

Doing Business in the Czech Republic

2009



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in the Czech Republic has been provided by the office of UHY representatives:

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AUDITOR has been established since 1991 and specialises in bookkeeping, calculation of wages, balancing, tax advising and audit.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at July 2009.

We look forward to helping you do business in the Czech Republic.

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2. Business environment

Geography



Source: Google Maps, 2008

Location:	Central Europe
Total area:	78,867 sq km
Population:	10.4 million
Population density:	131 inhabitants/sq km
Ethnic groups:	Czech (94.2%), Slovak (1.9%), Polish (0.5%), Vietnamese (0.44%), German (0.4%), Ukrainian (0.2%), Hungarian (0.1%)
Religions:	Roman Catholic (26.8%), atheists and citizens without religious affiliation (59.0%), other (14.2%)
Urbanisation:	More than 70% of the population lives in urban areas
Capital city:	Prague (population: 1.2 million)
Official language:	Czech
Currency:	Czech crown (CZK) = 100 halers

Legal and political system

According to common juridical literature, the Czech Republic legal system is a “continental” legal one, and belongs to the “Germanic” legal culture. It is based on written law.

The Czech Republic is a pluralist multi-party parliamentary representative democracy, where the Prime Minister is the head of government. The central state power is divided into the classical three powers, namely:

- Legislature – the Parliament of the Czech Republic;
- The executive – the president and the government;
- The judiciary – the courts of general jurisdiction (civil and criminal), administrative courts, and the Constitutional Court.

There are other central bodies, which enjoy high degree of independence from the central government and cannot be, therefore, associated with any of the three classical powers: the Czech National Bank, the Supreme Auditing Office, and the Ombudsman.

The Parliament of the Czech Republic (Czech: Parlament České republiky) is bicameral, with the Chamber of Deputies (Czech: Poslanecká sněmovna) and the Senate (Czech: Senát). The members of Parliament are elected by secret ballot on basis universal, equal and direct right to vote. The Chamber of Deputies has 200 members, elected for a four year term by proportional representation with a 5% election threshold. The Senate (Senát), being considered as a permanent body, has 81 members, in single-seat constituencies elected for a six-year term.

The President of the Czech Republic is elected by joint session of the parliament for a five-year term (no more than two consecutive). The president is a formal head of the state with limited specific powers, most importantly to

- Return laws to the parliament
- Appoint and accept resignation of the prime minister
- Appoint and recall a minister upon proposal of the Prime Minister.

The Government is the highest body of executive power and is politically responsible to the Chamber of Deputies. It consists of the Prime Minister, deputy prime ministers and ministers. According to the Constitution, the government decides as a college by an absolute majority of all its members.

As it has been already said, there are three distinct jurisdictions: the courts of general jurisdiction, the Administrative Courts and the Constitutional Court. Civil and criminal courts share the same judicial structure. Together, they form the courts of general jurisdiction. They are competent in all type of disputes with the exception of those expressly reserved for the administrative courts or the Constitutional Court.

Administrative judiciary is a two-layer system: specialised administrative chambers within regional courts act as courts of first instance. The court of second and last instance is the Supreme Administrative Court, seated in

Brno. The task of the administrative courts is to protect individual rights in the area of public law.

The constitutional jurisdiction is represented by the one specialised Constitutional Court (Ústavní soud), seated in Brno. The justices are appointed by the president of the Republic with the consent of the Senate. The contemporary Czech Constitutional Court is the judicial body responsible for the protection of constitutionality.

The Czech Republic is also divided into self-governing units, such as regions and municipalities.

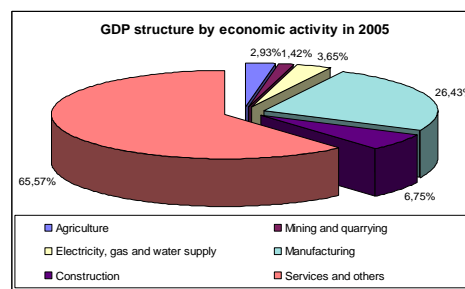
Membership in international organisations

The Czech Republic has been the member of European Union since 1 May 2004. And moreover, on 21 December 2007 the Czech Republic entered into the Shengen Zone. The Czech Republic has also memberships in other international organisations, such as e.g. UN, NATO, WTO, Council of Europe, OECD, UNESCO, UNICEF, WHO.

Macroeconomic indicators

Gross domestic product and economic growth

The Czech Republic's economy belongs to the group of developed, highly income, countries. It is one of the most stable and prosperous post-Communist states. Since the accession to the EU in 2004, the Czech Republic has experienced a growth of over 6% annually. It has been mainly caused by strong exports to the EU, especially to Germany.

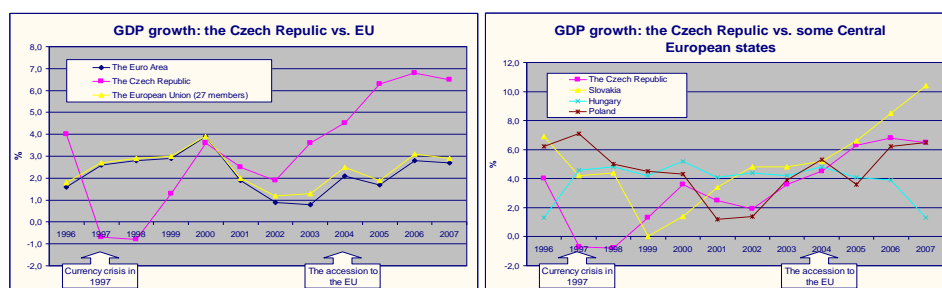


Source: EUROSTAT; Czech Statistical Office.

The GDP by economic activities, measured by gross value added, has similar structure like other developed countries. Dominant share of services, which is now about 65%, comprises services like financial services, telecommunication, tourist industry etc. Another important

sector for our economy is manufacturing industry, which now controls about 27%. The most rapidly developing industries are with high value added, like motor vehicle manufacturing, engineering industry and manufacture of optical instrument. On the contrary, industries, which are unqualified labour intensive, are currently experiencing the economic slump.

The following graphs draw your attention to the comparison of the development of the real GDP of the Czech Republic with, firstly, the European Union (EU) and Euro Area (EA) average, and secondly, other post-communist states in the Central Europe during recent years.

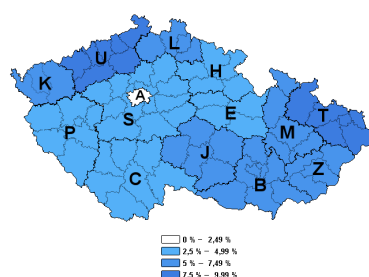


Source: EUROSTAT

Unemployment

The number of unemployed as of 31st March 2009 was 448.9 thousands, which represented the unemployment rate about 7.7%. For a comparison, the unemployment rate for 2008 was 4.4%.

There are relatively significant differences between individual regions. The lowest rate of unemployment is consistently in the capital of the Czech Republic - Prague – at approx. 2%, whilst the highest rate of unemployment is in former centres of heavy industry – at approx. 10%.



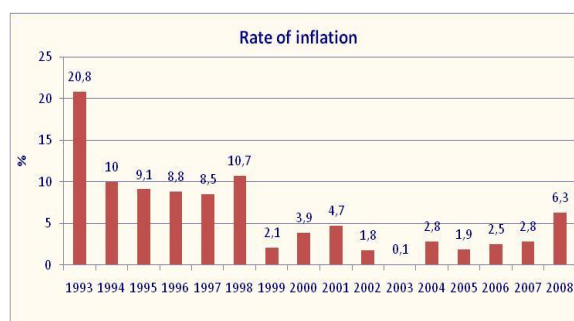
Source: Ministry of Labour and Social Affairs; Czech Statistical Office; Compiled as at 31st July 2008 according to ILO.

Average wages

The average nominal monthly salary in the fourth quarter of 2008 amounted to CZK 25,381.00 (EUR 972.00). This number represents a growth of 8.3% compared with the same period in 2007.

Inflation rate

The inflation rate in 2007 was 2.8%, which represents an increase of 0.3% on 2006. For 2008 the inflation rate is estimated at 6.3%. The reason for this occurrence is mainly due to cost factors such as the tax reform (an increase in VAT from 5% to 9%, the implementation of an ecological tax, etc.), the growth in the price of energy, food and oil.



Source: Czech Statistical Office

Interest rate

Some key rates of the CNB (Czech National Bank) have significantly changed last year with respect to the financial crisis and economic recession. In reaction to a strengthening crown and the economic slowdown the CNB reduced the key discount rate to 0.50%. The repo-rate of the CNB was set at 1.5%.

Public finances

In 2007 the general government budget deficit reached EUR 2.14 billion (CZK 56.1 billion), i.e.: 1.6% of GDP, which represents a year-on-year decline of CZK 29.8 billion.

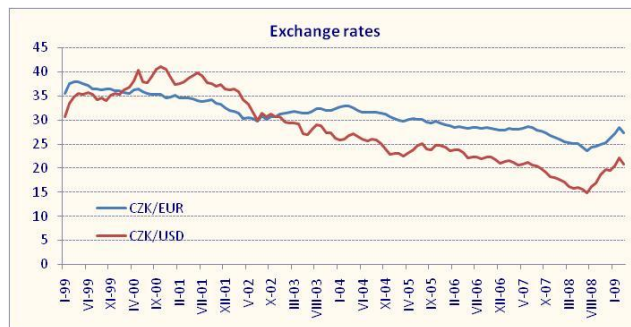
The Czech Republic has been left battling with a deficit in the public budget since 1997 in the range of 1.5 – 7%. The main source of revenues of public budgets is coming from the taxes, approximately 89%. Other sources are for example from the sale of state-owned companies. From the other side of the public budgets, the main expenditures are social transfers, about 42.5% in 2008.

The level of the general government debt has stabilised at around 30% of GDP since 2002, which is about half of the Maastricht criterion for public finance debt.

Currency

The currency's floating exchange rate is determined by supply and demand on the currency market. The Czech Republic has not entered to

the ERM II. The long-term exchange rate of the crown to the Euro and to the USD is depicted in the following graph.

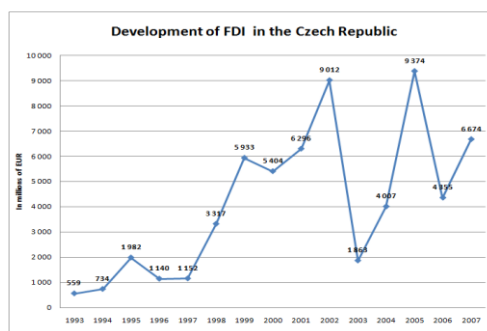


Source: Czech National Bank

The US Dollar and EUR exchange rates (monthly average as published by the Central bank, April 2009) are 20.562 CZK/USD and 26.840 CZK/EUR.

3. Foreign investment

As is obvious from the foregoing section, the Czech Republic is a net importer of capital - in the form of direct foreign investments. You can see the development of FDI inflow in the following figure.



Source: Czech National Bank

From the perspective of dividing the influx of foreign investments into economic sectors the largest recipient sector in year 2007 is services, which absorbs 60% of invested foreign capital. Of that, investments are shifted to the real estate and services for companies' branches and the trade and repairs branch. 41% of the total amount of investments came into the manufacturing industry. Investor interest was concentrated on the technical branch, mainly on the production of cars and the production of metal products. The main investor countries were Netherlands (29%), Luxemburg (13%), Austria (12.0%), France (11%), Germany (8%) est.

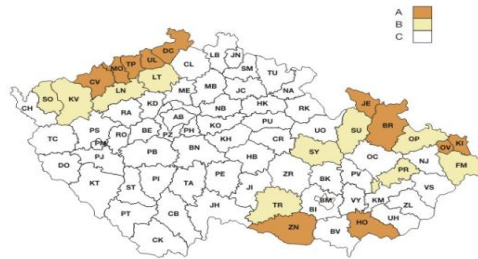
The total value of foreign direct investments into the Czech economy at 31st December 2006 reached EUR 60.620 billion (CZK 1,666.36 billion) = 47.2% of GDP. The major investors into the Czech economy come from Netherlands, Germany and Austria, which together represent about 60% of the total cumulative FDI.

Investment incentives

Since 1998 the Government of the Czech Republic has used active instruments to support the inflow of direct foreign investments according to pre-set criteria. Investment incentives are designed for foreign, as well as Czech, investors and are aimed at the introduction and expansion of production capacity in the manufacturing industry and for projects in the area of strategic services and technological centres.

Investment incentives in the processing industry stipulated in the Investment Incentives Act are designed for the following investment projects (all of the stipulated conditions must be met at the same time):

- Greenfield and Brownfield investment – launch of new production capacity or expansion of existing production capacity; modernisation of production to make significant changes to the product or the production process;
- The minimum amount invested into fixed tangible and intangible assets (not including leased assets) is CZK 50 in A region, CZK 60 in B region, CZK 100 million in C region, depending on the unemployment rate in the given region (see figure bellow);



Source: Czech Invest

- At least one-half of the stipulated minimum investment for the given region must comprise the investor's own capital;
- At least 60% of the total amount invested must be spent on highly advanced machinery;
- The recipient of the investment incentives must be the first owner of the fixed tangible assets (e.g. machinery) in the Czech Republic, except in the case of real estate.

Current investment incentives granted pursuant to the Investment Incentives Act are shown below.

Tax holidays

- Full relief from income tax for up to 5 years is available for newly established companies
- Partial relief from income tax for up to 5 years is available to existing companies implementing an investment plan.

Material support for work creation

CZK 50,000 is available per work position created only in region A in above stated figure. Additionally, there is a contribution of CZK 25,000, if the investor gives the newly created work position to someone with a medical disability or an applicant for work posted at the labour office.

Material support for re-training

This support equals 35% of the costs of re-training employees only in region A in above stated figure.

Subsidies

Subsidies are available to municipalities, regions and developers for the construction of technical infrastructure and the preparation of lots for the realisation of investment plans.

Aid in the form of provision of prepared land at a discount

The transfer of land or land with infrastructure owned by the state or its organisational bodies or municipalities is possible.

Maximum state aid

The government is limiting the maximum amount of provided state aid. The limits differ according to geographical zones and are given in percentage of investment. The maximum state aid intensity is further reduced, unless the investment is made in the specified industry, e.g. chemical and pharmaceutical industry or manufacture of machinery or transport equipment etc.

EU Funds

Upon acceding to the EU on 1 May 2004, the Czech Republic gained the opportunity to draw on resources made available by the EU from its structural funds, the solidarity fund (or other funds) under the same conditions as other EU member states.

Basic information about incentives and funds may be obtained at:

www.strukturalni-fondy.cz, www.czechinvest.cz, www.mpo.cz

4. Setting up a Business

Types of business

A foreign person may opt for various types of business on the territory of the Czech Republic. Investors are obliged to follow Czech legal regulations during the execution of their business activities.

Entrepreneur – natural person

The Act to Regulate Trades allows a foreign natural person to undertake business on the territory of the Czech Republic under the same conditions as those that have to be met by a resident of the Czech Republic. Trade can be carried out by an entrepreneur – a natural person or through an authorised representative.

A foreign natural person, who is a citizen of an EU country, the European Economic Area, or Switzerland, is not required to submit a residence permit valid on the territory of the Czech Republic.

A residence permit on the territory of the Czech Republic is required with other natural persons, except for a foreign person undertaking trade on the territory of the Czech Republic through a branch.

A foreign natural person has to enter in a commercial register the day of becoming authorised to carry out business on the territory of the Czech Republic. This does not apply to foreign persons from the EU or from other countries of the European Economic area.

Foreign person's organisation section

A foreign person may establish an organisation section on the territory of the Czech Republic. A foreign legal entity is authorised to undertake the business on the territory of the Czech Republic upon the entry of its organisation section in the commercial register. The organisation section is not an independent legal entity.

The foreign legal entity must appoint an authorised representative who meets conditions for carrying on trade.

The foreign legal entity is represented by the manager of its organisation section (in matters regarding this organisation section) in contact with third parties.

Only profits achieved on the territory of the Czech Republic are subject to income tax. A different tax determination method than a standard method applied to Czech business companies can be agreed with a tax office.

Business companies

The Commercial Code differentiates several types of a business company:

- An unlimited liability company
- A limited partnership company
- A limited liability company
- A joint-stock company.

The most frequent ones are limited liability companies and joint-stock companies.

A foreign person may be a member in a Czech business company – a company with a registered base in the Czech Republic.

The business company is a legal entity established on the day it is entered in the commercial register. In contact with third parties, it is represented by a statutory body. The legal entity carries out trade through an authorised representative.

Unlimited Liability Company ('v.o.s.')

An unlimited liability company is a company in which at least two people carry on the business under the same corporate name. Both a legal entity and a natural person can be its member. Members guarantee the company's obligations jointly with their assets.

The law does not prescribe an obligation to create basic capital.

Profit or loss is divided among members according to the Memorandum of Association.

The members are a statutory body.

The profit of the unlimited liability company is subject to income tax of the individual members under the scope of their tax returns. The unlimited liability company itself is not subject to legal entity income tax.

Limited Partnership Company ('k.s.')

A limited partnership company is a mixed type of Limited Liability Company and unlimited liability company, combining features of both. In the limited partnership company, a limited partner guarantees the company's obligations up to his contribution (similar to a member in a limited liability company) and at least one partner guarantees it with all of his assets (similar to a member in an unlimited liability company) (general partner). A legal entity can be a limited partner.

Profit is divided among limited partners according to the Memorandum of Association.

General partners are a statutory body.

The general partner's profits are subject to income tax as part of their tax returns. Limited partners' profits are taxed as the company's income in the form of legal entity income tax, and the limited partners may be subsequently paid shares in profit.

Limited Liability Company ('s.r.o'.)

A limited liability company is a company whose basic capital is created by members' contributions. The members guarantee the company's obligations up to the amount of their contributions. Basic capital must be at least CZK 200,000, whereas one member's contribution must be at least CZK 20,000.

The limited liability company can also be established by a sole person. A limited liability company with the sole member can be the only founder, or the sole member, of another company. One natural person may be a member in at most three limited liability companies. The company may have a maximum of 50 members.

The company guarantees the company's obligations with all of its assets.

The members take part in profit according to the ratio of their contributions to basic capital, unless specified otherwise by the Memorandum of Association.

A corporate agent or agents are statutory body acting on behalf of the company.

The company's profit is subject to legal entity income tax.

Joint-stock company ('a.s.')

A joint-stock company can be established by one person provided that the founding person is a legal entity; in other cases, it must be established by at least two people.

The basic capital of a company established with a public offer must be at least CZK 20 million; otherwise, the basic capital must be at least CZK 2 million. The company's basic capital is divided into a certain number of shares.

The company guarantees its obligations with all of its assets. A shareholder is not held liable for the company's obligations.

The shareholder is entitled to a share in the company's profit (dividend) approved by a general meeting.

Shareholders form a general meeting that is the supreme body of the company. The general meeting takes place at least once a year, no later than within six months of the last related financial period.

The company's statutory body is a Board of Directors that manages the company's activities and acts on its behalf. The Board of Directors is controlled by a Supervisory Board. The Board of Directors and the Supervisory Board must have at least three members.

The company's profit is subject to legal entity income tax.

Co-operative association

A co-operative association is an association of an open number of people established for the purpose of common business, or of securing its members' needs.

A co-operative association must have at least five members, or only two members who are legal entities.

Members are not held liable for the co-operative association's obligations while the co-operative association guarantees its obligations with all of its assets.

The co-operative association's basic capital is from member deposits and must be at least CZK 50,000.

The supreme body of the co-operative association is its members' meeting that meets at least once a year.

Activities of the co-operative association are managed by a Board of Directors, a statutory body. Activities of the co-operative association are controlled by an inspection committee.

The co-operative association's profit is subject to legal entity income tax.

Capital interest – dormant partnership

Based on a dormant partnership agreement, a dormant partner participates in business activities by means of a pecuniary or non-pecuniary contribution. The dormant partner has his share in economic results (profit and loss) agreed upon in the agreement. The dormant partner participates in loss up to the amount of his contribution.

The dormant partner's incomes are subject to withholding tax in the Czech Republic.

5. Labour

Employment law

Employment-law relations are regulated by the labour code – law no. 262/2006 Coll.

Employment arises by:

1. An employment contract
2. Exceptional appointment.

Specified employment contract terms are:

- Agreed on type of work for which the employee is accepted
- Place or places of conducting the work
- Day employment begins.

Employment may end by:

- a. Agreement – closed in writing
- b. Notice – must be given in writing, delivered to the other party; employment ends upon conclusion of the notice period, which must be the same for both parties, amounting to at least 2 months and starts running on the first day of the month following the delivery of the notice of the other party.

The labour code sets further conditions for notice given by the employer:

1. The employer can only give the employee notice for reasons named in the labour code – so-called organisational changes (dissolution or relocation of the employer, redundancy – arising in the claim for a redundancy payment of at least 3 times the average monthly salary), employee's incapacity due to health, not fulfilling the expectations or requirements for due performance of work by the employee, unsatisfactory work results, breaching work behaviour;
 2. The reason for notice must be factually determined;
 3. During the protected period the employee may not: be unable to work, released to perform a public duty, utilise parental leave, be pregnant or on maternity leave.
- c. Immediate discontinuation – the employer does not adhere to the principle of employment due to a gross breach in work behaviour. The employee - mainly when the employer does not pay a salary

within 15 days after it is due (in this case has the right to severance pay).

- d. Cancellation in the trial period – in writing, it must be delivered within the trial period, it is not related to the protected period.
- e. Upon completion of the agreed period – employment for a fixed period of time ends. It continues if the employee with the knowledge of the employer to continue with this work agrees to change employment to a non-fixed time period.
- f. The decision to cancel a foreigner's residence permit or the ending of the period for which the work permit was issued, or deportation.
- g. Death of the employee.

Agreements for work undertaken outside of employment:

Agreement for conducting work – is possible provided the extent of the work does not exceed 150 hours in the calendar year, is not liable for social security and health insurance.

Agreement for working activities – the extent of the working period may not exceed on average half the established weekly working hours, must be closed in writing.

Vacation

The measurement of leave amounts to at least 4 weeks. In the so-called business sphere it is possible to extend an employee's claim to leave by days and weeks.

Remuneration

The minimum salary is set by the government and amounts to CZK 8 000 monthly, or CZK 48.10/hour.

For work done on a public holiday the extra payment should be at least that of the average salary (100%), for night work the extra payment should be at least 10% the average salary, for work in difficult conditions the extra payment should be at least 10% of the basic rate of the minimum wage. For work on Saturdays and Sundays the extra payment should be at least 10% of the average salary.

Employing people with disabilities

Every employer who employs more than 25 people has an obligation to employ people with disabilities. The mandatory proportion is 4%. The employer may meet this obligation by:

- employment under an employment contract

- purchasing products or services from employers who have more than 50% of employees with a disability
- a levy to the state budget.

Employing employees from abroad (foreigners) and employing European Union citizens

Employers may only employ foreigners on the basis of a work permit from the relevant employment office.

Amendments to the employment act, act on stays of foreigners in the Czech Republic and other related acts introduce the regime of “green cards”, in Czech “zelených karet”. Since 1 January 2009 the green cards have been granted to foreigners from states, with which the Czech Republic has a visa regime, and enable employers to acquire foreign workers for work places, which are not staffed by the Czech or EU workers within 30 days. The Ministry of the Interior of the Czech Republic explicitly specifies by its legal regulation the list of countries, which residents are entitled to ask for issue of the green card. Generally, the green card is issued for a particular work place at a particular employer. The green card is permission for both, stay and work.

Health insurance

At the current time people are liable by law to pay public health insurance who:

- have permanent residency in the Czech Republic
- do not have permanent residency in the Czech Republic, provided they are employed by an employer who has its place of business in the Czech Republic with compliance to new events connected with the entry of the Czech Republic to the EU, i.e. the designation of nationality to legal regulations during the concurrent performance of money-earning activities in two or more EU member states.

The principle of having insurance belongs to the basic principles of the EU, which means that in any period the legal regulations of one member state relate to the insured person from the EU and he/she is therefore insured in the country where he/she is performing the work. The principle of single insurance is not valid only in certain cases when the money-earning activity is taking place in more countries. If the employee is working for an employer in the Czech Republic, lives in another country and in the country of residence has other money-earning activities, he/she is insured in the country of residence and the Czech employer pays insurance to his/her relevant insurance company in the place of residence. The insured must corroborate this situation by completing an E101 form, attesting to the legal regulations of another country.

Social security, payments of sickness insurance and pension insurance

Social security payers are employers, i.e. organisations (legal entities or individuals who employ at least one person) and natural persons (individuals), who participate compulsorily (employees) or voluntarily (individuals engaged in business, foreign employee). A regulation applies stating that an employee can only pay social security in one country, even if he/she performs his/her work in two or more EU member states. In these cases the country in which he/she has residency takes priority. The employer pays social security to the employee's country of residence, where the employee is insured (see the part Health Insurance where the E101 form is mentioned).

Benefits of sickness insurance

Since 1 January 2009 the new act on sickness insurance no. 187/2006 Coll. has come into force. The most important changes are as follows:

For the first 14 calendar days of sickness an employee receives the refund of wage as specified in article 192 and followings of the labour code. The refund is provided just for working days starting from 4th working day of the sickness. The refund is limited in the same way as benefits from sickness insurance.

Benefits from sickness insurance belong to the employee starting from 15th working day of the sickness and are counted for calendar days. Sickness insurance is handled up by Social Security Administration. Division of employers by the size (Small organisation and Organisation) is cancelled.

Employers can deduct the half of wage refund from levied sickness insurance.

Newly, the sickness insurance covers contractual and foreign employees.

Owners and acting managers of a limited liability company, limited partners of a limited partnership company and some members of a co-operative association are not sickness insured. Decisive income, which is required for sickness insurance, has increased at CZK 2,000.00.

Pension insurance

Employees are insured who fulfil the legal requirements ensured by paying contributions from their salary to the pension insurance.

The whole system of pension insurance is due to go through a complete reform.

Measurement base for the calculation of statutory insurance and amount (rate) of the insured

The measurement base is the total of countable income which is subject to personal income tax according to income tax law and is not exempt from these taxes and which was calculated in connection to employment. The calculated income for this purpose is understood as the amount which was provided in either financial or non-financial form by the employer to the employee or given in his behalf, or assigned to his good, or consisting of a different form by the employer for the employee. (An amount to the sum of 1% of the entry price of a vehicle provided for business and personal use relating to the difference between the normal price and the price which the product or service is provided and which the employee paid will be included in the measurement base for the levy of pension insurance.)

Income not included in the measurement base:

- compensation of damage according to the labour code
- redundancy and other severance pay, surrender and bonus for completing a term of work
- miner's loyalty contribution
- bonuses paid according to the law for inventions or improvement suggestions, provided the creation of the invention or improvement suggestion is not connected with work performance
- one-off social subsidy provided to an employee for bypassing exceptionally difficult circumstances
- undertakings which were provided by a receiver of an old-age pension or full invalidity benefit for the period of one year from the date employment ended.

Maximum measurement base:

In 2009 the maximum measurement base is set at CZK 1,130,640.00.

Amount (rate) of statutory insurance:

	Contribution	
	Employer	Employee
Health insurance	9.0%	4.5%
Social security	21.5%* 25.0%**	6.5%
Total	35.0%	12.5%

* just for pension insured employees

** for pension and sickness insured employees

Owners and acting managers of a limited liability company, limited partners of a limited partnership company and some members of a co-operative association are not sickness insured. They are only pension insured, if their income reaches at least CZK 5,900.00.

Statutory insurance responsibilities of the employer for injury from work accidents or illness caused by work

The principle of statutory insurance is the right of insurance arising from law for insurance from the employer so that the relevant insurer will recompense an employee disabled by a work injury or an illness from work damages to the extent of the employer's responsibility as stated by the labour code.

6. Taxation

The Czech tax system, newly created in 1993 and valid since then, includes direct taxes (income, property), indirect taxes (consumption) and other taxes (health insurance and social security). Since their creation, it has been, and still is being, much modified by tax regulations. Important changes were related to the accession of the country to the EU in 2004 and harmonisation of the national legislation with EU directives.

Tax administration

Tax contributions are collected and controlled by tax offices, according to the residency of a company or individuals subjected to the tax. A total of 199 tax offices are supervised by financial directorates that manage activities of tax offices and decide on appeals filed by taxpayers against tax offices. The eight financial directorates are based in former regional cities.

The highest tax administration authority is the Ministry of Finance, which decides corrective measures against financial directorates, methodically manages each directorate and integrates tax administration procedures.

A decision of the appellate body (a financial directorate or the Ministry of Finance), which is at variance with the law, may be taken to court.

However, the court decision is binding only with regards to each particular case and does not create a precedent. The appeal or suit has no dilatory effect, which can cause problems as the court procedure may take several years.

Czech tax regulation from January 1st 2007 differentiates two sanctions for delayed tax payment: a fine and interest on the overdue amount. The fine is levied in the amount of 20% of the increased tax amount or 5% in the case of reduced tax loss. The fine is only levied in the event that a breach in tax obligation is established by the tax authority.

Interest on overdue payments is a sanction expressed as a time value in money and its rate is set by the Czech National Bank on the first day of the relevant calendar half increased by 14%. Interest on overdue payments is paid just for a maximum period of 5 years.

Rules that apply in the case of tax proceedings bind the taxpayer, and not the tax office, to prove the correctness of the tax duty calculation, and the burden of proofs is borne by the taxpayer. Unless the taxpayer can prove his/her expenses, the tax office increases the tax base and sets out the arrears of tax and penalty.

If the tax office decides it was a case of intentional tax evasion, it may take legal action. If the court proves intentional fiscal evasion it imposes charges according to accrued damages.

Avoidance of double taxation

One of the tax system principles is the superiority of international treaties over national regulation. The Czech Republic has ratified about 73 treaties on avoidance of double taxation. A summary of selected treaties and taxation of dividends, interests and licences duty, generated from sources in the Czech Republic, is as follows:

State	Dividends**	Interests**	Licence fee**
Australia	5% for share of min. 20%, otherwise 15%	10%	10%
France*	0% for share of min. 25%, otherwise 0%	0	10%/ 5%/ 0%
Ireland*	5% for share of min. 25%, otherwise 15%	0	10%
Italy*	15%	0	5%/0%
Japan	10% for share of min. 25%, otherwise 15%	10%	10%/0%
Canada	5% for share of min. 10%, otherwise 15%	10%	10%
Cyprus*	10%	10%	5%/0%
Luxembourg*	5% for share of min. 25%, otherwise 15%	0	10%/0%
Hungary*	5% for share of min. 25%, otherwise 15 %	0	10%
Germany*	5% for share of min. 25%, otherwise 15%	0	5%
The Netherlands*	5% for share of min. 25%, otherwise 10%	0	5%
Poland*	5% for share of min. 20%, otherwise 10%	10%	5%
Austria	0% for share of min. 10%, otherwise 10%	0	5%/0%
Russia	10%	0	10%
Slovak* Republic	5% for share of min. 10%, otherwise 15%	0	10% /0%
Switzerland*	5% for share of min. 25%, otherwise 15%	0	5%
United States	5% for share of min. 10%, otherwise 15%	0%	10%/0%
UK*	5% for share of min. 25%, otherwise 15%	0	10%/0%

* If certain conditions are met Council Directive on the common system of taxation in the case of parent companies and subsidiaries can be used. (See below)

** Maximum tax rate in the source country

Ratified treaties employ two methods of double tax avoidance – exemption of foreign incomes from the taxation or credit of the tax paid abroad.

Direct taxes

Personal income tax

Natural persons (individuals), residents in the Czech Republic, or living in the country for more than 183 days in the calendar year, are tax residents

of the Czech Republic. Worldwide incomes of such people are subject to taxation of natural persons' income in the Czech Republic.

Natural persons that do not fulfil the above mentioned conditions, or in cases where international treaties apply, are only taxed on the income generated from sources in the Czech Republic (restricted tax duty).

Types of incomes are:

- Income from the employment and functional benefits
- Income from business and other self-employment activities
- Income from capital assets
- Income from rentals and leases
- Other income.

The following incomes, among others from the sale of items, that are not part of business assets, are exempt from tax:

- Income from the sale of securities, sale of shares in business companies, membership rights to co-operatives, if owned longer than five years (6 months for trusts and funds certificates)
- Income from the sale of a family house or flat, if the taxpayer has been living there for two years before the sale
- Other real estate, if possessed by the taxpayer for longer than five years.

For the purpose of determination of the tax base it is possible to deduct from the taxable income either the real amount of expenses or lump sum amount, calculated as percentage of the taxable income, based on the kind of business activity.

Generally, the tax loss arisen from business and other self-employment activities or renting and leasing of property is possible to exercise in the following 5 years since its assessment. The tax loss cannot be deducted from the tax base earned from employment.

If certain conditions are met, the tax base can be decreased by deductions. The most usable among them are, for example, interests on mortgages or loans from building societies, private pension or life insurance, gift aid etc. Furthermore, it is possible to reduce the final tax liability by tax allowances. For instance, there are allowances for tax payers with children or wife without income, invalid pension or seriously physically handicapped. Moreover, there is basic tax allowance for all tax payers in the amount around 950 EUR on year basis.

Personal Incomes is taxed by flat-rate tax of 15% for all income.

The natural persons' tax return must be submitted within three months (or six months when represented by a tax advisor) following the end of the tax year. The tax is due on the last day of the deadline for filing the tax return. If there is an overpayment, a separate request for a refund of the overpayment must be filed. The tax is usually paid using down-payments.

Apart from personal income tax, natural persons must also pay social security and health insurance premiums. (See above.)

Corporate Income Tax

This tax applies to all income generated by legal entities and income from all their assets.

Tax rate

According to the current law in force, the tax rate is at 21% for 2008, 20% for 2009 and 19% for the following years. The tax rate for investment and share funds and pension funds is 5%.

Subject to tax

All worldwide income generated from activities of a legal entity registered in the Czech Republic is subject to corporate income tax in the Czech Republic.

A restricted tax duty applies to legal entities registered abroad – only income generated from sources in the Czech Republic is subject to the legal entities income tax. This also applies mainly to permanent establishments of foreign nationals in the Czech Republic.

Tax year

The taxable period is the calendar or economic year (always starting on the first day of month).

Tax return

The tax return must be filed within three or six months (if the taxpayer is represented by a tax advisor or if an audit is mandatory) after the balance date.

The tax is due on the last day of the deadline for filing the tax return. If there is an overpayment, a separate request for a refund of the overpayment must be filed. Advance payments for income tax must be paid by those persons or entities whose tax liability for the previous tax period exceeded CZK 30,000 (quarterly or possibly half-yearly).

Implementation of EU directives

The Czech Republic has completely implemented the following EU directives:

- Directive on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares (90/434/EWG)
- Directive on the common system of taxation applicable in the case of parent companies and subsidiaries (90/435/EWG)
- Directive on a common system of taxation applicable to interest and royalty payments (2003/49/EG).

Income from the transfer of shares

Generally, income from the transfer of shares to a company is subject to income tax; in certain cases, however, it could be withholding tax (e.g. a share in a liquidated balance), see the section on withholding tax below.

In case a parent company which is a tax resident in the Czech Republic (or a Czech permanent establishment of a company from another EU member state) sells shares in a subsidiary, income arising from the transfer is exempt from tax upon meeting the conditions.

Conditions for tax exemption is prescribed legal form and prescribed share on the original capital (10 %), and this share has to be fulfilled consistently for a fixed period (12 months).

Exemption on transfer of shares on companies from non-EU member states is possible in cases where the Czech Republic has a double taxation treaty upon similar conditions as companies from EU member states and the subsidiary is subject to a minimum of 12% corporate income tax in that country.

Payment of profit to abroad

Czech entities (operations) can pay out profits to abroad with no special restrictions. In the case of the payment of dividends, interest and liquidation shares to a parent company, a Czech company must pay withholding tax of 15%. The rate may be modified by a relevant double taxation treaty.

The transfer of a profit held by an organisational unit to its foreign parent company is not subject to any withholding tax, or to any other restrictions.

Dividend payout between parent company and subsidiary with the company seat in the Czech Republic or other EU country is exempt from taxation. Conditions for the tax exemption is prescribed legal form and prescribed share on the original capital (10 %), and this share has to be fulfilled consistently for fixed period of 12 months.

Dividend exemptions received from non-EU member countries are possible in that case, where the Czech Republic has a double taxation treaty with the respective state and the subsidiary company is subject to the corporate income tax at the minimum of 12%, and upon the similar conditions as companies from other member states of EU.

Tax losses

Tax losses can be claimed within the subsequent five years. A tax loss cannot be claimed if there has been a significant change both in the structure of the persons or entities with direct participation in the capital or control (a change of more than 25% of the equity) and in the subject of trading (less than 80 % of earnings came from the same activities as in the past). Therefore, tax losses cannot be transferred from one person (entity) to another; these losses cannot be compensated for even if the relevant companies are within the same group.

If a tax subject ceases to exist due to a transformation and the tax loss is transferred to its successor, this tax loss may be valid only up to the tax base, which is proportionally representative to the ceased company's subject of trading. In the case of any doubts, it is possible to submit a request for a mandatory judgement of the validity of the tax loss. The relevant request is subject to an administrative fee of CZK 10,000.

Prices between related parties

Related parties mean companies (or individuals) connected by capital (direct or indirect share on the capital, or voting rights of at least 25%), or in another way (share in management, control, managed or managing persons). As related parties are considered also legal relationships created primarily for the purpose of tax base reduction or tax loss increase.

OECD's directive on transfer prices is not binding in the Czech Republic, but is generally accepted. If prices between allied persons differ from the common market price, the tax office may adjust the tax base by such difference.

It is possible, but not to mandatory, to ask the responsible Tax authority for Binding Opinion on price arranged between related parties. The tax authority who issued it is bound by this decision. Request for Binding Opinion is charged for 10,000 CZK.

Interests

Interest on loans and costs connected with interest and loans (fees, costs for securing the loan, etc.) are tax non-declarable if the total of loans from related parties is more than four times (six times for banks and insurance companies) of the equity.

Tax non-declarable interest from loans is classified as dividends.

Depreciation according to tax law

Depreciation periods for fixed tangible assets are set out by the Act on Income Tax as follows:

Depreciated group	Depreciation period (in years)	Type of fixed tangible assets
1	3	PC and other office technology, some machinery
2	5	Furniture, motor vehicles, construction machinery and equipment, agriculture machinery
3	10	Special technical equipment
4	20	Utilities equipment (water and gas pipes etc.)
5	30	Buildings, constructions, flats, water works
6	50	Hotels, administrative buildings, supermarkets, historical or cultural heritage

An entrepreneur may choose one of the following depreciation methods – either the straight-line depreciation or accelerated depreciation. The law sets time-scheduled depreciation for some items.

Fixed intangible assets are generally amortised over the right for use, or contracted, period or over the period defined in the Income Tax Act. For example software 36 months, establishment expenses for 60 months, and other intangible assets for 72 months. Goodwill acquired by purchase of a company is amortised over 60 month.

Land and works of art are not depreciated.

Low-value tangible fixed assets with acquisition value below 40,000 CZK, and low-value intangible assets with acquisition value below 60,000 CZK, are depreciated in accordance with the trade legal regulations.

Leasing

The Act on Income Tax recognises two types of leasing – financial and operational leasing. In the case of financial leasing, ownership of a leased

item is expected to transfer to the leaseholder after termination of the lease contract.

The lease for financial leasing qualifies as expense for tax purposes, upon fulfilling four conditions. The most notable is that the lease period has to be at least the same as the tax depreciation period, in the case of real estate a minimum of 30 years.

For leasing from abroad withholding tax at 5% is valid from the leasing payment.

Withholding tax

Certain types of income are taxed through the deduction of a withholding tax. Regardless of whether the income is paid to a limited or unlimited taxpayer, the withholding tax must be paid at the time when the payment is made.

	Withholding tax*
Dividends, partners' settlement shares, liquidation balance shares	15%
Interest on term deposits of natural persons	15%
Rent from a financial lease paid to non-residents	5%

*The rate is modified in accordance with any double taxation treaties that may exist for tax residents.

Income of limited taxpayers from sources within the Czech Republic

Only the income of limited taxpayers from sources within the Czech Republic is subject to taxation in the Republic; detailed list of these cases can be found in the Czech Income Tax Act.

This income includes:

- Income from activities of a permanent establishment
- Income from employment on the territory of the Czech Republic
- Income from technical, business, or other consulting, managerial or agency activities in the Czech Republic
- Income from the use or sale of real estate in the Czech Republic
- Income independent activity carried out in CZ
- Income of artists and athletes carried out in CZ
- Income from a sale of ownership share in business companies with seat in CZ.

For the following income, when the payments are made by CZ- tax residents or by CZ-permanent establishment of tax non-residents:

- Fees for the use of industrial property rights, software, know-how
- Fees for the use of copyright
- Profit shares, settlement shares, liquidation balance shares
- Interest on credit, interest on loans
- Income for the use of tangible assets in the Czech Republic
- Compensation of members of statutory bodies and other bodies of legal entities
- Income from lotteries, competitions, and sporting competitions.

The tax on this income is collected through a withholding tax (final taxation) or through a tax return.

Other direct taxes

Road tax

This tax applies to motor vehicles registered and used in the Czech Republic for profit-making activities. The rate is stable; for personal automobiles, it varies according to the capacity of the engine, and according to the total weight and number of axles in the case of utility vehicles.

Real estate tax

Real estate (i.e. land and buildings) is subject to real estate tax. The basis for taxation for land is the surface area of the land in square metres. In the case of the tax on buildings, the basis for taxation is the actual built-up construction area in square metres. There are various tax rates for open areas, agricultural land, and buildings. The municipality may generally influence the amount and exemption of tax depending on the by-law valid. The tax is generally due quarterly.

Paid real estate tax is considered a tax expense for the calculation of income tax.

Inheritance tax, gift tax

Inheritance tax and gift tax apply to transfers of property made free of charge. The tax base is the value of the transferred property. The rate is progressive according to the value of property; the inheritance tax rate is half of the gift tax rate.

Free of charge transfers (both gifts and inheritance) in the family are tax free.

Neither inheritance tax nor gift tax is considered a tax expense for the calculation of income tax.

Real estate transfer tax

A valid transfer of real estate is subject to real estate transfer tax. The real estate tax is paid by a seller. The basis for the calculation of the tax is the purchase price, or the value of the real estate determined in an expert opinion, whichever is higher. The rate is flat and proportional in the level of 3%.

When paid, real estate transfer tax is considered a tax expense for the calculation of income tax.

Value Added Tax (VAT)

Local VAT law system is governed by the 6th Directive of the Council of the EU.

Tax rate

There are two tax rates by law in the Czech Republic– a basic rate of 19%, for most goods and services, and a reduced rate of 9%, mainly for food products, pharmaceuticals and medical materials, books and magazines. New amendment no. 362/2009 Coll. to Value Added Tax Act has increased the both rates by 1%, basic rate at 20% and reduced rate at 10%, from 2010.

Voluntary registration

Domestic entities and business establishments of foreign entities placed in the Czech Republic have the option of voluntarily choosing to register as a VAT-taxable person. To do this, it is necessary to file an application with the tax office of the competent jurisdiction. Other foreign subjects can become VAT payers only when obliged to do so by law.

Mandatory registration

Registration of domestic entities

An entrepreneurial entity or entrepreneur with their registered office or place of business in the Czech Republic, or with permanent residency or the place in which they reside most often in the Czech Republic, that achieved a turnover of CZK 1,000,000 during a period of no more than the 12 previous consecutive months, must register as a VAT-taxable person with the relevant tax office within 15 days after the last day of the month in which this turnover was exceeded.

Example: For registration under the Act on VAT, a turnover of CZK 1,000,000 or more should be monitored from May 1st, 2008. Therefore, if a company achieves this limit during May to August 2008, it must register as a VAT-taxable person with the tax office of the competent jurisdiction by September 15th 2008.

Registration of foreign entities (countries within EU and out of EU)

Foreign entities without their registered office or place of business or other branch office in the Czech Republic, i.e. entities that are not authorised to carry out business activities in the Czech Republic and that do carry out business activities in another member state or in a third country, are obliged to register as a VAT- taxable person. In these cases, the turnover is not the decisive factor – the foreign person must register as a VAT-taxable person when starting business activities in the Czech Republic.

Exemption:

- Delivery of services and goods including installation and assembly; if a foreign entity delivers services or goods including installation and assembly to an entity that is subject to the tax, the foreign entity is exempt from the obligation to apply the tax.
- Mail order sales of goods; foreign persons that deliver goods in the Czech Republic by mail order, i.e. by sending or transporting themselves, or at their own cost, goods from a member state other than the state that is the final destination of the goods, are obliged to register if they deliver goods to a person that does not have a tax identification number and the value of the goods exceeds CZK 1,140,000 without VAT.

Registration of other entities

The obligation to register as a VAT-taxable person also applies to entities that are not a VAT-taxable person but do engage in economic activities, including government bodies, national funds, municipal and other autonomous governing bodies, and other legal entities and persons that do not engage in entrepreneurial activities if the value of the goods acquired by them in the Czech Republic from another member state exceeds CZK 326,000 per calendar year.

VAT legal obligations

A VAT-taxable person is obliged to file a tax return for VAT and to pay the due tax within 25 days after the last day of the tax period. The tax period is generally one calendar month, but it depends on the turnover for the previous calendar year. The taxable period is always the calendar

quarter for entities that do not have their seat, place of business or establishment in the Czech Republic.

A comprehensive report on intra-community deliveries of goods must be filed within 25 days after the end of the calendar quarter.

Subject to VAT

- The delivery of goods and services in the Czech Republic
- The import of goods from a third-party country by any entity
- The acquisition of goods from another member state (intra-community supplies)
- The receiving of selected services ('reverse-charge') from other EU member states.

Supply

Generally, domestic supplies are taxed by 10% or 20% at output.

Services that are exempt from VAT are specified in the VAT Act as exempt, without the right to a deduction. These, among others, include financial services, insurance, postal services, radio and television broadcasting, the transfer and lease of real estate.

Certain real estate transactions, specifically leasing, may be taxed, if the provider wishes, if the taxable supply is intended for a VAT-taxable person.

Export of goods is VAT exempt if the dispatch or transport of such goods is affected by their exporter and the buyer has no seat, place of business or permanent establishment in the Czech Republic.

A supply of goods to another EU member state is VAT exempt if such goods are dispatched or transported from the Czech Republic and the buyer is a VAT payer in another EU country.

In case of providing certain services to foreign person or person registered for VAT in another Member State, the place of fulfilment is transferred to the country of receiver, i.e. reverse-charge principle (for instance assignment of copyrights, advertising services, consultancy, financial services, rent of movable assets except for cars). These services are not subjects of the Czech VAT.

Deduction of tax on purchases

Tax can be deducted from purchases if the purchased goods and services are used for carrying out economic activities.

The right to deduct tax on purchases cannot be claimed for the purchase of personal automobiles (with the exception of automobiles purchased by a

VAT- taxable person whose authorised business activity is the purchase of automobiles for their resale, including the purchase of automobiles through leasing agreements with the option of selling), or in the case of expenses for representation.

However, a VAT-taxable person does not have the right to deduct tax on purchases if he/she uses the performed supplies solely for supplies exempt from tax without the right to a deduction.

If the VAT-taxable person uses the performed supplies, for the exempt supplies as well as for taxable supplies, the right to tax deduction on purchases is limited by a quotient that is calculated as the proportion of the taxable supplies with the right to a deduction of VAT to all taxable supplies.

If the VAT-taxable person claimed a deduction of VAT (in full or partially) for acquired long-term assets and a change in the right to the deduction occurs during the subsequent five calendar years as a result of a change in the purpose of the use of these assets, the VAT-taxable person must recalculate the amount of the right to a deduction and apply VAT to any difference there may be.

Advance payments

Advance payments are subject to VAT during the period in which they are received. A company that receives an advance payment is obliged to issue a tax document (invoice), and must pay the relevant VAT on the amount and for the relevant period. In some cases the tax document on advance payment does not need to be issued, for example if the advance payment was received under a lease agreement or agreement on the supply of energy, gas, or water.

A subject whose bookkeeping is not kept according to Czech regulations (e.g. physical person keeping only tax records, foreign companies without permanent establishment in the Czech Republic) is exempt from the liability to pay advance payment from received payments. This subject cannot issue the confirmations of received advance payments.

Non-monetary investments of assets to a business company or co-operative which is not a VAT payer are also considered to be taxable supplies, with the exception of contributions consisting of a business or a part, which generally are not subject to VAT.

Real estate and VAT

The transfer of buildings, apartments and non-residential premises is exempt from VAT only after three years have passed from the date of acquisition or the date of an occupancy permit. The transfer of land is

exempt from VAT, with the exception of 'construction land', which the VAT Act defines precisely.

The construction of buildings, apartments and non-residential premises is generally subject to the base rate of 20%, though the construction of apartments under 120 square meters and family houses under 350 square meters is subject to only reduced tax base 10%.

Group registration

From 2008 a new regulation was introduced in the Czech Republic in accordance with Article 11 2006/112/EC "Recast" for the possibility of group registration. Group registration means more favourable cash flow for subjects within a group and in some cases it may also mean a lower tax liability.

A group is understood as a group of related parties either by capital (40% share) or personally (a member of the management). The group does not pay VAT on transactions between subjects in the group. One representative member carries out all liabilities for the group to the financial authority.

VAT refunds

Foreign companies can receive refunds of VAT paid in the Czech Republic. The rules for the refund of VAT are set out in the provisions of the 8th and 13th EU Directives:

VAT is refunded through a request filed by the foreign entity. Requests must be made on a separate application form in the Czech language and filed with the Tax Office for Prague 1 by 30th June of the year after the year in which VAT was applied for the delivery of the goods/services, or in which the VAT was paid for an import. The request must include the original invoices, the original documents issued for an import, as well as a list of the relevant invoices including a certificate of VAT registration in the country in which the entity making the request has its registered office or place of permanent residence.

VAT is refunded by the Tax Office for Prague 1 within six months of the date on which the request was filed.

The tax office also has the right to reject a request for a VAT refund if the non EU-member state country in which the foreign entity is registered does not have a reciprocal treaty with the Czech Republic on refunding VAT. In 2008 the Czech Republic has reciprocity with Switzerland, Norway and Macedonia. The reciprocity is not required, if the company is from EU.

Intrastat

The Intrastat system has been fully applied since May 1st, 2004. As part of this system, VAT-taxable persons that engage in intra-community transactions (sending/receiving goods to/from other EU member states) are obliged to keep records of these transactions.

A third party (agent) can be appointed to keep records within the Intrastat system, but the obligation to keep records nevertheless remains the responsibility of the VAT-taxable person.

Excise tax

This tax applies to the consumption of five specified groups of goods: hydrocarbon fuels (petroleum oils), alcohol and alcoholic beverages, wine, beer, cigarettes and tobacco products. The tax is paid by the manufacturer or importer of these goods.

Excise tax is set as a fixed amount per unit of goods.

The customs office administers excise tax.

Energy tax

On 1st Jan 2008 the Czech Republic introduced tax on the supply of electricity, gas and sold coal on the basis of relevant European Union regulations.

Tax payers are the suppliers of the energy in the Czech Republic to the end user or to operators of distribution or transmission grids. Payers are also parties who use energy for other than tax-exempt purposes or parties who consumed non-taxed energy.

The customs office administers energy tax. The tax period is the calendar month and a tax return must be submitted by the 25th day of the following month. The tax is payable within the same period.

Validity for exemption from energy tax depends on the purposes of energy use (ecologically efficient energy, combined production of electricity and heat, public transport, etc.).

Contributions for General Health Insurance and Social Security of Self-Employed Persons

Self-employed persons are obliged to pay general health insurance contributions and social security contributions. The obligation to pay general health insurance contributions arises on the date when independent profit-making activities start.

Persons carrying out *primary independent profit-making activities* are always subject to the obligation to pay social security contributions, and those carrying out *secondary independent profit-making activity* (in case the person is also employed with certain level of income or is old-age pension etc.) are subject to this obligation if the income from the secondary independent profit-making activity after the deduction of related expenses reaches at least the decisive amount. If a person carrying out a secondary independent profit-making activity does not attain the decisive amount, the person can voluntarily apply for participation in social security. The decisive amount for the year 2009 is CZK 56,532.

The basis of assessment (annual) for mandatory general health insurance contributions and social security contributions is 50 % of the profit (the difference between income and expenses of the independent profit-making activity).

There is a common maximum limit of CZK 1,034,880 for the basis of assessment (annual) for the calculation of general health insurance contributions and social security contributions, as well as a minimum limit that is different for general health insurance contributions and different for social security contributions (see below).

General Health Insurance contributions

Generally, the minimum basis of assessment is CZK 141,330 in the year 2009.

The minimum basis of assessment does not apply, among others to persons on behalf of them the state pays contributions (un-provided-for children/students, senior citizens, women on maternity leave and parental leave, persons registered with employment offices, etc.).

Social security contributions

In 2009 the minimum basis of assessment for the primary independent profit-making activities is set at CZK 70,668. Moreover, the minimum basis of assessment for the primary independent profit-making activities is CZK 28,272 in the same year.

Contribution rates

The contribution rates for self-employed persons are as follows:

General health insurance	Social security *	Sick-leave insurance – voluntary
13.5 %	28.0 %	1.4 %

* Includes pension insurance contributions and unemployment benefit contributions.

A self-employed person is not obliged to pay contributions for sick-leave insurance; however, a self-employed person can apply voluntarily. A self-employed person can participate in sick-leave insurance only from the day on which the person filed the relevant application. Contributions for sick-leave insurance are calculated from the monthly basis of assessment, unlike contributions for social security and general health insurance, where an annual basis of assessment is calculated and monthly advance payments are determined on the basis of the economic results of the self-employed person during the previous year.

7. Accounting & reporting

Accounting is governed by the Accounting Act and related regulations (decrees on accounting and Czech accounting standards). There have also been changes in regulations on accounting as a result of the admission of the Czech Republic to the EU.

Persons registered in the Commercial Register (including organisation sections) as well as natural persons that engage in business and have a turnover of more than CZK 25,000,000, must keep accounts. The accounting period can be the calendar year, or a business year that differs from the calendar year. Accounts must be kept in the Czech currency and in the Czech language; in addition, receivables, liabilities, shares, securities, and cash or accounts in foreign currencies must also be stated in a foreign currency.

Each accounting unit must prepare a mandatory chart of accounts, i.e. an overview of the accounts that it uses. The mandatory basic structure of a chart of accounts is set out in decrees on accounting for the various types of accounting units (entrepreneurs, non-entrepreneurial entities, banks, insurance companies, government organisation sections);

Closing of books

As of the balance date, entrepreneurs submit a financial statement – a balance sheet, a profit and loss report, and an appendix. The appendix contains supplementary information on the balance sheet and profit and loss report, and specifically contains information about the accounting methods used, a specification of the content of the entries in the balance sheet and profit and loss report, liabilities to the government, and can also contain a cash flow statement.

The financial statement is a required appendix of a tax return.

Companies are obliged to make public their annual reports, financial statements, and audits of financial statements by depositing them in the collection of documents with the registration court within the deadlines set by law.

Audit

The following three criteria are decisive in determining whether there is an obligation to conduct an audit:

- Net assets of more than CZK 40,000,000
- Net turnover of more than CZK 80,000,000

- Average number of employees of more than 50.

Joint-stock companies are obliged to conduct an audit if at least one of the criteria is fulfilled in the year for which the closing of books is being prepared, and in the preceding year. For other business companies, co-operatives, organisation sections of foreign entities, and natural persons keeping double entry accounting, an audit is mandatory if at least two of the three conditions are fulfilled for two consecutive accounting periods. Audited companies must prepare an annual report.

International Accounting Standards

Since 2005, consolidating accounting units that issue securities registered on a regulated market in EU member states are obliged to use International Accounting Standards for financial statements. Other consolidating units have the choice of applying International Accounting Standards for their financial statements.

However, the application of International Accounting Standards does not affect the assessment of taxes because legal entity income tax must be calculated in accordance with Czech accounting and tax regulations.

8. UHY firms in the Czech Republic

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