Deloitte.

International Tax
Czech Republic Highlights 2023

Updated January 2023

Recent developments

For the latest tax developments relating to the Czech Republic, see Deloitte tax@hand.

Investment basics

Currency: Czech Koruna (CZK)

Foreign exchange control: No restrictions are imposed on the import or export of capital. Repatriation payments may be made in any currency. Both residents and nonresidents may hold bank accounts in any currency.

Accounting principles/financial statements: Czech accounting rules apply. Financial statements must be prepared annually. Companies that are publicly traded on a European regulated market must apply IFRS, as governed by the relevant EU directive, for their books of account and for preparing financial statements.

Principal business entities: These are the joint stock company, limited liability company, cooperative, limited partnership, general partnership, and branch of a foreign company.

Corporate taxation

Rates	
Corporate income tax rate	19% (in general)
Branch tax rate	19%
Capital gains tax rate	0%/5%/19%

Residence: A company is resident if it is incorporated or managed and controlled in the Czech Republic.

Basis: Residents are taxed on worldwide income; nonresidents are taxed only on Czech-source income. Foreign-source income derived by residents generally is subject to corporate income tax in the same way as Czech-source income. Branches are taxed in the same way as subsidiaries.

Taxable income: Taxable income is calculated according to Czech accounting rules, with adjustments for tax purposes. In general, all expenses incurred to generate, ensure, and maintain taxable income are deductible if documented by the taxpayer, subject to limits specified in the corporate income tax law and in specific legislation.

Rate: The corporate income tax rate is 19%. A 5% rate applies to basic investment funds, as defined in the income tax legislation, and a 0% rate to some types of pension funds. See “Other,” below, for information on the “windfall tax” that may apply to banks and energy companies.

Surtax: There generally is no surtax. See “Other,” below, for information on the “windfall tax” that may apply to banks and energy companies.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: Dividend distributions between Czech companies are exempt from tax if the parent company maintains a holding in the subsidiary payer company (provided both companies have a prescribed legal form) of at least 10% for an uninterrupted period of at least 12 months.

Inbound dividends at the level of the Czech parent company are exempt if (i) paid by a subsidiary in an EU member state or the European Economic Area ((EEA), comprising the EU jurisdictions, plus Iceland, Liechtenstein, and Norway) and the parent holds at least 10% of the payer company for an uninterrupted period of at least 12 months, or (ii) paid by a subsidiary that is tax resident in a non-EU/EEA jurisdiction that has concluded a tax treaty with the Czech Republic, has a specific legal form, meets the requirements for the dividend exemption under the EU parent-subsidiary directive, and is subject to a tax in its jurisdiction of tax residence that is similar to the Czech income tax at a rate of at least 12%.

Dividend income of Czech companies that does not qualify as exempt is (i) subject to 15% withholding tax if received from a Czech resident company, or (ii) taxed as regular business income at a reduced rate of 15% if received from a nonresident company.

Capital gains: Income from the sale of assets generally is included with other taxable income and taxed at the regular corporate income tax rate. See also “Participation exemption,” below.

Losses: Losses may be utilized as a deductible item in the five taxable periods immediately following the taxable period for which the tax loss was assessed. A tax loss up to CZK 30 million also may be utilized against the taxable base for the two immediately preceding taxable periods (carryback regime).

Several anti-abuse provisions govern the utilization of tax losses; for example, tax losses may not be deducted when there has been a substantial change in the composition of the persons participating in the equity or control of the company, unless at least 80% of the company’s income is generated by the same activity for which the tax loss was incurred.

Foreign tax relief: Foreign tax relief (credit or exemption) is available only under tax treaties. If relief is not available under a treaty, income tax paid abroad may be deducted as an expense in the following year, provided it is imposed on income included in Czech taxable income.

Participation exemption: If a foreign owner sells an investment in a company based in the Czech Republic, gains will be subject to tax as part of the aggregate tax base, regardless of where the purchaser is resident, unless otherwise provided in an applicable tax treaty. An exemption applies when the seller is an EU/EEA resident company that has an eligible legal form and that holds at least 10% of the company sold for an uninterrupted period of at least 12 months; the same treatment applies when the seller is a Czech company selling an investment in an EU/EEA resident company. The capital gains participation exemption for sales of shares in non-EU/EEA resident subsidiaries is subject to the same requirements as for the participation exemption for dividends (see “Taxation of dividends,” above).

Holding company regime: There is no holding company regime.

Incentives: Investment incentives are available in certain circumstances and include 10-year tax relief, job creation grants, grants for retraining employees, provision of land at a reduced price, and cash grants for the acquisition of fixed assets for strategic investment projects. Additional deductions of R&D costs also may apply.

Other: A new "windfall tax" has been introduced into the Czech tax legislation with effect as from 1 January 2023. The new tax will apply to banks and energy companies that meet specific criteria. The tax will be payable for calendar years 2023 through 2025, or the taxable periods that fall within this timeframe. The rate is 60%, which will be applied as a kind of surcharge on top of the 19% corporate income tax on the "windfall profits" of companies that are subject to the tax.

Compliance for corporations

Tax year: The calendar year or a fiscal year may be used.

Consolidated returns: Consolidated returns are not permitted; each company must file a separate return.

Filing and payment: The deadline for filing the tax return generally is the first day of the fourth month after the end of the taxable period. Where a tax return is not filed by the first day of the fourth month after the end of the taxable period, the deadline is extended to the first day of the fifth month after the end of the taxable period if a tax return subsequently is filed electronically, and to the first day of the seventh month after the end of the taxable period if a tax return subsequently is filed by a tax advisor. The deadline also is extended to the first day of the seventh month after the end of the taxable period for companies that are subject to statutory audit.

An additional three-month extension to file a return may be granted at the discretion of the tax authorities. An extension of the filing deadline to the first day of the 11th month after the end of the taxable period may be granted upon request where the taxpayer has foreign-source income.

Two or four advance payments of tax are required, depending on the previous year's tax liability, with any remaining tax liability due by the deadline for filing the tax return.

The tax return must be filed electronically if the taxpayer is an audited company, is in possession of a "data box" (the online system used for communication with the public authorities), or has a representative under a power of attorney (e.g., a tax advisor) with a data box.

Penalties: Penalties apply for late filing or failure to file, for underdeclaring income, and for failure to fulfill other nonmonetary obligations. The penalty for the late filling of a tax return is assessed based on the amount of the tax liability declared and the number of days of delay. The maximum amount is CZK 300,000 per tax return, or 5% of the amount declared. Late payment interest is assessed at a rate of 8% per annum, plus the repo rate of the Czech National Bank, based on the number of days of delay. Penalties of up to CZK 500,000 may be imposed for failure to register, report, or keep records as prescribed by law or the tax authorities.

If the tax is assessed during a tax audit, there is a penalty of 20% of the amount of additional tax assessed.

All penalties may be partly or fully waived, if certain conditions are met.

Rulings: Advance rulings may be obtained in certain cases provided by law, particularly for advance pricing agreements, the utilization of losses when there has been a significant change to the shareholding structure, and R&D projects. The rulings are binding and effective for a maximum period of three years. Binding rulings also are available on the allocation of profits to a permanent establishment (PE).

Individual taxation

Rates		
Individual income tax rate	**Taxable income**	**Rate**
	Up to CZK 1,935,552	15%
	Over CZK 1,935,552	23%
Capital gains tax rate		0%/15%/23%

Residence: Tax residents are defined as individuals who have a home in the Czech Republic in which they intend to stay permanently or who stay in the Czech Republic for 183 days or more within the relevant calendar year.

Basis: Tax residents are taxed on their worldwide income (with an exemption for employment income derived from work undertaken outside the Czech Republic under certain circumstances); nonresidents are taxed only on Czech-source income.

Taxable income: There are five basic sources of income: employment, entrepreneurial activities, capital, leased assets, and "other." General taxable income is defined as the difference between gross income and allowable expenses incurred in obtaining the income, other than for employment income, for which the tax base equals the gross taxable remuneration. Domestic-source dividend and interest income are taxed separately under a lump-sum withholding system.

Rates: The tax rates are 15% and 23%. The 23% tax rate is applicable to income exceeding 48 times the average wage for the calendar year (CZK 1,935,552 for 2023).

Capital gains: Capital gains generally are taxed with other income at the progressive rates of 15% and 23%, but may be exempt or taxed in a special tax base at a rate of 15% in some cases.

Deductions and allowances: Deductions are granted for mortgage interest, life and supplementary pension insurance, and gifts. The deduction available for pension and life insurance contributions made by employees is CZK 24,000 per annum for each type of contribution (pension and life insurance), and up to CZK 50,000 per annum of pension and life insurance contributions made by the employer is tax exempt for the employee. Personal allowances are available to the taxpayer, the taxpayer's spouse, and children, but limits may apply.

Foreign tax relief: Foreign tax relief (credit or exemption) is available only under tax treaties.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Each individual must file a separate return; joint filing for married couples is not available.

Filing and payment: Tax on employment income is withheld by the employer and remitted to the tax authorities. Self-employed individuals (entrepreneurs) generally must file a tax return but have the option to be subject to a lump-sum tax regime if several conditions are fulfilled. Where a tax return is required, it must be filed and any tax liability must be paid by 1 April of the following year; the deadline is 1 May of the following year if the tax return is filed electronically by the taxpayer or 1 July of the following year if a tax return that is not filed by 1 April is subsequently filed by a tax advisor. Upon the application of the taxpayer, a three-month extension to file a tax return may be granted at the discretion of the tax authorities. An extension of the filing deadline to the first day of the 11th month after the end of the taxable period also may be granted upon request where the taxpayer has foreign-source income. Where withholding does not apply, semi-annual or quarterly advance tax payments may be assessed, depending on the previous year's tax liability, with any remaining tax liability due by the deadline for filing the tax return for the relevant calendar year.

Electronic filing is mandatory for individuals who have, or who are represented by a representative under a power of attorney who has, an activated "data box."

Penalties: Penalties apply for late filing or failure to file, for underdeclaring income, and for failure to fulfill other nonmonetary obligations. Interest is applied to late payments of tax. Penalties of up to CZK 500,000 may be imposed for failure to register, report, or keep records as prescribed by law or the tax authorities. The full amount of the penalty for late filing of the tax return may be waived if the tax return is filed and the reason for late filing could be considered justifiable. The full amount of interest charged on the late payment of tax also may be waived if the late tax ultimately is paid and the payment of the interest is considered too harsh.

Rulings: Advance rulings may be obtained in certain cases provided by law. The rulings are binding and effective for a maximum period of three years.

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%/15%	15%	15%/35%	15%/35%
Interest	0%/15%	15%	15%/35%	15%/35%
Royalties	0%	0%	15%/35%	15%/35%
Fees for technical services	0%	0%	15%/35%	15%/35%

Dividends: Dividends paid to a nonresident generally are subject to a 15% withholding tax, unless the conditions for the application of a reduced rate under a tax treaty are fulfilled. A 35% rate applies where dividends are paid to a resident of a non-EU or non-EEA jurisdiction with which the Czech Republic does not have a tax treaty or a tax information exchange agreement (TIEA).

Based on the EU parent-subsidiary directive, dividends paid by a Czech company to a parent company located in another EU member state are exempt from withholding tax where the parent company holds at least 10% of the payer company for an uninterrupted period of at least 12 months. The exemption also applies to dividends paid to a parent company in the EEA or Switzerland.

Dividends paid to a resident that do not qualify as exempt are subject to a 15% withholding tax (see "Taxation of dividends" under "Corporate taxation," above).

Interest: Interest paid to a nonresident generally is subject to a 15% withholding tax, unless the conditions for the application of a reduced rate under a tax treaty are fulfilled or an exemption applies under the EU interest and royalties directive (or a similar measure for the EEA or Switzerland). A 35% rate applies to interest paid to a resident of a non-EU or non-EEA jurisdiction with which the Czech Republic does not have a tax treaty or a TIEA.

Taxpayers from EU/EEA jurisdictions are allowed to file a tax return at year end to deduct costs related to interest payments.

Interest paid to a resident company may be subject to a 15% withholding tax or subject to tax as part of the recipient's general tax base at a 19% rate, depending on the type of interest. Interest paid to a resident individual is subject to a 15% withholding tax.

Royalties: Royalties paid to a nonresident generally are subject to a 15% withholding tax, unless the conditions for the application of a reduced rate under a tax treaty are fulfilled or an exemption applies under the EU interest and royalties directive (or a similar measure for the EEA or Switzerland). A 35% rate applies where royalties are paid to a resident of a non-EU or non-EEA jurisdiction with which the Czech Republic does not have a tax treaty or a TIEA.

Taxpayers from EU/EEA jurisdictions are allowed to file a tax return at year end to deduct costs related to royalty payments.

Royalties paid to a resident are not subject to withholding tax.

Fees for technical services: Income paid to a nonresident for technical services provided in the Czech Republic (there is no taxation if services are provided abroad) is subject to a 15% withholding tax (35% if the payment is made to a resident of a non-EU or non-EEA jurisdiction with which the Czech Republic does not have a tax treaty or a TIEA). The rate may be further reduced if the conditions for the application of a reduced rate under a tax treaty are fulfilled. The tax generally is precluded under Czech tax treaties or if a service PE is created (generally after six months of rendering services in the Czech territory or based on a provision of a relevant tax treaty). In the latter case, no withholding tax applies, but the PE is taxable on a net basis at a rate of 19%.

Fees for technical services paid to a resident are not subject to withholding tax.

Branch remittance tax: There is no branch remittance tax.

Other: The 15%/35% domestic withholding tax rate and other considerations described in "Fees for technical services," above, also apply to payments for other services and independent activities (e.g., commercial, consultancy, and management) provided in the Czech Republic. Czech tax treaties do not allow withholding tax to be imposed on fees from other services or independent activities.

Rental payments for the use of a movable asset in the Czech Republic are subject to a 15%/35% withholding tax (5% where the payments are made for a financial lease with a subsequent purchase of the leased asset), as well as certain other payments.

Additionally, payments made to a non-EU/EEA recipient from a Czech source that do not fall within any of the above categories generally are subject to a 10% tax "securement" (1% in certain cases) as an advance payment of income tax.

A reporting obligation applies for payers of Czech-source income to nonresidents where the income (e.g., dividends, interest, royalties, etc.) is exempt from or not subject to withholding tax based on Czech tax legislation or a relevant tax treaty. The payer is required to report information, including the identity of the income recipient and the amount paid, for payments that exceed a certain threshold (in one month or one lump-sum payment). However, a payer may apply for an exemption from the reporting obligation for up to five years. The reporting obligation applies on an annual basis and the threshold for payments required to be reported is CZK 300,000.

Anti-avoidance rules

Transfer pricing: Czech transfer pricing rules require that transactions between related parties be on arm's length terms. If prices in a transaction involving related parties differ from current market prices and the difference cannot be justified, the market prices are used for tax purposes. Advance pricing agreements may be obtained from the tax authorities.

Transfer pricing documentation is not required in the Czech Republic (but see “Disclosure requirements,” below), but it is accepted by the tax authorities during a tax audit to support arm’s length prices; the OECD guidelines generally are followed. Certain companies are required to attach an appendix to the income tax return that lists and summarizes all related party transactions that took place during the tax year.

Interest deduction limitations: Thin capitalization rules apply to loans and credits from a related party, and to loans/credits from an unrelated party where a related party is obliged to grant a corresponding loan/credit to the unrelated party (“back-to-back financing”). The proportion of loans/credits to equity must not exceed 4:1 (6:1 if the debtor is a bank or an insurance company). Financing expenses related to loans/credits where the interest or the maturity is contingent on the profit of the debtor are nondeductible.

The EU anti-tax avoidance directive (ATAD) interest expense deductibility rules have been transposed into Czech law and apply alongside the thin capitalization rules. Under these rules, “excess borrowing costs” on loans (related and third party) are deductible up to 30% of tax earnings before interest, taxes, depreciation, and amortization (EBITDA), with any nondeductible amount carried forward to future tax periods and deductible subject to the same EBITDA restrictions. A de minimis rule applies to excess borrowing costs not exceeding CZK 80 million.

Controlled foreign companies: The controlled foreign company (CFC) rules provided by the EU ATAD have been transposed into Czech law. A Czech entity must include in its tax base certain types of income of its CFC, under certain conditions. A company is considered a CFC if the Czech entity's participation in the CFC is directly or indirectly greater than 50% of the capital or voting rights, or the Czech entity's share of the profits is greater than 50% of the profits.

Hybrids: Hybrid mismatch rules have been implemented into the Income Tax Act, based on the EU ATAD. The rules aim to prevent cross-border transactions that are carried out between associated entities and that involve hybrid mismatches from giving rise to double deductions (e.g., where expenses are deducted twice in different jurisdictions), the nontaxation of income, or a combination of the two. Under the rules, the tax base of the Czech-based associated entity will be increased by the amount deducted, or the amount not taxed as income, in the jurisdiction of the other associated entity. This applies only to income that has its source outside of the Czech Republic, or to Czech-source income in cases where the other jurisdiction in which the tax base is reduced does not apply similar hybrid mismatch rules.

Economic substance requirements: Generally, a substance-over-form rule and a prohibition of the abuse of law are applicable. In addition, economic reasons for business activities must exist.

Disclosure requirements: A country-by-country (CbC) report is required to be prepared on behalf of a multinational group by the ultimate parent entity, or by a surrogate entity or another member of the multinational group of companies, provided additional requirements are met. Notification of the ultimate parent entity and the entity filing the CbC report on behalf of the group generally must be submitted by local taxpayers by the last day of the reporting period. The deadline for filing the CbC report is 12 months from the end of the relevant reporting period. The CbC report and notification filings must be made via specific electronic forms.

Based on the sixth amendment to the EU directive on administrative cooperation in the field of taxation (“DAC 6”), the Czech Republic has transposed an obligation into its domestic law for businesses to report selected cross-border transactions and other arrangements to the tax authorities. A standard 30-day deadline applies for reporting arrangements that are made available for implementation or are ready for implementation, or where the first step toward their implementation has been taken.

Exit tax: An exit tax mechanism has been introduced into the Income Tax Act, to comply with the EU ATAD. Under the rules, certain transfers of assets from the Czech Republic to a foreign jurisdiction without a change of ownership are treated as a deemed sale of the assets and are subject to the 19% corporate income tax. The tax base is calculated on the basis of the arm's length principle. If the transfer is for less than 12 months (i.e., the assets will be returned to the Czech Republic within 12 months), the exit tax does not apply. The exit tax also does not apply in the case of company reorganizations (mergers, demergers, etc.).

Where assets are transferred into the Czech Republic from another EU member state that imposes exit tax, the purchase price of such assets (in the Czech Republic) will be considered to be an amount calculated on the basis of the arm's length principle.

General anti-avoidance rule: Anti-avoidance principles are applied based on relevant court decisions. A GAAR has been implemented into the Czech legislation, based on the EU ATAD. According to the Czech Administration Act, the substance-over-form principle applies.

Value added tax

Rates	
Standard rate	21%
Reduced rate	0%/10%/15%

Taxable transactions: VAT is levied on the sale of goods and the provision of services, and on imports.

Rates: The standard rate is 21%; the reduced rates are 10% and 15%. Certain supplies are zero rated or exempt.

Registration: A Czech company must register for VAT if its supplies in the Czech Republic exceed CZK 2 million for a period of 12 consecutive months. A foreign company must register once a first supply in the Czech Republic is made, unless the VAT on such a supply is reverse-charged by the recipient (which has become common since the reverse-charge mechanism was made applicable to sales of goods made by a non-VAT registered foreign company to a Czech VAT payer). Voluntary registration is possible if a company renders (or will render) taxable supplies in the Czech Republic.

Some companies must register in a simplified form, mainly if they purchase/receive business-to-business services or if their purchases of goods from other EU member states exceed CZK 326,000 in a calendar year.

Filing and payment: The return must be filed and the tax paid within 25 days after the end of the taxable period. The taxable period is a calendar month or calendar quarter, depending on the taxpayer’s turnover. Newly registered VAT payers are required to have monthly taxable periods for only a certain period of time (subject to various conditions).

VAT payers must submit local sales/purchases reports that will enable the authorities to match sales with purchases. Taxpayers also must report supplies received from other EU member states, and even supplies for private purposes.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals and are imposed at the national level.

Social security contributions: An employer contributes 9% of the employee's gross salary to the state health insurance funds and 24.8% of the employee's gross salary to the state social security funds.

An employee contributes 11% of gross income (4.5% health insurance, 6.5% old-age pension). A self-employed individual is subject to a mandatory contribution of 42.7% (13.5% health insurance, 28% old-age pension, 1.2% unemployment) on the assessment base (determined as 50% of the income tax base).

There is no maximum assessment base for health insurance purposes. The maximum assessment base for social security purposes (i.e., old-age pension contributions and unemployment insurance, applicable in the case of both the employee and the employer, as well as for a self-employed individual) is 48 times the average wage for the calendar year (CZK 1,935,552 for 2023).

Payroll tax: There is no payroll tax.

Capital duty: There is no capital duty.

Real property tax: Land and building owners are subject to an annual real estate tax. The rate depends mainly on the size of the land/building (including paved surfaces as a special type of land).

Transfer tax: The real estate transfer tax has been abolished.

Stamp duty: There is no stamp duty.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: Inheritance and estate taxes for individuals are incorporated within the income tax system and the same rates apply as for income tax. Certain persons (generally relatives) are exempt from inheritance/estate tax.

Other: Road tax is imposed on entities that use vehicles. Income tax is imposed on the gratuitous acquisition of property.

Tax treaties: The Czech Republic has concluded more than 90 income tax treaties. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force for the Czech Republic on 1 September 2020. For information on the Czech Republic's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Financial Office (including Specialized Financial Office for selected tax subjects), Customs Office, General Financial Directorate, Appellate Financial Directorate, Customs Directorates, Ministry of Finance

Contact us:

Miroslav Svoboda
Email: msvoboda@deloittece.com