

Czech Republic

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

As from 1 April 2019, a taxpayer is required to notify the responsible tax authorities of its intention to claim the R&D tax super deduction. The notification must include the identification of the taxpayer and details of the R&D project and its general purpose.

The Ministry of Finance issued updated guidelines on the standard procedure and documentation for claiming the R&D super deduction, in response to amendments to the Income Tax Act. The updated guidelines are applicable for all R&D projects notified to the tax authorities based on new legislation effective as from 1 April 2020. The guidelines are not binding on taxpayers; however, they set forth the interpretation of the R&D legislation taken by the Ministry of Finance (i.e., the tax authority). The most relevant update is related to a requirement for time records of individual employees if their payroll costs are included in the calculation of the R&D super deduction, and confirmation was provided that contractual R&D is eligible for the R&D deduction.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
EU cash grants ("Operational Program Enterprise and Innovation for Competitiveness" (OPEIC))	OPEIC provides various types of special program support, such as for R&D activities, innovation, energy savings projects, training centers, marketing projects, etc.	The amount of the subsidy varies, depending on the type of program and the size of the applicant: <ul style="list-style-type: none"> • 45% of eligible costs for small enterprises • 35% for medium-sized enterprises • 25% for large enterprises Some programs subsidize up to 70% of qualifying costs	Qualifying expenditure varies, depending on the type of program and the size of the applicant and may include, e.g.: <ul style="list-style-type: none"> • Personnel costs • Costs of tools, devices, and equipment • Purchase costs of land, buildings, machinery, or other equipment • Non-investment-related costs • Costs of services of experts • Software and data costs 	Project must be implemented in the Czech Republic, but not in Prague
Investment incentives scheme	Investors that establish or expand their investments in the Czech Republic are entitled to investment incentives for the following activities: <ul style="list-style-type: none"> • Manufacturing • Technology centers (R&D) • Business support service centers 	The amount of the incentive varies, depending on the type of investment and the size of the applicant: <ul style="list-style-type: none"> • 45% of eligible costs for small enterprises • 35% for medium-sized enterprises • 25% for large enterprises The total amount of investment incentives that may be granted to an enterprise through the various forms listed in the following column is capped at the percentages of eligible costs listed above	The form of the investment incentive varies, depending on the type of investment and size of the applicant: <ul style="list-style-type: none"> • Corporate income tax relief for 10 years • Cash grant for job creation of up to CZK 300,000 • Cash grant for training and retraining employees, up to an amount equal to 50% of training costs • Property tax exemption for five years in special industrial zones • Cash grant for the acquisition of assets of up to 10% of qualifying costs (applicable for strategic investments) 	Project must be implemented in the Czech Republic, but not in Prague The investment incentives system focuses on support for projects with higher added value All investment projects are subject to the approval of the Czech government

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Featured government incentives (continued)

Incentive	Description	Maximum percentage	Qualified Expenditure	Key exclusions or issues
R&D super deduction	A super deduction is available for costs incurred in qualifying research activities	<p>The super deduction has two components:</p> <p>Volume-based super deduction: 200% of the costs incurred during the implementation of R&D projects may be deducted</p> <p>Additional incremental super deduction: To the extent costs incurred in qualifying research activities increased from the prior year, an additional deduction may be taken for 10% of the increase in the costs incurred</p>	<p>Expenses generally qualify for the R&D super deduction if they:</p> <ul style="list-style-type: none"> Relate to the execution of an R&D project concerning experimental or theoretical work, planning or design work, calculations, technology designs, production of a functional sample or prototype of a product or its part Are deductible for tax purposes Are identified and recorded separately from other expenses 	Documentation and prior notification requirements apply

Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
Consumer Products	● Real Estate
Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	● Health & Social Care
● Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	● Transport

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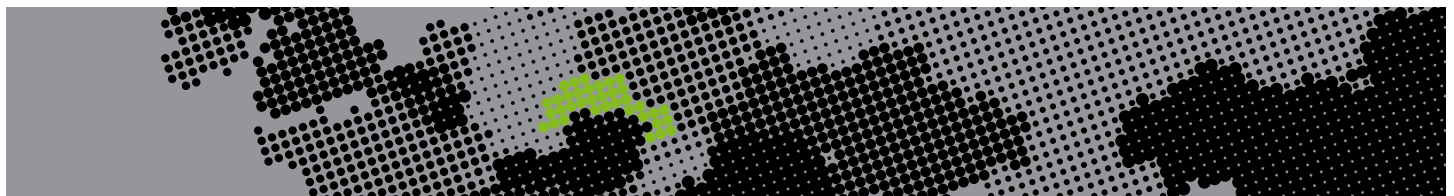
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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
R&D super deduction	●	●	●	Arrears	Companies that carry out qualifying activities and that comply with the prior notification requirements are eligible for the super deduction	A super deduction of 200% of the costs incurred during the implementation of R&D projects, with an additional incremental super deduction available under certain circumstances	A super deduction of 200% of the costs incurred during the implementation of R&D projects, with an additional incremental super deduction available under certain circumstances
"Potential" R&D grants for capital expenditure ("Capex") (EU)	●	■	●	Arrears	Companies of all sizes with Capex for the establishment or development of centers for industrial research, development, and innovation are eligible for grants for projects implemented in the Czech Republic but outside of Prague	50% of eligible costs	50% of eligible costs
"Application" R&D grants for operating expenditure (OPEX) (EU)	●	■	●	Arrears	Companies of all sizes with OPEX for R&D activities with outcomes in the form of prototypes, industrial or utility models, software, etc. are eligible for grants for projects implemented in the Czech Republic but outside of Prague	Up to 70% of eligible costs	Up to 70% of eligible costs
"TREND" R&D grants for OPEX (national)	■	■	●	Arrears	Companies of all sizes with OPEX for R&D activities with outcomes in the form of prototypes, industrial or utility models, software, etc. are eligible for grants for projects implemented in the Czech Republic	Up to 70% of eligible costs	Up to 70% of eligible costs

Key: ● = PERMANENT INCENTIVE ■ = TEMPORARY INCENTIVE ■ = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.



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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Investment							
Incentives for Capex	●	●	●	Arrears	Various incentives, including cash grants and the investment incentives scheme, are available for companies that meet the criteria of the specific incentive	Incentives vary, but can be granted up to 25%–100% of qualifying costs	Incentives vary, but can be granted up to 25%–100% of qualifying costs
Employment incentives	●	●	●	Arrears	Various incentives, including cash grants and the investment incentives scheme, are available for companies that meet the criteria of the specific incentive	Maximum subsidy depends on the region and job position	Maximum subsidy depends on the region and job position
Training incentives	●	●	●	Arrears	Various incentives, including cash grants and the investment incentives scheme, are available for companies that meet the criteria of the specific incentive	25%–100% of qualifying costs	35%–100% of qualifying costs
“Innovation” investment grants (EU)	●	●	●	Arrears	Companies of all sizes that purchase production technology to introduce new or innovative products into production and on the market are eligible for grants for projects implemented in the Czech Republic but outside of Prague	25% of eligible costs	35%–45% of eligible costs
“Technology-Industry 4.0” investment grants for small and medium-sized enterprises (SMEs) (EU)	●	⦿	●	Arrears	SMEs that deploy or expand automation and digitization of production are eligible for grants for projects implemented in the Czech Republic	N/A	35%–45% of eligible costs
Environmental sustainability							
“Energy Saving” investment grants for Capex (EU)	●	⦿	●	Arrears	Companies of all sizes with Capex to reduce energy consumption are eligible for grants for projects implemented in the Czech Republic but outside of Prague	30% of eligible costs	40%–50% of eligible costs
“Operational Programme Environment” investment grants for Capex (EU)	●	⦿	●	Arrears	Companies of all sizes with Capex to improving water quality and reducing flood risks; improving air quality in human settlements; waste management and material flows; addressing environmental burdens and risks; protection and care for nature and the landscape; energy savings; and technical assistance.	Up to 85% of eligible costs	Up to 85% of eligible costs

Key: ● = PERMANENT INCENTIVE ⦿ = TEMPORARY INCENTIVE ⦿ = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

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Country background

The corporate income tax rate in the Czech Republic is 19%. The government offers various subsidy programs to entrepreneurs, either from national financial sources or from EU funds. Companies may apply for various kinds of national/international support.

Innovation Incentives

Research & Development (R&D)

Nature of incentives

The Czech Republic offers a tax super deduction for costs incurred in conducting qualifying research activities, tax relief in the form of investment incentives, and cash grants.

R&D super deduction

The super deduction for qualifying research expenses (QRE) incurred in the Czech Republic has two components:

- **Volume-based super deduction:** A super deduction of 200% of the costs incurred during the implementation of R&D projects: a deduction of 100% of incurred QRE is reflected in the profit/loss calculation, and an additional 100% deduction from the tax base provides a tax savings of 19% of QRE; and
- **Additional incremental super deduction:** An additional deduction is provided to the extent the amount of QRE increased from the prior year. The additional deduction is 10% of the difference between the QRE of the current year and the QRE of the prior year. The total maximum assistance amounts to about 21%.

Expenses generally are eligible for the R&D super deduction if they are:

- Incurred by the taxpayer in executing an R&D project involving experimental or theoretical work, planning or design work, calculations, technology designs, or production of a functional sample or prototype of a product or its part;
- Deductible for tax purposes; and
- Identified and recorded separately from other expenses.

If the super deduction cannot be utilized in the current period, it may be carried forward for three years.

Eligible industries and qualifying costs

The criteria for qualifying research are similar to the definition of R&D in the OECD Frascati Manual, i.e., the presence of a measurable element of novelty and clarification of research or technical uncertainties. These may exist even if the subject of the research is known in the industry, as long as certain conditions are fulfilled.

Qualifying activities include the introduction of new or improved technology, systems, or services; the production of new or improved materials, products, and equipment; and design and verification of prototypes, pilots, or demonstration equipment.

Qualifying expenses include wages and salaries; materials; depreciation of tangible movable property used directly for the project; and other operating expenses directly related to the project (i.e., travel reimbursements, costs of low-value assets, costs related to finance leasing, and other operating costs).

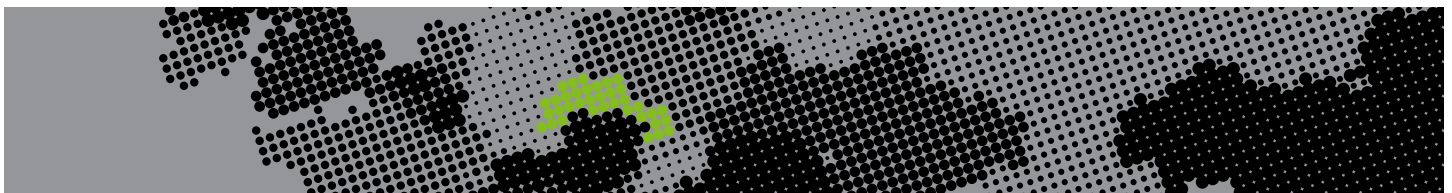
Other services and purchased R&D do not qualify, although there are exceptions for the following:

- R&D services provided by public universities and public research institutions;
- Services related to the R&D project (verifying or proving that the result of the R&D meets the requirements in legal regulations); and
- Finance leasing of tangible assets connected to the realization of the R&D project.

The super deduction excludes expenses paid for via government subsidies and public subsidies.

Intellectual property (IP) and jurisdictional restrictions

The IP created through qualifying research does not have to be registered in the name of the taxpayer that is claiming the R&D



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deduction. Not all R&D activities must take place within the Czech Republic to qualify for a super deduction, but the qualifying expenses described above must be tax-deductible expenses of the Czech taxpayer.

Other considerations

Documentation and notification requirements apply to taxpayers that claim the super deduction. As from 1 April 2019, a taxpayer is required to notify the responsible tax authorities of its intention to claim the R&D tax incentive. The notification must include information about the taxpayer and details of the R&D project and its general purpose.

The taxpayer must prepare R&D project documentation in written form that states the name of the R&D project included in the notification and specifies the R&D activity, which must be approved and signed by the taxpayer or the taxpayer's authorized representative by the deadline for filing a regular income tax return for the first year in which the R&D super deduction is intended to be claimed. The documentation must be approved by this deadline even if the super deduction cannot be utilized for the year due to a low tax base or a tax loss. The taxpayer must record any changes of the facts stated in the R&D documentation that take place after the document is approved. The project name and objectives in the approved R&D document cannot be changed at any point during the R&D project.

At the end of each annual taxation period, the taxpayer must prepare an overview of the expenses incurred in the project, and these must be recorded separately from other expenses. The taxpayer must retain a copy of the overview, but it does not have to be submitted with the annual tax return, although the tax authorities can review the documents during a tax audit. An expert opinion that approves the nature of the activities performed during the R&D project may be required during an audit.

National cash grants: R&D

There are various types of providers of national cash grants (the Technology Agency of the Czech Republic (TACR), the Grant Agency of the Czech Republic (GACR), and individual ministries). R&D

activities mainly are supported by the Ministry of Industry and Trade within various national programs (e.g., "Trend"). The amount of total support varies and depends on the size of the applicant, the activity, and other conditions (e.g., the maximum amount of a subsidy within the Trend program is 70% of eligible costs). Public aid generally is provided in an amount equal to 25% to 100% of qualifying costs, with the amount depending on the type of the subsidy program, e.g., 100% public aid is provided to research organizations for industrial and experimental research.

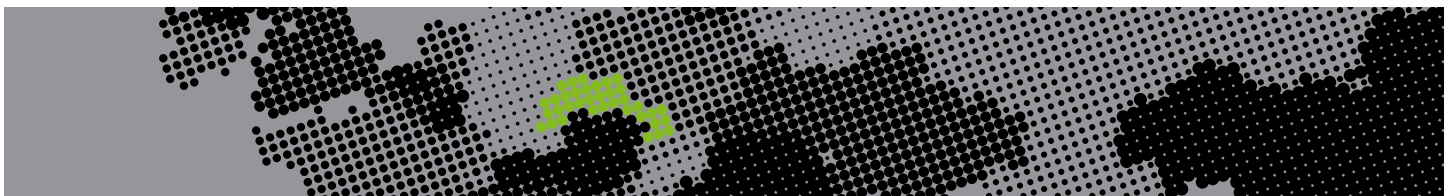
The TACR supports research, experimental development, and innovation and provides support in the form of a cash grant through several programs. Beneficiaries of cash grants may be separate business entities (legal persons or individuals) or research institutions. Support provided by the TACR varies depending on the type of program and the size of the applicant. The maximum subsidy is limited by the type of activity:

- **Industrial research:** The subsidy is an amount equal to 50% to 65% of qualifying costs for large enterprises, 60% to 75% for medium-sized enterprises, and 70% to 80% for small enterprises.
- **Experimental development:** The subsidy is an amount equal to 25% to 40% of qualifying costs for large enterprises, 35% to 50% for medium-sized enterprises, and 45% to 60% for small enterprises.

The GACR is the only institution in the Czech Republic that provides support from public funds targeted at basic research, for a two to three-year period. The aid mainly is intended to enhance the erudition of scientists. Beneficiaries of cash grants may be legal persons or individuals, organizational units of the state, or territorial government organizational units of the Ministry of Defense or organizational units of the Ministry of the Interior engaged in research and experimental development.

Cash grants from EU funds

Companies generally may apply for various types of direct and indirect support from the EU. The amount of the subsidy depends on the type of the subsidy program. While public aid can cover up



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to 100% of qualifying costs, OPEIC¹ is the most prevalent source of funding, providing aid of up to 70% of qualifying costs. Approximately EUR 4.3 billion was allocated to OPEIC from the European Regional Development Fund. OPEIC provides various types of special programs supporting R&D activities, innovation, energy saving projects, other technology projects, etc. The support generally is provided in an amount equal to 25%, 35%, and 45% of qualifying costs to large, medium-sized, and small enterprises, respectively (for specific R&D activities, the subsidy may amount to up to 70% of qualifying costs). Below is a short description of the most attractive OPEIC programs for companies in the Czech Republic:

- **“Potential” program:** Companies of all sizes with Capex for the establishment or development of centers for industrial research, development, and innovation are eligible for grants for projects implemented in the Czech Republic but outside of Prague. The support is provided in an amount equal to 50% of eligible costs for companies of all sizes.
- **“Application” program:** Companies of all sizes with OPEX for R&D activities with outcomes in the form of prototypes, industrial or utility models, software, etc. are eligible for grants for projects implemented in the Czech Republic but outside of Prague. The support is provided in an amount up to 70% of eligible costs for companies of all sizes.
- **“Innovation” program:** Companies of all sizes that purchase production technology to introduce new or innovative products into production and on the market are eligible for grants for projects implemented in the Czech Republic but outside of Prague. The support is provided in an amount equal to 25%, 35%, and 45% of qualifying costs for large, medium-sized, and small enterprises, respectively.
- **“Technology—Industry 4.0” program:** SMEs that deploy or expand automation and digitization of production are eligible for grants for projects implemented in the Czech Republic. The support is provided in an amount equal to 35% and 45% of qualifying costs for medium-sized and small enterprises, respectively.

- **“Energy Saving” program:** Companies of all sizes with Capex to reduce energy consumption are eligible for grants for projects implemented in the Czech Republic but outside of Prague. The support is provided in an amount equal to 30%, 40%, and 50% of qualifying costs for large, medium-sized, and small enterprises, respectively.

In addition to the aid offered through OPEIC, funding is available through the “Operational Programme Environment” (OPPE) for the following activities: improving water quality and reducing flood risks; improving air quality in human settlements; waste management and material flows; addressing environmental burdens and risks; protection and care for nature and the landscape; energy savings; and technical assistance. The funding from OPPE can cover up to 85% of qualifying costs of the project (notably, 100% funding is available for selected conservation measures that are focused on the protection and care of nature and the landscape).

Another source of funding is managed through the “Operational Programme Employment” (OPE), which focuses mainly on supporting employment and adaptability of the workforce; social inclusion and combating poverty; social innovation and international cooperation; and effective public administration. The maximum amount of the subsidy depends on the region and job position. The total allocation of funding to OPE is EUR 2.15 billion.

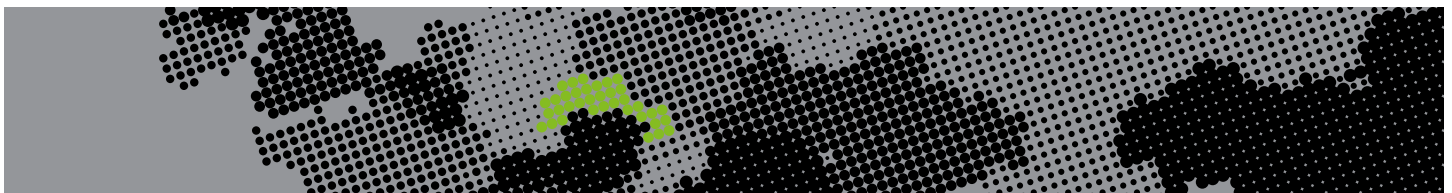
For the programming period 2014–2020, more than EUR 24 billion has been allocated from the European Structural and Investment (ESI) Funds for the Czech Republic through 10 thematic programs.

Investment Incentives

Investment incentives scheme

Support in the form of investment incentives is provided for the manufacturing industry, technology centers (R&D), and business support centers. The incentives system focuses on support for projects with “higher added value,” which means that the salary of

1. Aid is available through OPEIC for the period 2014–2020.



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at least 80% of the employees must equal the monthly gross salary average for the relevant region and, at the same time:

- At least 10% of the employees must have a university degree and there must be a cooperation agreement concluded with a research organization or a college/university in terms of the R&D activities amounting to at least 1% of the anticipated qualifying costs of the project;
- At least 2% of the employees must be engaged in R&D; or
- The investment in assets to be used in the R&D activities must be at least 10% of the anticipated qualifying costs.

The higher added value condition does not apply in regions supported by the government, where the investment project is required to address “structural unemployment” in the region. All investment projects are subject to the approval of the Czech government.

The form and amount of the incentive varies, depending on the type of investment and size of the applicant. The investment incentive is capped at 25%, 35%, and 45% of qualifying costs for large, medium-sized, and small enterprises, respectively. The investment incentive is granted through a combination of the following types of support:

- Corporate income tax relief for 10 years;
- Cash grant for job creation of up to CZK 300,000;
- Cash grant for the training and retraining of employees, up to an amount equal to 50% of training costs;
- Property tax exemption for a period of five years in special industrial zones; and
- Cash grant for the acquisition of assets of up to 10% of qualifying costs (applicable for strategic investments).

Incentives for Capex

Capex investments may be financed by the investment incentives scheme (see above) or by EU cash grants. Individual calls for proposals are intended to provide public aid for targeted policy concerns, such as encouraging innovation, environmental protection, energy sustainability, etc. EU grant providers open calls for proposals (usually every year), and some calls are limited to SMEs. Public aid generally is limited to funding the purchase of new assets. The maximum assistance offered through grant funding is set by the European Commission's public aid rules, but typically ranges from 25%–100% of eligible costs.

Employment incentives

Subsidies to encourage expanding the workforce primarily are provided through the investment incentives scheme (see above), but support also can be provided by local labor offices from the national budget. The amount of the subsidy for new jobs varies by region and by the type of new jobs created as a result of the public aid. This form of aid generally is contingent on retaining the new jobs for specified periods, as defined by an agreement with the subsidy provider.

Training incentives

Subsidies for training are provided under the investment incentives scheme (see above) or from EU funds, and can fund 25%–100% of training costs (35%–100% for SMEs). The training programs are supported by the labor offices or the Ministry of Labour, and some calls for proposals are from EU funds. The funding typically covers operational costs, such as training services, travel, rental of training rooms, wages of lecturers, etc.

