted by the competent public health agency;

- › loss of ability to perform work for an extended period due to state of health;
- › failure to meet job requirements or demands, including unsatisfactory work
- › performance (in this case, dismissal is valid if, in the last 12 months, the worker has been formally warned in writing by the employer regarding said shortcomings and has not taken steps to rectify them);
- › the carrying out serious or less serious but repeated actions (in this case, dismissal is valid in the event that, in the preceding 6 months, the employee has been warned on the possibility of termination of the contract);
- › violation of work rules.

Termination of the relationship must be carried out in writing in order to be valid. In addition, the reason for termination must be clearly set out in the dismissal letter, so that it cannot be misunderstood or replaced.

The employee, conversely, can resign for any reason and without motive. On the case of termination through dismissal or resignation, the work relationship terminates at the expiry of the agreed period, which cannot be less than 2 months. The termination can be revoked only with the agreement of the other party, provided in writing.

Immediate termination of the work relationship

Immediate termination of the work relationship can be requested by:

- › the employer: in cases in which the employee has been sentenced to a prison sentence for an intentional crime for a period exceeding 1 year; for a crime committed during the performance of work duties for a period of at least 6 months or in the event of violation of regulation relating to the work performed. It is not possible to immediately terminate the contract with respect to a worker who is pregnant or on maternity leave.
- › the employee: in the event of the impossibility carry on work duties due to serious threat to their health and the employer has not permitted them to carry out different work in the 15 days after submission of the medical report or if they have not received their salary, even partial, by the 15th day after the due date.

For both parties, the communication of termination, in order to be valid, must be in writing and sent by registered letter to the other party. It must set out the reason for termination, in such a way that it cannot be replaced or modified. The parties can terminate the work relationship only within 2 months of the day on which they become aware of the reason, and at the most, however, within 1 year of the day on which the reason arose.

For particularly serious violations of other duties of the employee, the employer may dismiss them within 1 month from the day on which they became aware of the reason for dismissal, but not later than 1 year from the day on which the reason occurred. If during the month behaviour of the employee becomes the subject of an investigation, the warning of dismissal can be given within one month of the outcome of said investigation.

Termination of the fixed-term work relationship

In the case of a fixed-term contract, the work relationship terminates upon the expiry of the established term. If the employee continues their activity after expiry, and the employer is aware of this fact, the contract automatically becomes permanent. This relationship can terminate before expiry through dismissal, agreement between the parties, immediate termination, termination during the trial period or death of the employer. In all events, employees must be informed of the reasons for withdrawal with notice in such a way as to equate the treatment with permanent employees.

Termination of the work relationship during the trial period

During the trial period, both the employee and the employer can end the relationship without having to provide any specific reason. The employer cannot interrupt the relationship, however, in the first 14 days of absence of the employee for illness or quarantine. Termination must be in writing in order to be valid and takes effect from the day of communication, unless a different date is indicated.

Notice

The work relationship terminates on the expiry of the notice period. This term is at least two months for both parties, with the possibility of extension by written agreement. Notice begins on the first day of the month after notification of dismissal and ends on the last day of that month.

Severance indemnity

Upon termination of an employment relationship on the basis of an agreement or notice, the employee is entitled to an allowance based on the duration of employment which also includes previous periods of employment with the same employer, provided the interval between the conclusion of a contract and the start of the following one doesn't exceed 6 months:

- a. one month's salary of the employee's average salary, in the case of employment for less than one year;
- b. double their average salary, in case of employment of at least 1 year and less than 2;
- c. three times their average salary, in the case of employment of at least 2 years;
- d. three times their average salary plus the other amounts specified in letters a) to c), if the termination occurs applying the procedures of § 86, paragraph 4 in the working time calculation. According to the article, if set out in the collective contract, overtime hours worked can be counted in the working hours of a pay period established in the same contract, which must not exceed 52 consecutive weeks, and up a maximum of 120 hours.

In the case of termination of the relationship due to physical incapacity resulting from an accident at work or professional hazard, the allowance is equal to 12 monthly average salaries.

The employer is obliged to pay the severance indemnity to the worker at the closest payment deadline stipulated for the salary, unless it is agreed in writing with the worker to make the indemnity payment on the day of termination of the work relationship or on a subsequent payment date.

4.1.3. Work agreements

Agreements for work tasks carried out outside the employment relationship are governed by legal regulations applying to the employment contract, with a number of exceptions, such as severance pay, working hours, obstacles to work for the employee, termination of the relationship and compensation.

If it has not been agreed how to terminate the relationship defined by a work performance contract or a work activity agreement, it's possible to cancel it through: mutual agreement for an agreed date; cancellation with or without motivation with 15 days' notice or immediate cancellation (the latter option is valid only in the specific cases permitted for the immediate termination of the work relationship). Termination must be formalised in writing in order to be considered valid.

Since 2023, there have been a number of developments in this area. First of all, workers can now ask to switch to a traditional employment relationship after having worked at least 180 days in the last year. The employer must respond in writing and motivate their decision on the question. In addition, employees have the right to additional allowances for working at night, on weekends and on public holidays. On the other hand, the employer has greater obligations regarding work planning. For this reason, the employer has to plan shifts for employees in advance to be communicated to them at

least 3 days before the start of the shift or period (unless otherwise agreed) and must keep records of their hours of work and, in the event of a control by the labour inspectorate, demonstrate that employees observe continuous daily rest during the week and the breaks during the shift.

From 2024 employees that work on the basis of work performance contract or a work activity contract are entitled to holidays. In this case, the weekly working time for holiday purposes is 20 hours per week. For an employee to have the right to at least a proportionate part of annual holidays, they must work for at least 28 days in the same year in the context of an employment law relationship in question for at least 80 hours.

Agreement to perform a job (Dohoda o provedení práce)

Work performed under a work performance contract must not exceed 300 hours per year. This limit includes the time worked for the same employer on the basis of other work agreements in the same year. The agreement must detail the agreed work, the period of validity, the compensation and working hours.

Compensation for performing a work task is paid upon delivery of the work. It's possible to also agree partial remuneration upon delivery of a well-defined part of the work carried out. The compensation is subject to health and social security insurance if it is greater than 10,000 CZK/month, otherwise no contribution payment is envisaged.

Agreement for work activity (Dohoda o pracovní činnosti)

An employer can enter into a contract with a natural person for occasional work activity or activity limited over time that does not exceed 300 hours in a year. This contract must not provide for an average hourly commitment exceeding half of the defined weekly hours. This limit applies for the entire duration of the contract, up to a maximum of 52 weeks. The written contract must set out in detail the work, the agreed time and the duration of the contract.

Compensation for the work performed is paid within the established terms by the employer for the payment of salaries, possibly on a one-off basis after carrying out the work (in the first term valid for the payment of salaries). The compensation provided for by this type of agreement is subject to income tax and social security and health insurance contributions.

Remote and shared working

From 1 October 2023, the new rules for remote working also apply. An essential requirement for this type of work is a written agreement between the employee and the employer. The employer can agree in writing with the employee that they will perform their work remotely, with or without compensation. Reimbursements for costs associat-

ed with the performance of the work can be established through a realistic calculation on the basis of what is demonstrated by the worker or in a lump-sum. The lump-sum is determined on the basis of data published in the Czech Statistics Office regarding household consumption adjusted to the model for an adult in an average Czech household on an hourly basis. If the worker is employed with a work performance contract, or a work activity contract, they have the right to a reimbursement of expenses for the remote work if this benefit has been agreed with the employer.

A remote work contract can be terminated by mutual agreement between the employer and the worker, or for any reason or also without specific motivation, with notice of fifteen days from the delivery of the written communication. The employer and worker can establish a different notice period, which must be the same for both. It's possible also to agree that the contract cannot be terminated unilaterally. No changes to working hours caused by weather conditions or to remuneration and enjoyment of holidays apply in remote working.

When an employer sends an employee to work abroad, they must provide written details on the state of destination, the expected duration, the currency of payment, any additional benefits and return conditions. If the work is outside the EU, the employer must also give information on the salary according to local laws, travel allowance conditions and a link to the national official internet address of the hosting state. These details can be replaced with a reference to laws or pertinent contracts. Said information is not required for transfers of less than 4 consecutive weeks. In addition, workers sent for at least 12 months will have to comply with the Czech Labor Code for all aspects of the employment relationship, with the exclusion of the start, termination or modification of the employment relationship which will follow the legislation of the host state.

The possibility has been introduced in recent years of also sharing work hours between a number of employees who will be employed on shorter hours so that they can work the entire time between them, replacing each other without direct intervention from the employer. The aim is to cover the working hours generally performed by a single worker by a number of people so as to find a better balance between personal and work time. Workers must send the employer a joint, written plan of working hours for shared spaces at least one week in advance. Failing this, the employer will establish the schedule. Any change to the schedule must be communicated in writing two days in advance, unless otherwise agreed. The contractual obligation can be terminated with a written agreement between the employer and the worker. Both parties can decide to withdraw from the contract for any reason, or without specifying one, informing the other party giving fifteen days' notice from delivery of the written notice.

Remuneration

The salary is negotiated in the contract or determined by the employer or an internal regulation or in a salary scale before starting work. If the employer does not pay remuneration to employees in a regular and timely manner, this gives rise to the worker's right to interest. In the case of a delay of more than 15 days, the labour code authorises the employees to withdraw from the relationship with immediate effect, accruing for the right to a reimbursement of the salary corresponding to at least 3 average monthly salaries. The right to remuneration is subject to a 3-year limitation period, extendable to 10 years in the event that the employer recognizes in writing the amount and reason for the right.

According to government data, the official minimum wage in the Czech Republic in 2024 is 18,900 Czech crowns per months, 1,600 crowns higher than the previous year. The average gross salary has also increased, exceeding the threshold of 43,000 Czech crowns, equivalent to around 1,700 euros, an increase of 7.5% with respect to the previous year.

Work safety

The employer is responsible for ensuring the safety and health of employees at work, considering the risks that could threaten their safety and well-being due to their work activities. The employer must constantly monitor the work environment to identify dangerous factors and processes, analysing their causes and origins. They have to assess the risks identified and adopt adequate measures to eliminate them, reducing the classification of the risk according to current regulations. If it is not possible to completely remove the risks, the employer must accurately assess them and implement strategies for limiting their effects.

When the workers of different employers share the same work environment, it's essential that the latter exchange information on the dangers and on the preventive measures adopted, through written communication. A written agreement will establish which employer will deal with coordinating the implementation and maintenance of the safety measures; all must, however:

- › organise and coordinate their own work activities so as to protect not only their own employees but also those of the other employers present;
- › promptly and adequately inform both the trade unions and the workers' representatives specialized in safety at work, and their employees (also if employed by others) on the risks identified and in the preventive measures adopted, on the basis of the information received from the other employers

It is also the employer's responsibility to bear the costs necessary to ensure this safety, without the possibility of them being transferred, directly or indirectly, to the employees. Industrial protective devices and other protective tools belong free of charge to the employees on the basis of an assessment of the risks and specific working conditions; as a result, it is not possible to replace their supply with a financial compensation.

In the event of accidents, the employer is obliged to clarify the causes and the circumstances with the participation of the employee, if their state of health so allows it, witnesses and the trade union and not change the conditions of the accident until the causes have been clarified. Following the reporting of the event, the employer must send a relevant report to the specified institutions on the basis of what is established by government regulations. All accidents and cases of occupational disease that occur in the workplace must be reported in a specific register. The employer is also obliged to compensate the pecuniary or moral damage caused to the worker in the workplace or during the performance of the work or in direct connection with it, unless this was caused by negligence attributable exclusively to the worker him/herself.

Employee health insurance

Health insurance for employees is paid by the employer and the employee him/herself and is deducted from the wage by the first. The amount is determined applying the percentages established by the law to the tax base which corresponds to the sum of income from employment, which falls within the scope of taxation on natural persons who are not excluded from the tax, calculated by the employer in relation to the employment relationship (obligations in monetary and non-monetary form and other benefits). On this basis, 13.5% contributions are calculated, of which a third (4.5%) is paid by the employee, while the remaining two thirds (9%) are payable by the employer. The payment of health insurance is made on the day of payment of the salaries. The law, on the basis of the minimum wage, establishes a minimum amount of 2,968 CZK/month for 2024.

The minimum calculation base may be reduced based on the number of calendar days if:

- › the employment did not continue for the entire month
- › the employee has benefited from a work permit due to significant personal obstacles to work;
- › the employee is a person for whom the state also pays the insurance (for example, a disabled person, etc.).

Employee social insurance

Employee social security insurance is paid partly by the employer and partly by the employee, and includes: sickness insurance, pension insurance and the contribution to the state employment policy. The amount to be paid is calculated on the basis of percentage rates established by law underlying the calculation, equal to the sum of income from employment subject to personal income tax of natural persons who are not equal to the sum of income from employment, which falls within the scope of taxation on natural persons who are not excluded from the tax, and which the employer has calculated with reference to the employment (obligations in monetary and non-monetary form and other benefits). Recent legislative changes have introduced rates for which the premium is subdivided as follows:

- › the employer pays 24.8% of the employee's gross salary, of which:
 - › 2.1% for sickness insurance;
 - › 21.5% for pension insurance;
 - › 1.2% for the state employment policy;

- › the employee pays 7.1% of gross remuneration, of which:
 - › 0.6% for sickness insurance;
 - › 6,5% for pension insurance.

Since 2023 the employer has been able to apply a discount for certain groups of employees that are not able to work specified weekly working hours, that is:

- › people over 55 years old;
- › parents or guardians of children under 10 years old;
- › people with disability;
- › students up to 26 years old;
- › a person who were looking for work in the 12 months preceding the application of the discount;
- › young people under 21 years old.

The discount can be applied once a month, provided a work schedule of at least 8-30 hours per week has been agreed.

The payment of social insurance is made monthly on the day of payment of salaries.

4.1.4. Illegal work-lo Švarcsystém

The term Švarcsystém refers to a work practice where companies hire workers as freelancers or through contracts for works rather than as traditional employees. This allows companies to circumvent employment legislation, avoiding to pay social security and insurance contributions, as well as providing other benefits to employees, such as paid holiday and health insurance.

An amendment to the Employment Law in 2024 expanded the conditions for assessing illegal work. The new Employment Act specifies that the duration of work does not influence the assessment of irregularities of the work itself. Previously, continuity of employment was considered indicative of a relationship of subordination which needs to be regulated in an employment contract.

Now, inspectors can verify not only the consistency of employers' declarations, but also examine invoices and other documents to identify possible cases of hidden work, assessing various factors such as personal and economic dependence, work places and hours, the registration of activities performed and the possession of know-how. This could increase inspection and the relative sanction on the part of labour inspectorates and tax authorities, with fines ranging from 50,000 to 10 million crown for companies and up to 100,000 crowns for individuals involved in illegal work. The possibility of prohibiting business activity for up to 2 years for an entrepreneur that has permitted the practice of illegal work was also introduced.

4.2. Labour market

4.2.1. Unemployment

Despite a slight increase in the unemployment rate during January caused by economic difficulties, Czech unemployment remains one of the lowest in the European Union. During the year, in fact, a constant rate of 4% is expected, numerically equivalent to around 296,107 unemployed people. More specifically, the male unemployment rate is 2.5%, while the female one is 3.6%, showing a persistent disparity. Although female economic activity has grown in the last three years, compared to a stationary male rate, the misalignment between the two values is expected to continue in the years to come.

At a territorial level, Prague has the lowest unemployment rate of the 14 Czech regions, at 2.87%. Zlín and Pilsen have the next lowest rates, equal to 3.16% and 3.21%. The regions of Ústecký, Moravskoslezský and Karlovy Vary have the highest rates, with the districts of Karviná, Bruntál and Most with the highest unemployment. Changes in unemployment were minimal between January and February 2024, although in annual terms

there has been an increase in 12 regions and a fall only in Prague and central Bohemia. Compared to January of the previous year, in Prague the number of job applicants and vacancies increased by 4.1%, with ratio of 2.84 jobs for every job seeker.

4.2.2. Expense reimbursements

An employer is obliged to pay an employee an allowance during business trips:

- › travel expenses;
- › travel expenses for visiting a family member;
- › accommodation;
- › meals;
- › necessary ancillary expenses.

Employees are entitled to a reimbursement of travel expenses using public means of transport for long distances or taxis, on the basis of a documented amount. If the employee opts for another means of transport with the employer's approval, the employee received a reimbursement equal to the designated public transport fare. Use of a private vehicles further to the employer's request guarantees a basic allowance plus reimbursement of the fuel by kilometres travelled, with specific tariffs according to the type of vehicle. Compensation for fuel consumed is determined by the employer as a multiple of the price of fuel and the quantity of fuel consumed. If the employee fails to reliably demonstrate the price of fuel to the employer, the latter will use the average price to calculate the amount of compensation.

If the business trip lasts more than 7 days, the employee is entitled to a reimbursement of travel expenses to visit a family member. The reimbursement will be paid within and not later than the fourth week from the beginning of the business trip or from the family visit, unless a shorter period is agreed. The worker is not entitled to board and lodging during the visit.

An employee can obtain the reimbursement of accommodation expenses for business trips, provided they provide proof to the employer. If the stay is extended for visiting a family member, the expenses are reimbursed only if relating to business trip needs. If, however the trip is interrupted for personal reasons, the employer is not obliged to cover accommodation expenses, although they have been incurred for work purposes.

For business trips, the meal allowance for employees varies on the basis of prices and duration:

- › 120CZK, if the trip lasts between 5 and 12 hours;

- › 181CZK, if the trip lasts between 12 and 18 hours;
- › 284CZK, if the trip lasts longer than 18 hours.

If during the trip the employee has not contributed financially to a meal (a free meal), they are entitled to a reduced allowance for each meal up to the value of:

- › 70% of the meal allowance if the trip lasts between 5 and 12 hours;
- › 35% of the meal allowance if the trip lasts between 12 and 18 hours;
- › 25% of the meal allowance if the trip lasts longer than 18 hours.

These provisions do not apply in the case of trips abroad; instead, the base rates of the hosting country apply.

An employee is entitled to the reimbursement of necessary additional expenses incurred for work, demonstrable to the employer. If the amount cannot be demonstrated, the employee receives a reimbursement based on the standard costs of the goods and services of the place and at the time of the trip.

4.2.3. Salary reimbursement

The method to determine the annual salary compensation limit for holidays has been updated in the Czech Republic from 2024. This allowance is due for the number of holiday hours based on the employee's weekly number of hours and starts from the first use of holidays in the calendar year. If the number of working hours changes, the hours remaining are adjusted accordingly. The reimbursement is based on the average hourly pay up to an established maximum. The calculation of the compensation during work leave is based on the average hourly amount of pay, up to a maximum, in 2024, of 243.90 CZK, corresponding to 9,756 CZK monthly for a working time of 40 hours per week. Employees are entitled to this pay also in the event that they participate in events organised by legal entities registered for at least 5 years, working with children and young people as a key component of their main activities. This is a change compared to the past: it is not enough that work with young people is part of the activities; it has to be a central element. The worker must provide proof of the facts declared to the employer in order to be entitled to the compensation. This is fundamental, not only for the disbursement of the compensation, but also so that the employer can justify and claim the payment of wage or salary compensation to the competent social security institution.

From this year, the request for payment of wage compensation requires the use of an official form, obtainable directly on the website of the Czech Social Security Administration. Together with the prescribed form, the employer must provide adequate doc-

umentation supporting the request, according to the criteria established in the Labour Code. In the event of failed submission of said documentation, the District Social Security Administration (OSSZ) will invite the employer to complete it within 8 days, after which, without fulfilment, the request will not be considered.

4.3. Training and Development of Human Resources

4.3.1. Youth employment

Despite a slight fall of 0.3% compared to December 2023, the Czech Republic has a high youth employment rate of 8.10%. This success is attributable to the university system, which reduces the gap between study and work, and to the ability to attract international students thanks to quality education at affordable prices. Work opportunities, especially in international companies, are favourable also for those who don't know the Czech language, thanks to training activities, competitive welfare and wages, besides the support of effective employment services. Universities promote the acquisition of soft skills through project work with companies, facilitating entry into the work market and contributing to the maintenance of low youth unemployment.

4.3.2. The best universities

The Czech Republic, particularly Prague, have some of the best universities recognised at international level for the quality of instruction and research. Among these, the Charles University (Univerzita Karlova) stands out for its history and for the wide educational offer. Founded in 1348, the oldest and largest university in the Czech Republic, it's an important centre for research and education, with a strong emphasis on the development of knowledge and the promotion of innovation. It offers a vast range of courses in various disciplines, from medicine to human sciences.

Another important university is the Czech Technical University (České vysoké učení technické). Founded in 1707, it's known for its high-quality research and education in engineering and technology disciplines, offering a vast range of study programmes in English and Czech. It attracts many international students and collaborates with global industries and universities, highlighting student preparation in this field.

Then there's the Prague University of Economics and Business (Vysoká škola ekonomická), known in the field of economics and business management. It offers a vast range of study programmes both at bachelor's and master's degree level, attracting students from all over the world for its academic reputation and its strong links with industry.

5. Industrial and commercial sector

5.1. Main industries

The Czech Republic is one of the countries in the European Union that has best maintained the industrial character of its economy. All industrial sectors are present in the country, from precision mechanics to aeronautical and space technologies, textile and energy technologies. Czech industries, well-integrated in the global supply chain, export both finished products and components, supported by local medium-sized and multinational companies. Bohemia and Moravia, historical industrial heartlands of Europe, lead innovation towards sustainability, digitalisation and sustainable mobility, keeping the country's industrial tradition alive.

5.1.1. Automobile sector

The automotive sector dominates Czech industry. The country, in fact, is leader in the pro-capital production of buses and second in the world for motor vehicles. With over 800 companies and over 150,00 workers, it makes a significant contribution to manufacturing production and exports. 1.4 million automobiles, also electric and hybrid, were produced in 2023, around 15% more compared to 2022. There are three large car manufacturers in the country: Škoda Auto, part of the Volkswagen group, TPCA (Toyota / PSA Group joint venture) and Hyundai Motor Manufacturing Czech. These, supported by an excellent supplier network, qualified labour, strategic location and advanced infrastructures characterise the sector. The Czech Republic also has a strong commitment to research and development, with significant investments and university collaborations.

Škoda Auto, one of the oldest car manufacturers in the world, has been an integral part of the Volkswagen since 1991. With its headquarters in Mladá Boleslav, it has played a key role in the country's economic development, thanks to its vast network of local suppliers and workforce. The company not only exports in numerous international markets, but invests heavily in R&D, especially in areas like e-mobility self-driving technologies.

TPCA was a joint venture between Toyota and the PSA group (now part of Stellantis), based in Kolín. The factory began production in 2005, focusing its activities on the production of small-size models for both parent companies. In 2020, however, it was announced that Toyota would take full control of the plant, with the result that it's now called Toyota Motor Manufacturing Czech Republic.

Hyundai Motor Manufacturing Czech (HMMC), based in Nošovice, is part of Hyundai's strategy of strengthening its presence in the European market. Opened in 2008, the factory is one of the most modern and technologically advanced in Europe, with a production capacity that meets a large part of the European demand for Hyundai models. This investment has had a significant impact on the local economy through the creation of jobs, orders for local suppliers and investments in infrastructures and advanced technologies.

5.1.2. Machinery and equipment

Since the beginning of the 20th century, the metalworking and mechanical engineering industry has been vital for the Czech economy, becoming one of its cornerstones. In 2021, manufactured products have accounted for 90% of total goods exported by the country. With over 5,200 companies involved in the production of machinery, including advanced equipment, the Czech Republic has established itself as a centre of excellence in the production of industrial machinery, equipment and tools. With companies that specialise in the supply of technically sophisticated components, the sector produces a vast range of equipment, ranging from railway transport systems to defence equipment.

The country has consolidated its reputation also in the aerospace sector at global level. Fundamental for the history of Czech aeronautics was the birth of Aero Vodochody in 1919, founder of a sector that today includes over 120 specialised companies and more than 21,000 workers. Among its notable successes is the L-410 by Aircraft Industries, a world leader in its category, and the GE H80 turboprop engine by GE Aviation, entirely designed and produced outside the USA. The Czech Republic also hosts the headquarters of the European Agency for the global navigation satellite system (Galileo), marking another first for the country in the sector. Among other examples of excellence is the cutting-edge laboratory for testing turboprop engines, considered one of the best in the world, and the country is one of the leading producers of ultralight sport aircraft.

The leading company in the mechanical sector is Siemens Industrial Turbomachinery, which forms part of the Siemens global conglomerate, famous for its precision engineering and technological innovation. This division focuses on the design, production and maintenance of industrial turbines, which are used in sectors such as power generation, oil and gas and industrial manufacturing. Siemens turbines are essential for the energy and operational efficiency of industrial plants and power plants around the world.

Another important company is Denso Manufacturing s.r.o., which is part of Denso Corporation, a global leader in the supply of advanced components for the automobile industry. This company is known for producing high-quality auto parts, including air-conditioning systems, fuel injection components, safety systems and electrification technol-

ogies. As part of a Japanese multinational, the Czech subsidiary makes a significant contribution to the local and international automobile industry, with a strong commitment to innovation and sustainability.

5.1.3. Information and communication services

The Czech Republic stands out for its strong tradition in technological sectors, supported by an advanced IT infrastructure and a vast network in fibre optics. This technologically advanced environment, enriched by the presence of important companies in the IT security field and others, offers fertile ground for the development of innovative projects, start-ups and incubation centres.

There are around 35,000 companies and 150,000 workers in the country's ICT/IT sector, with a constant flow of talent, highlighted by 27,300 students annually, of which around 6,000 graduated in IT disciplines. Important centres of excellence have emerged, not only in Prague, but also in the cities of Brno and Ostrava, contributing to the diversification and strength of the sector throughout the country.

O2 Czech Republic a.s. is one of the main suppliers of telecommunications systems in the Czech Republic, offering a vast range of services, including mobile and landline telephony, data transmission, and IT solutions for private and corporate customers. The company is part of the PPF international telecommunications group, and has a long history in the company, continuing to innovate and expand its offer of services, also in the field of the Internet of Things (IoT) and cloud computing solutions.

Vodafone Czech Republic a.s. is a subsidiary of the global telecommunications giant, Vodafone Group, and is another key operator in the Czech telecommunications market. It offers mobile telephony services, broadband internet solutions and a series of digital services for both individual customers and companies. Vodafone CZ stands out for innovation in the telecommunications field and for its commitment to supplying sustainable and technologically advanced solutions, aiming to promote seamless connectivity for its users and support companies in their digital transformation.

T-Mobile Czech Republic a.s., part of the Deutsche Telekom group, is one of the main telecommunications suppliers in the country, with an offer that includes mobile telephony services. High-speed internet and television solutions. The company focuses strongly on innovation and on the quality of the service, with continuous investments in network technologies to improve internet coverage and speed, making T-Mobile a leader in the supply of 5G access in the Czech Republic.

5.1.4. Textile sector

During the first half-year of 2023, sales of the textile industry fell by 4.6%, touching 26.3 billion Czech crowns. The sector was having to face a difficult situation in the global market. Conversely, the clothing industry showed a positive trend, with constant growth since 2016, with the exception of the impacts of the COVID-19 pandemic. In the first six months of the year, sales in the sector reached 5 billion Czech crowns, registering an increase of 4.8% compared to the previous year.

One of the key figures in this context is the company, Nová Mosilana, member of the Camic group, which has a turnover of around 3.8 billion crowns, positioned as one of the leading operators in the Czech textile industry.

Another company is Pegas Nonwovens, leading company in the non-woven fabrics sector in Europe, based in Znojmo. The company mainly focuses on the production of non-woven fabrics in a variety of applications, including the automobile industry, construction, personal hygiene and health, agriculture and many others besides. Their products include non-woven fabrics for baby and adult nappies, filters for automobiles, mattresses, female hygiene products, towels and napkins, through the use of advanced technologies and innovative materials. Besides the headquarters in Znojmo, the company has various subsidiaries and production plants in Europe, which contribute to its ability to serve customers across the continent and beyond.

Pardubická textilní a.s., founded in 1833, has a long history and a solid reputation in the Czech and European textile sector. The company is based in Pardubice, a historic city situated in the region of western Bohemia. The company is specialised in the production of technical fabrics and fabrics for the clothing industry. Its products comprise a vast range of innovative fabrics used in various sectors, including the automobile industry, building, personal protection and technical clothing. It works with companies and academic institutions to stay abreast of the latest innovations in the industry and to develop cutting-edge solutions for its customers.

5.2. Trade Fairs and Exhibitions

In 2024, the Czech Republic will be hosting some of the biggest international trade fairs for commerce and innovation in Europe. The most renowned fairs are:

- › MSV: international trade fair for mechanics and engineering held in Brno from 8 to 11 October, it's the most important industrial event in central Europe for the sector. In previous editions, the fair saw the participation of 1,600 exhibitors coming

from 43 countries. The most important theme of the event is industry 4.0 and the digital factory, that is, the digitalisation of production, and the management of material resources;

- › TECHAGRO: one of the most important national agricultural fairs and present the technology of the sector and all associated areas, such as: digital technologies, precision agriculture, intelligent agriculture and the use of navigation systems. The fair will take place in Brno from 7 to 11 November;
- › Sustainable Finance Summit: the largest specialised event focused on sustainability in finance and business in Central and Eastern Europe. It will be held in Prague from 27 to 29 May and represents an opportunity for participants to acquire greater understanding of the sustainable finance themes and solutions;
- › ISS World Europe: is the largest meeting in the world of regional law enforcement, intelligence and internal security analysts, telecommunications and financial crime investigators. The meeting will be held in Prague from 4 to 6 June.

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