

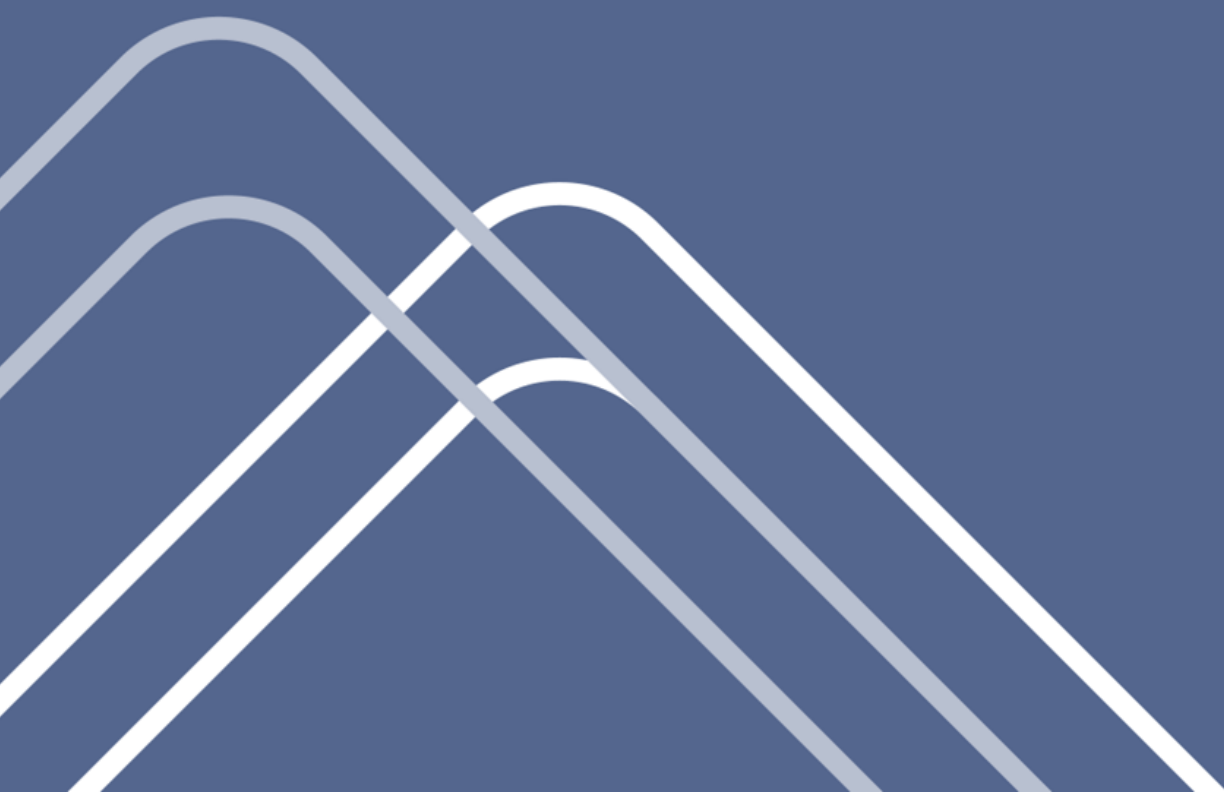


DOING BUSINESS IN THE CZECH REPUBLIC



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INTRODUCTION

UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centres in nearly 100 countries worldwide.

Business partners work together throughout the network to conduct transnational 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 a business operation in the Czech Republic has been provided by the office of UHY's representative there:

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Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is 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 in **April 2026**.

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

BUSINESS ENVIRONMENT

BACKGROUND

The Czech Republic offers one of the most stable business environments in Central Europe. It benefits from its strategic location in the heart of the EU, an open economy and well-developed infrastructure. Membership of the European Union and participation in the Single Market provide attractive opportunities for companies of all sizes.

As an EU member state, the Czech Republic, is fully integrated into the Single Market and enjoys the free movement of goods and services. Around 80% of Czech exports are destined for EU countries, with Germany, Slovakia and Poland being the principal trading partners.

The government, through CzechInvest, actively promotes foreign direct investment. At the same time, the Czech Republic seeks to diversify its markets beyond the EU, particularly in Asia and North America, and is engaged in EU trade agreements.

The war in Ukraine and the energy crisis triggered sharp price increases in 2022–2023. Inflation peaked at 16.8% in April 2023. By December 2024, inflation had fallen below 3% and has remained at this level since, in line with the target of the Czech National Bank. Ongoing challenges include labour shortages and upward pressure on wages.

POPULATION

The population of the Czech Republic was estimated at approximately 10.91 million at the end of 2024, with growth driven entirely by positive net migration amid a natural population decline.

A substantial share of the population resides in urban areas. The ten largest cities account for about 27% of the nation's total population. The capital, Prague, is home to roughly 1.40 million inhabitants.

GEOGRAPHY

The Czech Republic is a landlocked country in Central Europe, bordered by Germany, Austria, Slovakia and Poland. It occupies an area of approximately 78,866 square kilometres.

CURRENCY

The Czech crown (CZK or Kč) is fully convertible.

The US dollar and euro exchange rates (the average of 2025 as published by the Czech National Bank on www.cnb.cz) are 21.914 CZK/USD and 24.693 CZK/EUR.

LANGUAGE

The official language is Czech. A majority of adults in the Czech Republic speak at least one foreign language. Among them, 51% of the population speak English and 31% speak German.

MAJOR EXPORTS

The country's major export sectors include automotive manufacturing, machinery and engineering products, electrical equipment, and electronics. The automotive industry plays a dominant role, representing roughly one-third of total exports, with passenger cars, engines, and automotive components. Other important export commodities include computers and electronic devices, industrial machinery, chemical products, and metal goods.

The main export destinations are Germany, Slovakia, Poland and France.

MAJOR IMPORTS

The country primarily imports machinery and transport equipment, electrical and electronic components, and chemical products, which serve as essential inputs for its export-oriented manufacturing sector. A significant share of imports consists of automotive parts, industrial machinery, computers, and telecommunication devices, supporting the operations of Czech automotive and engineering industries. Other important import categories include mineral fuels, oil and gas, and pharmaceutical products.

The main import partners are Germany, China, Poland and Slovakia.

EDUCATION – PRIMARY AND SECONDARY

The Czech Republic provides a comprehensive system of primary and secondary education, regulated and funded predominantly by the state. Education is compulsory for nine years (age 6 to 15). Afterward, students choose between general secondary education, secondary technical/vocational schools, or vocational training schools. Public education is free of charge, while private and international schools are also available, especially in larger cities.

TERTIARY EDUCATION

The Czech Republic also has a strong tradition of higher education — Charles University in Prague, founded in 1348, is the oldest in Central Europe. Tertiary education, consisting of Bachelor's, Master's, Doctoral programs, is offered by both public and private universities. Many programmes are available in English, and public universities remain tuition-free for Czech and EU students studying in Czech.

HEALTH CARE SYSTEM

The Czech Republic has a universal healthcare system based on compulsory public health insurance, which guarantees access to medical care for all residents. Healthcare is provided through a network of public and private hospitals, clinics, and general practitioners, with the majority of facilities publicly funded.

Health expenditure accounts for 8.4% of GDP.

COMMUNICATIONS

There are three major mobile networks in the Czech Republic (O2, Vodafone and T-Mobile). Approximately 90% of the country's territory is covered by a 5G signal.

BANKING AND FINANCIAL SERVICES

In the Czech Republic, banks are regulated by the Czech National Bank (ČNB). The ČNB is the country's central bank, responsible for setting monetary policy and supervising the financial market. The Czech banking sector is dominated by large commercial banks – Česká spořitelna, ČSOB, Komerční banka, UniCredit Bank and Moneta Money Bank – which provide a wide range of services for both businesses and individuals. Alongside them operate investment banks and branches of foreign banks that focus on specialized financial services. The state-owned National Development Bank supports access to finance for small and medium-sized enterprises through preferential loans, guarantees, and investment programs.

TRANSPORTATION LINKS

The Czech Republic has a well-developed transport network that reflects its central location in Europe. Major motorways and railways connect the country's main cities and provide important links to neighbouring states such as Germany, Austria, Poland and Slovakia. The network supports both passenger and freight transport and plays a key role in regional trade and mobility. Air transport is primarily served by Václav Havel Airport in Prague, which offers regular connections to many European destinations. Thanks to its position and infrastructure, the Czech Republic serves as a convenient transit area and an accessible location for business and travel within Central Europe.

LAND AND BUILDING

The Czech Republic consists of agricultural land (53,1%), forest (34%) and other (12,8%). Land and buildings are predominantly privately owned, although the state and municipalities retain ownership of certain public assets such as infrastructure, forests, and cultural heritage sites.

Property rights are well protected by law, and ownership is recorded in the Cadastral Register (nahliznidokn.cuzk.gov.cz).

The property market is active, with strong demand in major cities. Foreign individuals and companies are generally allowed to acquire real estate without restrictions. Construction and land use are regulated by zoning and building laws, which are overseen by local authorities to ensure sustainable urban and regional development.

HOLIDAYS IN THE CZECH REPUBLIC

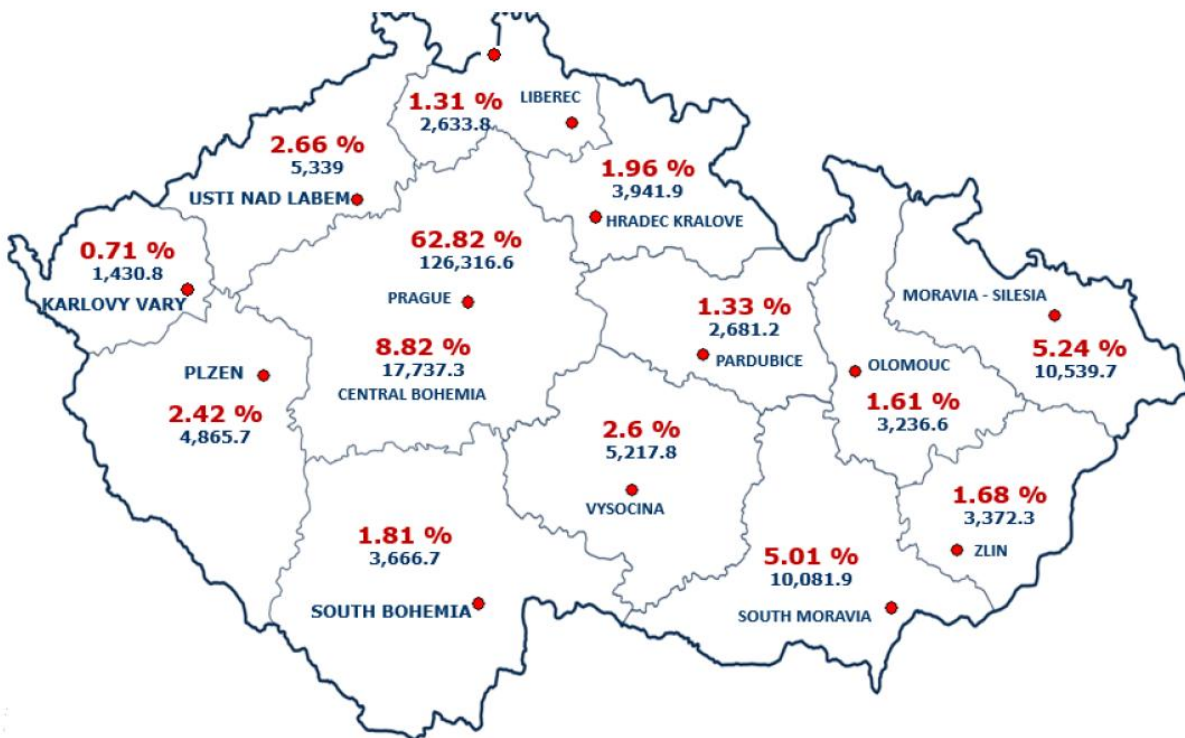
In the Czech Republic, several public holidays are celebrated nationwide. The main ones include New Year's Day (January 1), Good Friday, Easter Monday, Labour Day (May 1), Victory Day (May 8), Cyril and Methodius Day (July 5), Jan Hus Day (July 6), Czech Statehood Day (September 28), Independent Czechoslovak State Day (October 28), Struggle for Freedom and Democracy Day (November 17), and the Christmas holidays (December 24–26). Most offices and businesses close on these days.

FOREIGN INVESTMENT

FOREIGN DIRECT INVESTMENT IN THE CZECH REPUBLIC

At the end of 2024, the total stock of foreign direct investment (FDI) in the Czech Republic reached CZK 5,382.0 billion. Foreign investment remains concentrated in several key sectors. The largest shares were recorded in financial and insurance activities (29.0%), manufacturing (24.7%), and real estate (11.5%), followed by professional and technical services, as well as wholesale and retail trade. From a geographical perspective, EU member states accounted for around 85,7% of total FDI, with the Netherlands (16.6%), Luxembourg (16.2%), and Germany (13.9%) being the largest investors. Non-European investors, mainly South Korea, the United States, and Japan, together represented about 6,4% of the total.

Stock of FDI in the regions (as of 31 December 2023, EUR million)



Source: Czech National Bank, 2025

INVESTMENT INCENTIVES

The national incentives scheme in the Czech Republic supports new and expanding projects in manufacturing, technology centres, and business support service centres such as shared-services, software-development, high-tech repair, and data centres.

Incentives include mainly corporate income tax relief, cash grants for the creation of new jobs and training or retraining of employees, cash grants for capital investments.

TAX HOLIDAYS

A company newly established for an investment project may obtain full exemption from corporate income tax for up to ten years. This incentive effectively reduces the standard corporate income tax rate of 21% to zero during the relief period, provided that all statutory conditions are met. An existing company expanding its production or service activities can receive partial relief for the same period.

GRANT FOR CAPITAL INVESTMENT

A cash grant for capital investment is available for strategic projects or for production of goods with strategic importance, such as those in the pharmaceutical, electronics, or e-mobility industries. These projects may receive up to 20% of eligible investment costs, which typically include fixed assets or high-value technological equipment.

GRANTS FOR NEW JOBS AND TRAINING

A cash grant for new jobs and training supports the creation of qualified employment, particularly in regions with an unemployment rate above 7.5 %.

Eligibility for incentives depends on the size of the enterprise, project type, and investment volume. Investment incentives in the manufacturing sector in the Czech Republic cover standard projects, strategic investment projects, projects with high technological intensity, and selected strategic sectors (e.g. semiconductors, e-mobility, medical products, and energy savings), with the core requirement being a minimum investment differentiated by company size and region (approximately CZK 10–80 million for standard projects and at least CZK 2 billion for strategic projects), of which at least 50% must be allocated to new machinery. For technologically advanced projects and selected sectors, additional requirements apply regarding higher added value, particularly in terms of wages, workforce qualifications, and involvement in research and development.

The overall maximum state aid intensity varies by region and company size and typically ranges from approximately 15% to 40% of eligible costs for large enterprises, from 25% to 50% for medium-sized enterprises, and from 35% to 60% for small enterprises.

More detailed information about incentives may be obtained in English at Czech Invest – <https://czechinvest.gov.cz/en/For-Investors/Investment-Incentives>



SETTING UP A BUSINESS

A foreign person may opt for various types of business in 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 in 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 via an authorized representative.

A foreign natural person, who is a citizen of a European Union (EU) country, the European Economic Area (EEA) or Switzerland, is not required to a residence permit for purpose of conducting business in the Czech Republic.

Third-country nationals must obtain an appropriate residence permit for business purposes (typically a long-term visa or long-term residence permit for the purpose of business) in accordance with immigration regulations.

A foreign natural person is entered into the Commercial Register only in cases stipulated by law (e.g. when operating a business through an enterprise registered in the Czech Republic or when required by special legislation).

OVERSEAS BRANCH ('ODŠTĚPNÝ ZÁVOD')

A foreign person may establish a branch of their organization in the territory of the Czech Republic. A foreign legal entity is authorized to carry out business in the territory of the Czech Republic upon entry of its organization's branch in the Commercial register.

The organization's branch is not an independent legal entity.

The foreign legal entity must appoint an authorized representative who meets conditions for carrying out trade.

The foreign legal entity is represented by the manager of its branch (in matters regarding this organization's branch) in contact with the third parties.

Profits made in the territory of the Czech Republic are subject to income tax in cases where a permanent establishment has been created.

TYPES OF COMPANIES AND PARTNERSHIP

In the Czech Republic, the following types of business corporations and partnerships are recognized:

- Unlimited liability company (in Czech 'v.o.s.')
- Limited partnership company (in Czech 'k.s.')
- Limited liability company (in Czech 's.r.o.')
- Joint-stock company (in Czech 'a.s.')
- Co-operative association (in Czech 'družstvo')
- A Capital interest – silent partnership
- An European company, European cooperative company

The most frequent types of business corporations are limited liability companies and joint-stock companies.

A foreign person may be a member of a Czech company with a registered seat in the Czech Republic.

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

LIMITED LIABILITY COMPANY ('S.R.O.')

A limited liability company is a company whose registered capital is created by members' contributions. The minimum registered capital is CZK 1.

The limited liability company can also be established by a sole person. A limited liability company can have a sole member as the only founder, or the sole member of another company.

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

The company is represented by one or more executives.

The members take a share in the profits according to the ratio of their contributions to the registered capital, unless specified otherwise by the Memorandum of Association / Deed of Foundation.

The company's profit is subject to corporate income tax.

JOINT-STOCK COMPANY ('A.S.')

A joint-stock company can be established by one person (legal entity or individual).

The registered capital must be at least CZK 2 million (or EUR 80,995 if the company keeps its accounts in EUR). The company's registered 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.

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

Shareholders form a general meeting which 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 day of the financial period.

The joint-stock company can have either a monistic or dualistic structure of management. Monistic structure means, that company's body includes besides general meeting, a board of trustees. In dualistic structure, in addition to the general meeting, the company's body includes a board of directors and a supervisory board.

The company's profit is subject to corporate income tax.

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 their members. Members guarantee the company's obligations jointly with their assets.

The law does not prescribe an obligation to create a registered capital.

The members are statutory bodies.

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

The unlimited liability company is tax transparent, i.e., itself is not subject to income tax as a legal entity. The profit of the unlimited liability company is subject to income tax on individual members under the scope of their tax returns.

LIMITED PARTNERSHIP COMPANY ('K.S.')

A limited partnership company is a mixed type of company combining features of both a limited liability company and an unlimited liability company. It must be founded by at least one general partner (with unlimited liability) and at least one limited partner (with liability limited to their unpaid contribution). The minimum contribution for a limited partner is to be set in the Memorandum of Association.

General partners act as the statutory body of the company.

Profit and loss are distributed according to the Memorandum of Association. If not specified otherwise, profit is divided between the company and the general partners, while the share attributed to the company is subject to corporate income tax and subsequently distributed to limited partners according to their shares.

From a tax perspective, the limited partnership company is partially tax transparent - the share of profit attributable to general partners is taxed at the level of the partners and the share attributable to the company is subject to corporate income tax.

DATABOX

Databox (“datová schránka”) is established ex officio for all legal entities registered in the Czech Commercial Register and for entrepreneurs (natural persons).

All taxpayers that have a databox ex officio must communicate with the tax authorities electronically – either via their databox, or with an electronic guaranteed signature or via a representative, e.g. tax advisor, who will arrange for electronic submissions.

BENEFICIAL OWNER REGISTER

All legal entities and trusts established in the Czech Republic are required to register their beneficial owners in the Register of Beneficial Owners, which is an information system maintained by registration courts.

The registered data must be accurate, complete and kept up to date. The system is partially interconnected with public registers, allowing certain data to be recorded automatically.

Failure to comply with registration obligations may result in significant consequences, including restrictions on the distribution of profits, limitations on voting rights, and potential financial penalties affecting both the entity and its beneficial owners or members of statutory bodies.

LABOUR

EMPLOYMENT LAW

Employment relations are regulated by Labour Code – law No. 262/2006 Coll.

Employment arises:

- 1) from an employment contract
- 2) by appointment (exceptionally).

Specified employment contract requirements are the:

- Agreed type of work for which the employee is taken on
- Place or places of conducting the work
- First day of employment.

Employment may end when there is:

- Agreement – closed in writing
- Notice – this must be given in writing and 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 two months and running from the day the notice is delivered to the other party. In the case of disciplinary reasons, the notice period is reduced to one month. Labour Code sets further conditions for notice given by an employer:
 - The employer can only give the employee notice for reasons named in Labour Code: so-called organizational changes (dissolution or relocation of the employer, redundancy of the employee providing a claim for a redundancy payment of at least 1–3 times the average monthly salary, where the amount of redundancy payment is dependent on the length of the employment – up to one year = one average monthly salary, up to two years = two times the average monthly salary, two years and more = 3 times the average monthly salary), an employee's incapacity due to health, an employee not fulfilling the expectations or requirements for the performance of work, unsatisfactory work results and breaching work behaviour, breach of the medical regime.
 - The reason for the notice must be factually determined
 - The employer cannot give the employee notice when the employee is in the protected period. The protected period is when the employee is: pregnant or on maternity/parental leave, unable to work (apart from breach of medical regime), released to perform a public duty

- Immediate discontinuation – where the employer does not adhere to the principle of employment due to a significant breach in work behaviour or for the employee, when the employer does not pay a salary within 15 days after it is due (in this case the employee has the right to receive a severance pay).
- Cancellation in the trial period – this must be delivered in writing within the trial period. It is not possible to give notice to employee during first 14 days of incapacity for work.
- Upon completion of the agreed period – where employment for a fixed period of time ends. It continues if the employee, with the knowledge of the employer, continues with the work and hereby it was agreed to change employment to a non-fixed time period.
- Upon the decision to cancel a foreigner’s residence permit or the ending of the period for which the work permit was issued, or deportation.
- Death of the employee.

Agreements for work undertaken outside of employment (which must be finalized in writing):

- **Agreement for conducting work** – the extent of the work does not exceed 300 hours in the calendar year
 - Up to the amount of CZK 11,999 (approx. EUR 486) per month, this is not liable for social security and health insurance.
 - Notice period is 15 days.
- **Agreement for working activities** – the extent of the working period may not exceed on average half the established weekly working hours
 - Up to the amount of CZK 4,500 (approx. EUR 182) per month, this is not subject to social security and health insurance.
 - Notice period is 15 days.
 - Since 1.1.2024, if the legal conditions are met, the entitlement for vacation arises.

VACATION

The time for annual leave is at least four weeks. However, it is now converted to hours. In the so-called business sector, 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 since January 1, 2026 amounts to CZK 22,400 (approx. EUR 907) monthly or CZK 129.50/hour (5.24 EUR/hour).

For overtime work, the extra payment should be at least 25% of the average salary, unless the employer allows the employees to use the overtime for extra vacation. The employee is entitled to an extra payment of 10% of the average salary for work on weekends.

Within the work contract it is possible to agree on a maximum of 150 hours of overtime per calendar year, which the employee cannot refuse. However, with the employee's consent, it is possible to work up to 416 hours of overtime per calendar year.

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 - with the amount to be paid corresponding to the average wage for each "missing" person with disabilities, converted using the following coefficient:
 - 1, if the employer employs $\geq 3\%$ of persons with disabilities,
 - 2, if the employer employs 1–2.99% of persons with disabilities,
 - 3.5, if the employer employs $< 1\%$ of person with disabilities

EMPLOYEES FROM ABROAD (FOREIGNERS) AND THE EUROPEAN UNION (EU)

Employees from the EU, EEA and Switzerland (also their family members) do not need work permits. Furthermore, citizens of Australia, Japan, Canada, South Korea, New Zealand, Great Britain, the United States of America, Singapore, Israel, and Taiwan have free access to the labour market. These individuals don't need to obtain a work permit in order to work in the Czech Republic. However, free access to the labour market doesn't guarantee foreigners the right to reside in the Czech Republic. It is still necessary to apply for a residence permit in accordance with standard procedures.

Employees from all other countries must obtain a work permit and residence visa for employment purposes before commencing work.

Foreigners can work in the Czech Republic:

- Based on the work permit
- The request for a work permit - the employer must discuss with the relevant branch of the Employment Office the intention to employ foreigners, including the number of foreigners, type of work and the period of performance of this work.
- A foreigner must apply for a work permit in written form usually before the arrival to the Czech Republic.
- A work permit may be issued by a branch of the Employment Office for the work position, which was reported as available and cannot be filled due to the required qualification or lack of available labour force.

- Based on the employment or blue cards issued by the Ministry of the Interior.

PAYROLL REGISTRATION

Every employer hiring at least one employee needs to register for:

- Payroll tax and social security – as of April 1, 2026, registration is handled through a single form
- Health insurance
- Mandatory risk insurance

Registrations must be completed within eight days from the start of employment. If an employer intends to hire a foreign employee, they are required to register with the employer registry no later than the day the employee begins work.

Starting April 1, 2026, the Unified Monthly Employer Report (JMHZ) is a new way for employers to report data on employees and their wages to the government each month. Instead of sending multiple different forms to various agencies (e.g. the social security administration, the tax office), everything is now submitted in a single consolidated report.

The report is submitted electronically, typically by the 20th day of the following month, and covers all employees and employment agreements. The goal is to simplify administrative procedures and reduce duplicate data reporting.

SOCIAL SECURITY AND HEALTH INSURANCE

An employee pays a contribution for social security and health insurance of 11.6% of the gross salary (including non-monetary benefits). An employee who submits proof of receiving an old-age pension is entitled to a 6.5% discount on social security contributions. Employers participate in contributions with an additional 33.8% of the gross salary. Employers can also claim a 5% discount on insurance premiums if they employ part-time employees:

- over 55 years of age
- caring for a close relative under 10 years of age
- preparing for a future career through study
- with a disability
- who, in the 12 calendar months prior to the calendar month for which the insurance discount applies, started retraining as a job seeker
- under 21 years of age (the part-time condition does not apply here)

The discount only applies to the assessment bases of these employees.

A foreign employee working in the Czech Republic for a Czech company or for a registered office of a foreign employer is obliged to participate in the social security and health insurance in the Czech Republic unless otherwise exempt according to EU regulations or bilateral social security treaties.

Owners, managing directors of a limited liability company, limited partners of a limited partnership company and members of the bodies of legal entities working for a Czech company, must also participate in social security and health insurance.

In the calendar year 2026, the maximum base amount for social security is set at CZK 2,350,416 (approx. EUR 95,186). Maximum base amount for health insurance is not set; the health insurance contribution is assessed from the whole amount of the gross salary.

Rates of statutory insurance

TYPE OF INSURANCE	CONTRIBUTION – EMPLOYER	CONTRIBUTION – EMPLOYEE
Health care insurance	9.0%	4.5%
Pensions	21.5%	6.5%
Unemployment	1.2%	0.0%
Sickness	2.1%	0.6%
Possible discounts	-5.0%	-6.5%
Total	33.8% (28.8%)	11.6% (5.1%)

PAYROLL TAX

Tax paid of wages is the most important part of personal income tax.

There are two personal income tax rates 15% and 23%.

The higher rate applies on incomes over a threshold given as 36-times average monthly wage. For 2026 it is CZK 1,762,812 (EUR 71,389).

More details about personal income tax you can find in Chapter 6.

BENEFITS OF SICKNESS INSURANCE

For the first 14 calendar days of sickness, an employee receives a refund of wages from the employer. The refund is provided just for the working days, starting from the first working day of the sickness. The refund of wages is limited in the same way as benefits from sickness insurance.

An employee is entitled to benefits from sickness insurance starting from the 15th calendar day of the sickness, counted in calendar days. Sickness insurance is handled by the social security system.

STATUTORY INSURANCE RESPONSIBILITIES OF THE EMPLOYER FOR INJURY FROM WORK ACCIDENTS OR ILLNESS CAUSED BY WORK

The principle of statutory insurance is the right 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 and damages to the extent of the employer's responsibility as stated by the Labour Code.

TAXATION

The Czech tax system, newly created in 1993 and valid since then, includes direct taxes (income, property), indirect taxes (consumption) and other obligatory payments (health insurance and social security contributions).

Applicable Taxes:

- Income Tax – corporate income tax, personal income tax
- Value Added Tax
- Excise Duties (on fuels, spirit, tobacco, beer and wine)
- Road Tax
- Environmental Taxes (on electricity, natural gas and coal)
- Real Estate Tax

TAX ADMINISTRATION

Tax administration and collection are performed by 14 Tax Offices, according to the seat of a company or residential address of an individual subject to tax, and by Specialized Tax Office competent for selected entities. Appellate Financial Directorate acts as a single first-level appellate body for the whole territory of the Czech Republic. The Supreme tax authority, the General Financial Directorate, is subordinate to the Ministry of Finance.

A decision of the Appellate Financial Directorate may be reviewed by the administrative courts. A decision of the regional administrative court could be reviewed by the Supreme administrative court. However, the court decision is binding only with regards to each particular case and does not create a precedent. The appeal or litigation has no deferred effect, which can cause problems as the court procedure may take several years.

STATUTE OF LIMITATION

The tax authorities can assess the tax in the period of three years from the deadline for filing the respective tax return. Certain actions (e.g. tax inspection, filing of supplementary tax return by the taxpayer) might prolong this period. With respect to income tax, the assessment period of the tax year in which a tax loss incurred ends with the assessment period of the last tax year to which the

respective tax loss may be carried forward. The maximum assessment period may however never exceed 10 years.

TAX SANCTIONS

Czech tax regulation differentiates three sanctions in the event of non-compliance:

- fine – if the taxpayer files the tax return with a delay of more than 5 working days - 0.05% of the tax liability or 0.01% of the tax loss per each day of delay, up to the maximum of 5% of tax liability/tax loss
- penalty – due if an additional tax liability is assessed by the tax authority. It amounts to 20% of the increased tax amount or 1% in the case of a reduction of tax loss.
- late payment interest – if the taxpayer pays tax liability with a delay of more than 3 calendar days - amounts to repo rate set by the Czech National Bank on the first day of the relevant calendar half year increased by 8% (currently rate of 3.50% + 8% = 11.50% p.a. applies).

Further, the tax authorities can assess a procedural fine in some cases up to CZK 500,000 (approx. EUR 20,249), e.g., while failure to comply with the registration or reporting obligation. Fines for late filing or failure to file a VAT control statement can be imposed in the range from CZK 1,000 to CZK 50,000 (approx. EUR 2,025).

In certain cases, it is possible to ask for a waiver of assessed sanctions for non-compliance.

Generally, the burden of proof shall be borne by the taxpayer, i.e. he is obliged to prove the information stated in his tax return. If he fails to do so, the Tax Office may adjust the tax base and assess sanctions.

Criminal proceedings against the taxpayer may be initiated in the case of intentional tax evasion amounting to at least CZK 100,000 (approx. EUR 4,050).

REGISTRATION OF SALES (EET)

Obligatory electronic registration of cash-paid sales was abolished in the Czech Republic.

AVOIDANCE OF DOUBLE TAXATION

One of the tax system principles is the superiority of international treaties over national law. The Czech Republic has ratified over 100 treaties for avoidance of double taxation. A summary of selected treaties and taxation of dividends, interest and license duties generated from sources in the Czech Republic, is set out in the table below.

Treaties – Taxation of dividends, interest and license fees – maximum tax rate in the source country (selected countries)

STATE	DIVIDENDS	INTEREST	LICENSE FEE
Australia	5% for share of min. 20%, otherwise 15%	10%	10%
Austria*	0% for share of min. 10%, otherwise 10%	0%	5%
Canada	5% for share of min. 10%, otherwise 15%	10%	10%
China	5% for share of min. 10%, otherwise 10%	7,5%/0%	10%
Cyprus*	0% for share of min. 10%, otherwise 5%	0%	10%/0%
France*	0% for share of min. 25%, otherwise 10%	0%	10%/ 5%/ 0%
Germany*	5% for share of min. 25%, otherwise 15%	0%	5%
Hungary*	5% for share of min. 25%, otherwise 15 %	0%	10%
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%/0%	10%/0%
Luxembourg*	0% for share of min. 10%, otherwise 10%	0%	10%/0%
Poland*	5%	5%/0%	10%
Russia	10%	0%	10%
Slovak Republic*	5% for share of min. 10%, otherwise 15%	0%	10% /0%
Switzerland*	15%, selectic cases 0%	0%	5%/10%
The Netherlands*	0% for share of min. 25%, otherwise 10%	0%	5%
United Kingdom	5% for share of min. 25 %, otherwise 15%	0%	10%/0%
United States	5% for share of min. 10%, otherwise 15%	0%	10%/0%

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

The treaties ratified in the last two decades to avoid double taxation mainly by means of foreign tax credit. The older treaties used to exempt the foreign income from taxation in the Czech Republic.

DIRECT TAXES

INCOME TAX LAW

PERSONAL INCOME TAX

This tax applies to all income generated by natural persons (individuals).

Natural persons with permanent home in the Czech Republic, or those staying in the country for more than 183 days in the calendar year, are subject to tax in the Czech Republic. Such individuals are considered to be tax residents in the Czech Republic and are subject to taxation on their worldwide income.

Natural persons who do not fulfil the above-mentioned conditions or are considered to be tax residents of another country according to the double taxation treaty signed by the Czech Republic, are only taxed on the income generated from sources in the Czech Republic (limited tax liability).

Following types of income are subject to personal income tax:

- Income from employment
- Income from self-employment activities
- Income from capital assets
- Rental income
- Other income

Capital gains from sale of certain assets held for non-business purposes are exempt from tax, e.g.:

- Income from the sale of securities if income below CZK 100 Thousand (EUR 4,050)

- Income from the sale of shareholding in limited liability company or cooperative if owned longer than five years and Income from the sale of securities if owned longer than 3 years
- Income from the sale of a family house or apartment, if the taxpayer has been living there for two years prior to the sale
- Other real estate, if possessed by the taxpayer for longer than 10 years (or 5 years for real estate acquired prior 2021)

Employment income of non-residents performing activities in the Czech Republic for and under instruction of a foreign employer not having a permanent establishment in the Czech Republic for less than 183 days during any 12-month period is exempt from tax.

Generally, the tax base of employment income is the gross salary. Income tax is withheld from the employment income by the employer who further pays it to the Tax Office. (see part 5 Labour)

For the purpose of determining the tax base of business or rental income, it is possible to deduct either the real amount of expenses or a lump sum amount, calculated as a percentage (30– 80%) of the taxable income, based on the type of business activity. There is a limitation of the lump sum expenses as defined in the table below.

Lump sum expenses

BUSINESS ACTIVITY	LUMP-SUM RATE	MAXIMUM AMOUNT OF EXPENSES
Agriculture, craft trade	80%	CZK 1,600,000 (approx. EUR 64,796)
Non-craft trade	60%	CZK 1,200,000 (approx. EUR 48,597)
Rental income	30%	CZK 600,000 (approx. EUR 24,298)
Independent personal service	40%	CZK 800,000 (approx. EUR 32,398)

Generally, the tax loss arising from business and other self-employment activities or the renting and leasing of property may be carried forward for the following five years or to the preceding 2 years. An off set of the tax loss with income from employment is not permissible.

The inheritance and gift tax is integrated into Income Tax Act. Income from inheritance is tax exempt from income tax for individuals. The acceptance of a gift is subject to income tax, unless

tax exemption applies (e.g. gifts among related persons in the direct or collateral line (parents, children, siblings, uncles etc.), gifts up to CZK 50 ths per year from one donor).

If certain conditions are met, the tax base of individuals can be decreased by special tax deductions. The most usual tax deductions are interests on mortgages or loans from building societies for owner-occupied housing, paid private pension or life insurance contributions, charity gifts and donations etc. Furthermore, it is possible to reduce the final tax liability by tax allowances. For instance, there are allowances for taxpayers with children or those sharing household with a spouse without income, receiving disability support pension or being seriously disabled. Moreover, there is a basic tax allowance for all taxpayers amounting to CZK 30,840 (EUR 1,249) per year.

There are two personal income tax rates 15% and 23%.

The higher tax rate applies on total tax base over a threshold given as 36-times average monthly wage. For 2026 it is CZK 1,762,812 (EUR 71,389).

The personal income tax return must be submitted following the end of the calendar year within:

- three months,
- four months if filed electronically (via special electronic form),
- six months if represented by a tax advisor.

Further prolongation of the deadline may be granted at the discretion of the tax authority.

The tax is due on the last day of the deadline for filing the tax return. The tax is usually prepaid by means of advance payments.

Apart from personal income tax, individual persons must also pay social security contributions and health insurance premiums. Social security contributions and health insurance premiums are to be paid from the employment income (see above, chapter 5 - Labour) and from the self-employment activities (see below, table 5).

An individual must report to the tax administrator tax-exempt income above CZK 5,000,000 (approx. EUR 202,487) e.g., exempted income on the sale of share, real estate, etc. Sanctions for failure of this reporting obligation can reach up to 15% of the unreported income.

PERSONAL INCOME TAX

This tax applies to all income generated by natural persons (individuals).

Natural persons with permanent home in the Czech Republic, or those staying in the country for more than 183 days in the calendar year, are subject to tax in the Czech Republic. Such individuals are considered to be tax residents in the Czech Republic and are subject to taxation on their worldwide income.

Natural persons who do not fulfil the above-mentioned conditions or are considered to be tax residents of another country according to the double taxation treaty signed by the Czech Republic, are only taxed on the income generated from sources in the Czech Republic (limited tax liability).

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- Other income

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There are two personal income tax rates 15% and 23%.

The higher tax rate applies on total tax base over a threshold given as 36-times average monthly wage. For 2026 it is CZK 1,762,812 (EUR 71,389).

The personal income tax return must be submitted following the end of the calendar year within:

- three months,

- four months if filed electronically (via special electronic form),
- six months if represented by a tax advisor.

Further prolongation of the deadline may be granted at the discretion of the tax authority.

The tax is due on the last day of the deadline for filing the tax return. The tax is usually prepaid by means of advance payments.

Apart from personal income tax, individual persons must also pay social security contributions and health insurance premiums. Social security contributions and health insurance premiums are to be paid from the employment income (see above, chapter 5 - Labour) and from the self-employment activities (see below, table 5).

An individual must report to the tax administrator tax-exempt income above CZK 5,000,000 (approx. EUR 202,487) e.g., exempted income on the sale of share, real estate, etc. Sanctions for failure of this reporting obligation can reach up to 15% of the unreported income.

CORPORATE INCOME TAX

This tax applies to all income generated by legal entities.

Legal entities with seat or place of effective management in the Czech Republic are considered tax residents and are subject to corporate taxation on their worldwide income.

Unlimited liability company (v.o.s.) and also partly Limited partnership company (k.s.) are considered to be tax transparent. The profit of v.o.s. is being taxed within the tax returns of individual members. The same rule applies in case of the profit of general partners of k.s.

A limited tax liability applies to non-resident legal entities – only income generated from sources in the Czech Republic is subject to the corporate income tax. This mainly applies to permanent establishments of foreign persons in the Czech Republic.

TAX RATE

The tax rate is 21% (for tax periods started in 2023, 19% tax rate applies).

The tax rate for basic investment fund is 5% and for pension funds 0%.

The tax rate of 15 % applies for income taxed in separate tax rate (e.g., income from dividends from abroad that is not tax exempt).

TAX YEAR

The taxable period is the calendar or financial year lasting 12 months (always starting on the first day of a month).

TAX RETURN

The corporate income tax return must be submitted following the year-end within:

- three months,
- four months if filed electronically (via special electronically form),
- six months when represented by a tax advisor or company's books are subject to the statutory audit.

Further prolongation of the deadline may be granted at the discretion of the tax authority.

The tax is due on the last day of the deadline for filing the tax return. If there is an overpayment, it is refunded within 30 days of applying for refund (separate request being part of the tax return form). Advance payments for income tax on a quarter or half-year basis must be paid by those taxpayers whose tax liability for the preceding tax period exceeded CZK 30,000 (approximately EUR 1,215).

INCOME FROM THE TRANSFER OF SHARES

Generally, capital gains upon the transfer of shares are subject to corporate income tax. The relevant double taxation treaty could determinate that the income is not subject of taxation in the Czech Republic.

In cases where a shareholding company, which is a tax resident in the Czech Republic or in the EU, Switzerland, Norway, Iceland or Liechtenstein, sells shares in a subsidiary with seat in the Czech Republic or in the EU, Switzerland, Norway, Iceland or Liechtenstein, income arising from the transfer is exempt in the Czech Republic from tax upon meeting certain conditions, i.e. qualifying legal form of both companies and minimum shareholding (10%) for a period of 12 months (time test can be also fulfilled prospectively).

Capital gains from transfer of shares in non-EU companies might also be tax exempt if the analogous legal form and holding requirement is fulfilled, if there is a double taxation treaty between the Czech Republic and the country of residence of the subsidiary and the subsidiary is subject to corporate income tax at the minimum rate of 12% in its home country.

PAYMENT OF PROFIT TO/FROM ABROAD

Dividend income in the Czech Republic is generally subject to withholding tax at a rate of 15%, both for distributions between Czech entities and for payments made abroad. This rate may be reduced or fully eliminated under the applicable double taxation treaty or EU legislation. An increased withholding tax rate of 35% applies to payments made to jurisdictions with which the Czech Republic has not concluded a double taxation treaty or a tax information exchange agreement.

Dividend income may be exempt from taxation under the participation exemption regime, subject to certain conditions. This regime typically applies where the parent company holds at least a 10% share in the subsidiary for a minimum period of 12 months and both entities have a qualifying legal form. The exemption is generally available within the EU and may also apply to EEA countries and Switzerland.

Dividends received by a Czech company from abroad may also be exempt under similar conditions, in particular where the subsidiary is resident in the EU, EEA or Switzerland. In the case of subsidiaries located in third countries, the exemption is generally subject to the existence of a double taxation treaty and an adequate level of taxation of the subsidiary (typically at least 12%).

The transfer of a profit held by a domestic branch to its foreign headquarters is not subject to any withholding tax, nor any other restriction (e.g. branch tax).

ATAD RULES

The following rules of Anti-Tax Avoidance Directive have been incorporated in the Czech law:

- taxation of the asset transferred without the change of ownership from the Czech Republic to foreign countries (exit tax),
- taxation of income of controlled foreign companies controlled by Czech controlling company where the foreign company does not carry out any substantial economic activity and its foreign tax is less than half the tax that would have to be paid under the Czech rules (CFC rules),
- rules against hybrid mismatch arrangements between related person, such as, when the same expense reduces the tax base in more jurisdictions or when the expense will be tax deductible in one state without being taxable income in another state (hybrid mismatches), and
- restricted deductibility of borrowing costs (interest limitation rules).

The tax deductibility limit for borrowing costs has been set at the higher of CZK 80 million (approx. EUR 3.24 million) or 30% of EBITDA (Earnings before Interest, Taxes, Depreciation and

Amortization) in the taxable period (limitation of the tax deductibility of excessive borrowing costs).

TAX LOSSES

Tax losses may be carried forward to the subsequent five taxable periods. Since 2020, a carry-back has also been available for the two preceding taxable periods, up to a maximum amount of CZK 30 million.

The utilisation of tax losses is restricted in the event of a substantial change in ownership structure (exceeding 25%) combined with a change in business activities (less than 80% of income derived from the same activities).

In the case of corporate reorganisations, tax losses are transferred to the legal successor; however, they may only be utilised against profits derived from the same activities. In case of uncertainty, an advance tax ruling may be requested (administrative fee of CZK 10,000).

GROUP TAXATION

The group taxation is not permitted in the Czech Republic.

MERGER/DEMERGER

The Income Tax Act implemented the EU Merger Directive legislation. This implemented provision applies to Czech companies and also to companies from other EU member states.

Merger and demergers generally treated as tax neutral. Tax depreciation continues at the tax residual value, while any goodwill arising is not tax deductible. Tax losses, reserves and provisions are transferred to the successor entity.

No real estate acquisition tax or VAT applies to mergers and demergers.

TAX RELIEF

Companies that have received a Decision to Grant Investment Incentives can claim tax relief as a support of investments in the expansion of existing activities. The tax relief can be full (for greenfield projects) or partial (for brownfield projects) for up to ten years.

The recipient of the investment incentive must comply with the tax base minimization requirement.

TRANSFER PRICING

'Related parties' are considered to be companies (or individuals) connected by direct or indirect participation in the capital or voting rights of at least 25% or subject to common management or control. Related parties are deemed to be also parties where a person participates in the management or control of another person, or two persons are subject to management or control by a common person, or parties who entered into legal relationship primarily for the purpose of tax base reduction or increase of tax losses.

The prices between related parties have to be agreed on arms-length principles.

The OECD's Transfer Pricing Guidelines are not binding in the Czech Republic but should be followed. The transfer pricing documentation is not required by law but is recommended to keep it. The tax authorities often focus on transactions between related parties during tax inspections. If prices between related persons differ from the common market price, the Tax office may adjust the tax base. Such tax base adjustment is treated as a deemed profit distribution if the counterparty is a taxpayer other than resident of another EU/EEA Member State or Switzerland.

The taxpayer may request the tax administrator to issue a binding opinion on a price arranged between related parties. Such an advance pricing agreement ("APA") is subject to an administrative fee of CZK 10,000 (approx. EUR 405).

Certain taxpayers are required to disclose an overview of transactions with related parties in their corporate income tax return.

COUNTRY BY COUNTRY REPORT

COUNTRY-BY-COUNTRY REPORTING (CbCR)

Multinational groups with consolidated revenues exceeding EUR 750 million are subject to Country-by-Country Reporting obligations. In the Czech Republic, this includes both the filing of the CbCR (containing key financial data such as revenues, profits and taxes paid) and a notification identifying the reporting entity.

A Czech entity qualifying as the ultimate parent entity is required to prepare and file the CbCR for the entire group. For a Czech entity that is a subsidiary of an EU reporting entity, the reporting obligation is generally fulfilled at the level of the EU parent, with no additional local filing required. In the case of a Czech entity that is a subsidiary of a non-EU parent, no separate public CbCR is required provided that equivalence conditions are met (i.e. the parent publishes an equivalent report covering the group, includes the Czech entity, files it in the Czech register within 12 months, and makes it publicly available online). Otherwise, the reporting obligation shifts to the Czech entity.

THIN CAPITALISATION RULES

Interest on loans and credits as well as related costs (fees, costs for securing the loan etc.) from related parties are tax non-deductible if the total of loans from related parties is more than four times (six times for banks and insurance companies) the amount of the equity. The same applies to financial costs, the amount or maturity of which is dependent upon the profit of the debtor. Such non-deductible interest is treated as a deemed profit distribution if paid to a taxpayer other than resident of another EU/EEA Member State or Switzerland.

DEPRECIATION ACCORDING TO TAX LAW

Depreciation periods for fixed tangible assets are set out by the Income Tax Act as shown in the table below.

TABLE 6

Depreciation for fixed tangible assets

DEPRECIATED GROUP	DEPRECIATION PERIOD (Y)	TYPE OF FIXED TANGIBLE ASSETS
1	3	PC and other office technology, some agricultural machinery
2	5	Furniture, motor vehicles, machinery and equipment
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 sites

Taxpayers may choose between the straight-line and accelerated depreciation methods in the first year of depreciation. For selected assets, first-year depreciation may be increased (typically by up to 20%).

Extraordinary depreciation is available only for qualifying zero-emission vehicles, allowing depreciation over 12 or 24 months.

Low-value tangible assets (below CZK 80,000) and fixed intangible assets are not depreciated for tax purposes and are treated in accordance with accounting rules. As a result, tax and accounting depreciation generally align.

Land and works of art are not depreciated.

LEASING

The Act on Income Tax recognizes two types of leasing – financial and operational leasing. In the case of financial leasing, ownership of a leased item is expected to be transferred to the lessee after termination of the lease contract for consideration or for free.

Operational leasing is the rental of an asset where, after the end of the lease, the asset is returned to the lessor. The cost of leasing is tax deductible expense upon the meeting of conditions set by Income Tax Act.

Leasing of assets located in the Czech Republic provided by the lessor who is Czech tax non-resident is subject to a withholding tax of 5% (applied on the financial leasing payment) or 15% (applied on the operational leasing payment). Both rates may be modified in accordance with an applicable double taxation treaty. Withholding tax of 35% shall be applied on income from operational leasing paid to the tax resident of a non-EU/EEA Member State with which the Czech Republic does not have a valid and effective double taxation treaty or tax information exchange agreement.

WITHHOLDING TAX

Certain types of income are taxed by means of a withholding tax. Withholding tax is withheld from gross income not taking into account any related costs.

Regardless of whether the income is paid to a resident or a non-resident taxpayer, the withholding tax must be paid at the time when the payment is made. With respect to certain types of income, tax must be withheld when the payable against the recipient of the income is accounted for.

Withholding tax rates

	WITHHOLDING TAX*
Dividends, settlement shares, liquidation proceeds	15%
Interest on term deposits of natural persons	15%

**The rate is modified in accordance with any double taxation treaty which may exist.*

The withholding tax rate of 35% is applied on certain types of income if paid out to the tax resident of a non-EU/EEA Member State with which the Czech Republic does not have a valid and effective double taxation treaty or tax information exchange agreement.

EU or EEA tax residents with specific types of income, from which tax was withheld, are allowed to submit an income tax return and claim expenses corresponding to the respective income. In such a case, withholding tax is credited as an advance payment and the tax overpayment is refunded.

INCOME OF NON-RESIDENT TAXPAYERS FROM SOURCES WITHIN THE CZECH REPUBLIC

With respect to non-resident taxpayers, only the income from sources within the Czech Republic is subject to taxation.

Source income includes income from:

- Activities of a permanent establishment (a permanent establishment of a non-resident may exist if there is a fixed place of business in the Czech Republic, or if there is a construction site or services rendered in the Czech Republic for a period of more than 6 months in any 12-month period. The same applies if there is a dependent agent of a non-resident acting on behalf of him in the Czech Republic)
- Employment performed in the territory of the Czech Republic
- Technical, business or other consulting, managerial or agency activities in the Czech Republic
- The use or transfer of real estate in the Czech Republic
- An independent activity carried out in the Czech Republic
- The activities of artists and athletes carried out in the Czech Republic
- A sale of shares in companies having seat in the Czech Republic
- Income from the sale of a business establishment located in the territory of the Czech Republic.

When income is received from Czech tax residents or Czech permanent establishments of tax non-residents, source income also includes:

- Fees for the use of industrial property rights, software, know-how
- Fees for the use of copyrights
- Profit distributions, settlement shares, liquidation proceeds

- Interest on credits and loans
- Income from the use of tangible assets in the Czech Republic
- Directors' fees
- Income from lotteries, competitions and sport events
- Alimony payments and pensions
- Income derived by a shareholder/member of a company in connection with a reduction of registered capital
- Income from settlement of a receivable acquired by assignment
- Sanctions from contractual and non-contractual obligations
- Income from a trust fund
- Gratuitous income.

The tax on this income is collected either via a withholding tax or via a tax return. For certain types of income, taxpayers from the EU and EEA can opt for filing a tax return and credit the withholding tax as an advance payment.

Relevant double taxation treaties can modify the taxation in the Czech Republic.

REPORTING OF EXEMPT INCOME

The reporting obligation for cross-border payments applies to selected types of income paid to non-resident taxpayers that are either exempt from tax in the Czech Republic or not subject to taxation under an applicable double tax treaty. It primarily covers royalties, dividend and other capital income, as well as interest from financial instruments. A monthly threshold of CZK 300,000 per recipient applies to interest, while royalties and capital income must be reported irrespective of their amount.

The notification is submitted annually, by the end of January of the following year.

OTHER DIRECT TAXES

ROAD TAX

This tax applies to motor vehicles registered and operated in the Czech Republic for profit-making activities. Subject to the road tax are only lorries with a maximum permissible weight of more than 3.5 t and trailers or trailers with a maximum permissible weight of more than 3.5 t. Passenger cars or buses are no longer subject to road tax.

REAL ESTATE TAX

Immovable property (i.e. land and buildings) is subject to immovable property tax in the Czech Republic. The tax base is generally determined based on the area in square meters; for certain types of land (e.g. agricultural land), it may be based on statutory value. For buildings, the tax base is the built-up area in square meters.

Applicable tax rates vary depending on the type of property, and municipalities may adjust the final tax liability through local coefficients or exemptions.

Immovable property tax paid is generally tax deductible for corporate income tax purposes.

INHERITANCE TAX, GIFT TAX

The inheritance tax and gift tax is abolished and is integrated into the Income Tax Act.

Income from inheritance is tax exempt from income tax for both individuals and legal entities.

For individuals, the acceptance of a gift is subject to income tax unless a tax exemption applies (e.g. gifts among related persons in the direct or collateral line or gifts up to CZK 50 Thousand. (approx. EUR 2.0 thousand) per donor per year.

For legal entities, gifts received are generally subject to corporate income tax at 21%, unless an exemption applies (e.g. gifts received by public-benefit entities and used for public-benefit purposes).

REAL ESTATE ACQUISITION TAX

The real estate acquisition tax was abolished in 2020.

INDIRECT TAXES

VALUE ADDED TAX (VAT)

The local VAT law system is governed by the Council Directive 2006/112/EC.

TAX RATE

There are two VAT rates in the Czech Republic – a standard rate of 21% for most goods and services and a reduced rate of 12% for e.g. food products (except beverages), medical equipment, pharmaceuticals, accommodation, restaurant services, public transportation, culture, sport, etc.

VOLUNTARY REGISTRATION FOR VAT

An entrepreneurial entity or entrepreneur planning to perform taxable transactions with a right for input VAT deduction in the Czech Republic may apply for registration for VAT voluntarily.

MANDATORY REGISTRATION – REGISTRATION OF DOMESTIC ENTITIES

An entrepreneurial entity or entrepreneur with their registered office or place of business in the Czech Republic becomes mandatorily a VAT payer, if e.g. a turnover of CZK 2,000,000 (approx. EUR 80,995) in calendar year is achieved. In this case, they become VAT payer from the first day of the following year. If a turnover of CZK 2,536,500 (equivalent to the EU limit of EUR 102,721) is reached, they become VAT payer from the following day."

REGISTRATION OF FOREIGN ENTITIES (COUNTRIES WITHIN THE EU AND OUTSIDE)

If foreign companies operate in the Czech Republic but do not reach the turnover threshold for mandatory registration either in the Czech Republic and in their country of residence, they can opt for the small business VAT scheme and thus avoid mandatory VAT registration in the Czech Republic.

If the small business VAT scheme is not applied, foreign entities are obliged to register in the Czech Republic, for example:

- upon their first supply of goods or services taxable in the Czech Republic unless the recipient of the supply is liable for tax
- upon their first tax-exempt delivery of goods from the Czech Republic to another EU Member State.

SPECIAL VAT REGISTRATION - PERSON IDENTIFIED TO VAT

Domestic or foreign entrepreneurial entity or entrepreneur not registered for VAT purposes in Czech Republic as a VAT payer might become liable to pay VAT on intra-Community acquisition of goods from another EU Member State or on services received from a person seated outside the Czech Republic. Such a person is obliged to file an application for a special VAT registration as a

person identified to VAT and to file a tax return only for those tax periods in which VAT liability arises. A person identified to VAT is not obliged to charge VAT on local supplies, but is not allowed to claim input VAT.

VAT COMPLIANCE OBLIGATIONS

A VAT payer is obliged to file a tax return and to pay the due tax within 25 days after the last day of the taxable period. The standard taxable period is the calendar month. As of the third year after VAT registration, the taxable period may be changed to a calendar quarter when certain conditions are met, e.g. turnover does not exceed CZK 15,000,000 (approx. EUR 607,460).

Generally, the EC sales list on intra-Community supplies of goods and services must be filed within 25 days after the end of the calendar month.

The VAT Control Statement, which is a list of all received and provided supplies over CZK 10,000 (approx. EUR 405) must be filed within 25 days after the end of the calendar month.

SUBJECT OF VAT

The following transactions are subject to VAT in the Czech Republic:

- The supply of goods and services within the Czech Republic
- The supply of goods and services outside the Czech Republic
- The acquisition of goods and services within the EU
- The import of goods to the Czech Republic from outside the EU
- The export of goods from the Czech Republic outside the EU

EXEMPT SUPPLIES

Transactions which are exempt from VAT are either with or without the right to claim input VAT.

The transactions without the right to claim input VAT include e.g. transfer and rent of real estate, financial services, insurance, postal services, public radio and television broadcasting.

Certain tax-exempt real estate transactions may be optionally charged with VAT resulting in deduction of input VAT, e.g., rental of non-residential premises to a VAT payer for performing his economic activities.

Export of goods outside EU is VAT exempt with the right to claim input VAT. Supply of goods to another EU Member State is VAT exempt with the right to claim input VAT if such goods are dispatched or transported from the Czech Republic, the buyer is registered to VAT in another EU Member State and the transaction is declared in EC sales list accordingly.

CLAIM OF VAT ON PURCHASES

VAT can be claimed from purchases and advance payments if the purchased goods and services are used for carrying out economic activities and relevant tax document (invoice) is available.

VAT cannot be claimed from expenses for representation or if the supply is not used for economic purposes (e.g. private usage of a car by an employee). Further, no input VAT may be claimed from the purchases used for supplies exempt from VAT without the right to claim input VAT.

ADVANCE PAYMENTS

Advance payments are subject to VAT in the period in which payments are received. Supplier is obliged to issue a tax document confirming the receipt of payment. The payer of the advance payment is entitled to claim input VAT based on the tax document.

REAL ESTATE AND VAT

The transfer of land without any structure (e.g. building, utility networks) and any option for a building permit is exempt from VAT. The transfer of a building plot of land is subject to a VAT standard rate of 21%.

The supply of a completed property (building, residential unit, utility network, land containing a building) is exempt from tax, with the exception of the first supply made no later than the end of the twenty-third calendar month following its completion or substantial alteration. The base 21% VAT rate applies, however, the transfer of apartments under 120 square meters and family houses under 350 square meters is subject to a reduced rate of 12%).

Even if the transfer is VAT exempt, the seller may decide to charge VAT on the transfer of the building or land to another VAT payer (such transaction is subject to local reverse charge).

GROUP REGISTRATION

A group for VAT purposes consists of subjects related either by capital (40% shareholding) or control (common management). One representative member is responsible for meeting all VAT compliance obligations for the entire group.

Intra-group transactions are not subject to VAT. Consequently, group registration might result in cash flow advantages and in some cases even savings on VAT liability.

VAT REFUNDS

Foreign businesses not registered for VAT purposes in the Czech Republic can receive refunds of Czech input VAT. The rules for the refund of VAT are set out in the provisions of the Council Directive 2008/9/EC and Thirteenth Council Directive 86/560/EEC.

VAT is refunded upon an electronic application filed by the foreign person from the EU with its home-state tax authority. The application must be filed by 30 September of the following year. The request must include the electronic copy of original invoices or the original documents issued for an import, if the tax base on such documents is higher than 250 EUR for hydrocarbon oils and 1,000 EUR for other kinds of purchased supplies.

A taxable person from a non-EU Member State must file an application in the Czech language and send it to the Tax Office Prague 1 by 30 June of the following year. The application must include the original invoices, original documents issued for an import, as well as a list of the relevant invoices, including a certificate of VAT or similar tax registration of the person from its home country.

The Tax office has the right to reject a request for a VAT refund if the non-EU Member State in which the foreign person is registered does not refund the foreign VAT to Czech taxable persons in a reciprocal manner.

INTRASTAT

Persons registered to VAT who engage in intra-Community transactions (dispatch/arrival of goods to/from other EU Member States) are obliged to report these transactions to the Customs office on a monthly basis if the threshold of CZK 15 million (approx. EUR 607,460) for dispatch or arrival is exceeded in one calendar year.

EXCISE TAX

This tax applies to the consumption of five specified groups of goods – hydrocarbon fuels (petroleum oils), alcohol and alcoholic beverages, wine, beer and tobacco products. The tax is generally payable by the manufacturer or importer. These goods may be placed under a duty suspension regime, with the tax liability arising upon release for free circulation.

Excise tax is typically imposed as a fixed amount per unit of goods and is administered by the Czech Customs Administration. Certain products, such as wine, may be subject to a specific regime (including a zero tax rate under defined conditions).

ENERGY TAX

The Czech Republic introduced tax on the supply of electricity, gas and solid coal on the basis of the relevant EU law. Taxpayers are the suppliers of the energy products in the Czech Republic to the end consumer or to operators of distribution or transmission grids. Taxpayers are also persons who use non-taxed energy products in a different manner than for tax-exempt purposes.

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. Customs offices administer energy tax.

Exemption from energy tax is possible dependent upon the purposes of energy product use (ecologically efficient energy, combined production of electricity and heat, public transport, etc.)

CUSTOMS LAW

The Czech Republic is a member of the European Union. Hence Customs duties under the common Customs Code are imposed on the importation into the Czech Republic of goods from outside the EU.

No Customs duties apply to the movement of goods within the EU.

ACCOUNTING AND REPORTING

Accounting is governed by Accounting Act and related regulations (decrees on accounting and Czech accounting standards).

ACCOUNTS

All legal entities registered in the commercial register (e.g. local corporations and branches of foreign entities), as well as entrepreneurs with a turnover of more than CZK 25,000,000 (approx. EUR 1,012,433) and must keep accounts.

The accounting period can be the calendar year or a financial year which differs from the calendar year lasting 12 consecutive months. 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 simultaneously be stated also in original currency.

Starting 1 January 2024, there is a possibility of keeping accounting records in a currency other than the Czech currency, namely in Euro, US Dollar or British Pound, provided that it is the so-called functional currency, i.e. the currency of the primary economic environment in which the company operates.

Each accounting unit must prepare a mandatory chart of accounts, i.e. an overview of the accounts which 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 organizations).

CLOSING OF BOOKS

As of the balance sheet date, accounting units submit financial statements (a balance sheet, a profit and loss report) and Notes to financial statements. Notes contain supplementary information on the balance sheet and profit and loss report and details on the accounting methods used, as well as give a specification of the content of the entries in the balance sheet and profit and loss report, and liabilities to the government. Accounting units classified as medium-sized or large under the Czech Accounting Act, i.e., exceeding at least two of the following criteria - assets CZK 120,000,000 (approx. EUR 4,859,677) or turnover CZK 240,000,000 (approx. EUR 9,719,354) or 50 employees, must also prepare a cash flow statement and statement of changes in equity.

The financial statements and Notes are a mandatory appendix of an income tax return.

Business corporations are obliged to publish their annual reports, financial statements, and audits of financial statements by including them in the collection of documents with the registration court within the deadlines set by law (no later than the end of the following accounting period).

AUDITS

The criteria triggering a statutory audit of accounts for the financial year 2025 are as follows:

- Net assets exceeding CZK 40,000,000 (approx. EUR 1.6 million)
- Turnover exceeding CZK 80,000,000 (approx. EUR 3.2 million)
- An average number of employees exceeding 50.

Joint-stock companies are subject to a statutory audit if at least one of these criteria is fulfilled in the year for which the closing of books is being prepared, and in the preceding year. For other types of business corporations, co-operatives, branches of foreign entities and entrepreneurs keeping double-entry accounting, a statutory audit is mandatory if at least two of the three criteria are fulfilled for two consecutive accounting periods.

For financial periods beginning in 2025 (including those ending in 2026), the above rules continue to apply. Starting in 2026 (for the period beginning in 2026), new rules will apply under which audit requirement will apply only to medium-sized and large-sized entities as defined by the new criteria.

An accounting unit is classified as **medium-sized** if it exceeds at least two of the following thresholds:

- Net assets exceeding CZK 120,000,000 (approx. EUR 4.8 million)
- Turnover exceeding CZK 240,000,000 (approx. EUR 9.7 million)
- An average number of employees exceeding 50.
- An accounting unit is classified as **large-sized** if it exceeds at least two of the following thresholds: Net assets exceeding CZK 600,000,000 (approx. EUR 24.3 million)
- Turnover exceeding CZK 1,200,000,000 (approx. EUR 48.6 million)
- An average number of employees exceeding 250.

Business corporations subject to a statutory audit are also required to prepare an annual report.

INTERNATIONAL ACCOUNTING STANDARDS

Consolidating accounting units which issue securities registered on a regulated market in EU Member States are obliged to use International Accounting Standards for financial statements (IFRS as adopted by the EU). Other consolidating units may choose to apply IFRS for their financial statements on a voluntary basis.

However, the application of IFRS does not affect the assessment of taxes because income tax must be calculated in accordance with tax rules based on the accounting result determined under Czech accounting regulations.

CAPITALISATION OF INTEREST

Interest on loans for acquisition of fixed assets may be capitalized in accordance with Czech accounting regulations.

LEASING

According to Czech accounting rules, the lease payments are generally recognised as the operating expenses. The accounting model introduced by IFRS 16 is not applied under Czech accounting regulations.

EXCHANGE DIFFERENCES

Realized and unrealized foreign exchange gains and losses are recognised in profit and loss accounts and are part of the tax base.

Starting 1 January 2024, it is possible to opt to exclude unrealized exchange gains and losses, provided that a notification is submitted to the respective tax authority within 3 months from the beginning of the relevant taxable period.

INVENTORY

Inventory is valued at acquisition cost. The Czech accounting regulations allow the use of the weighted average cost method or the FIFO method for inventory valuation.

UHY IN THE CZECH REPUBLIC



AUDITOR, spol. s r.o.

Czech Republic

CONTACT DETAILS

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SOCIAL MEDIA CONNECTIONS

- LinkedIn: http://www.linkedin.com/company/auditor?trk=hb_tab_compy_id_2727517

Year established:	1991
PCAOB registered?	No
Number of partners:	4
Total staff:	93

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BRIEF DESCRIPTION OF FIRM

AUDITOR spol. s r.o. is focused on foreign companies doing business in the Czech Republic. Currently we have clients from 25 different countries. Almost all our staff is bilingual in Czech and German, and some are bilingual in Czech and English. Operating from three locations, we are among the 15 largest auditing and tax advising companies in the country.

PRINCIPAL OPERATING SECTORS

Real estate
Hotels and restaurants
Forwarding companies
Financial Services
Business Services
Industry
Chemistry
Transport
Agriculture

AUDITOR, spol. s r.o.

Czech Republic

LANGUAGES

Czech, German, English, Slovak, Italian

CURRENT PRINCIPAL CLIENTS

Confidentiality precludes disclosure in this document.

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Slovakia, Austria, France, Germany, Israel, UK, US, Hungary, Poland, Denmark, Netherlands, Sweden, Switzerland, Slovenia, Shanghai

BRIEF HISTORY OF FIRM

The company was founded immediately after the Velvet Revolution in 1991 by the Austrian firm Stöger & Zallmann GmbH. A subsidiary was established in Bratislava, Slovakia, in 1998 and since then we have focused on the Prague–Bratislava–Vienna triangle. The firm joined UHY in 1999.

Let us help you achieve further business success

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