



TAX SERVICES

Tax Card 2009

KPMG IN THE CZECH REPUBLIC

CORPORATE INCOME TAX

- Standard rate¹ 20%
- Investment and mutual funds, pension funds 5%
- Dividends (withholding tax)² 15/0%

Tax depreciation periods

Category	Years
1 IT equipment, certain machinery	3
2 office equipment, certain machinery, vehicles	5
3 heavy machinery	10
4 pipelines	20
5 buildings other than category 6	30
6 administrative and commercial buildings, hotels, department stores	50

Depreciation can be calculated on either a straight line or an accelerated basis. The depreciation of certain new assets in depreciation groups 1–3 can be increased by 10 per cent, 15 per cent or 20 per cent in the first year of depreciation.

Tax depreciation of intangible assets acquired after 1 January 2005

	Months
• Audiovisual work	18
• Software and R&D results	36
• Incorporation expenses	60
• Other intangible assets	72

Only straight line depreciation is available.

Loss utilisation

- Tax losses incurred in taxable periods that commenced in 2004 or later may be carried forward for up to 5 years. Tax losses incurred earlier may be carried forward for up to 7 years.
- There is no carry back of tax losses.
- There is no tax consolidation.

Withholding taxes on income of non-residents

For example:

- Dividends² 15/0%
- Interest³ 15/0%
- Royalties⁴ 15%
- Operating lease rentals 15%
- Finance lease rentals 5%

The withholding tax rates may be reduced by double taxation treaties (see the list overleaf). Withholding tax normally becomes payable when the payer of the income accounts for the liability.

¹ The corporate tax rate will be 19% in 2010.

Participation exemption

Companies are tax exempt from capital gains from the sale of shares in a subsidiary resident in the EU or a country with which the Czech Republic has concluded a double tax treaty as long as the shares have been held for at least 12 months. Qualifying holdings are defined in the same way as for the dividend exemption.

Dividends received by a Czech company or a permanent establishment of an EU resident company from subsidiaries based in the EU or a country with which the Czech Republic has signed a double tax treaty are exempt from tax. Generally at least 10% of the subsidiary should be held for 12 months. For non-EU subsidiaries, a minimum level of corporate tax (12%) must be payable.

Transfer pricing

The arm's length principle generally applies to transactions between related companies. The OECD Transfer Pricing Guidelines are followed in applying domestic transfer pricing legislation. The Finance Ministry has issued detailed guidance on what evidence should be available and it is possible to ask for an advance pricing agreement.

Thin capitalisation

Financial expenses connected with credits and loans are non-deductible if:

- the interest on a credit or a loan is dependent on the borrower's profits, or
- the total of credits and loans from related parties (including back to back financing) exceeds four times equity (six times for banks and insurance companies).

Taxable period

The taxable period is generally the calendar year. However, taxpayers may choose a different taxable period upon notification to the tax authorities.

PERSONAL INCOME TAX

Rates

15%

Tax base for employees

The tax base for employees is calculated as gross salary increased by the employer's health insurance and social security contributions. The tax base for any non-Czech employees who are not subject to Czech social security and health insurance is calculated as gross salary plus a notional amount corresponding to the Czech social security and health insurance contributions that a Czech employer would have to pay if the salary was subject to the normal Czech regime.

The effective tax rate for example for a person who is subject to Czech social and health insurance scheme earning EUR 50,000 is 27%.

Taxable benefits

Examples:

- Cost of living allowance
- Home leave allowance

² Dividends paid to a parent company registered in the Czech Republic, in an EU member state or Norway, or Iceland or Switzerland are not subject to withholding tax provided that certain conditions are met (e.g. specific legal forms of companies, minimum 10 per cent shareholding, 12-month uninterrupted holding of the shares).

- One per cent per month of the purchase price of a company car
- Private fuel paid by an employer
- Private insurance paid by an employer
- Medical care
- School fees
- Gains arising on the disposal of stock options
- Reimbursement of foreign and/or domestic taxes

Tax free benefits/allowances

Examples:

- Pension and life insurance premiums up to statutory limits
- Housing provided by the employer in cases of relocation

Personal tax reliefs

Examples:

- Basic allowance CZK 24,840
- Child allowance CZK 10,680
- Spouse allowance CZK 24,840

Social and health insurance

Type of insurance	Paid by		Total (%)
	Employer (%)	Employee (%)	
Social:			
• Pension Insurance Fund	21.5	6.5	28.0
• Sickness Insurance Fund	2.3	0	2.3
• Employment Insurance Fund	1.2	0	1.2
Health	9.0	4.5	13.5
Total (%)	34	11	45

There is an annual cap on social and health insurance contributions equal to 48-times the average national monthly salary (CZK 1 130 640 in 2009). This is applicable for employed and self-employed persons.

Employers are obliged to pay wage compensation to employees for the first 14 days of illness. Statutory sick pay is paid from the 15th day onwards.

Tax base for self-employed persons

Self-employed persons cannot deduct social security and health insurance contributions from their tax base, but they can apply lump sum deductions instead of claiming actual expenses.

VAT

There are two VAT rates:

General VAT rate – 19 per cent – most products and services

Reduced VAT rate – 9 per cent – basic foodstuffs, pharmaceutical products, paper products, books, newspapers, certain medical equipment, heating, social housing.

³ From 1 May 2004, interest paid by a Czech resident company or a Czech permanent establishment of a company registered in another EU member state to an associated company resident in another EU member state is not subject to withholding tax in the Czech Republic provided that certain conditions are met (e.g. uninterrupted direct share holding for at least 24 months). Similarly this applies also to relationships with Switzerland, Iceland and Norway.

Zero rate – export of goods, intra-Community supplies, international transport and related services, services on goods subsequently dispatched outside the EU and other supplies defined in the VAT Act.

Certain supplies (e.g. financial services, real estate) are exempt. The recovery of input tax is determined by direct attribution to taxable and exempt supplies, or if this is not possible, by a pro rata method. Czech individuals and legal entities must register for VAT if their turnover (excluding earnings from exempt activities) in the preceding 12 calendar months exceeded CZK 1 million. There is no threshold for foreign entities registered for VAT purposes in other EU states or for entities from third countries. VAT group registration is available.

EXCISE DUTIES

Excise duty is payable on hydrocarbon fuels and lubricants, spirits, wine, beer and tobacco products. Excise duties are fixed at a set amount per unit for each group of products.

ENERGY TAXES

Energy taxes apply to natural gas and other gases, electricity and solid fuels. Only supplies of these products delivered within the Czech Republic are subject to these taxes.

There is a wide range of exemptions (e.g. for energy used in metallurgic or mineralogical processes). In order to claim an exemption, approval needs to be obtained from the customs authority.

REAL ESTATE TAX

The tax on buildings is based on the area of land occupied. The rates on the main types of buildings are:

- Residential and agricultural 1 CZK/m²
- Industrial 5 CZK/m²
- Other business 10 CZK/m²

An additional charge of CZK 0.75 per square meter is levied for each floor above ground level.

Real estate tax on agricultural land is 0.75 per cent of the deemed value. Special rates apply for forests, lakes and ponds.

For other types of land, the tax is based on the area and the rate is CZK 1 per square meter for building plots and CZK 0.10 per square meter in other cases.

The rates are multiplied by a coefficient varying from 1 to 5 depending on the location of the property. The tax can be also increased by another coefficient varying from 2 to 5 based on the decision of the relevant municipality.

Real estate tax is deductible for corporate income tax purposes.

⁴ The Czech Republic has been granted a derogation from the Interest & Royalties Directive in respect of royalties until July 2011.

REAL ESTATE TRANSFER TAX

This tax is payable by the seller of real estate and is deductible for income tax purposes. The rate of tax is 3 per cent of the higher of the sale price and the value of the property.

GIFT AND INHERITANCE TAXES

Gift tax is borne by the recipient of the gift, unless the donor is Czech resident and the donee is not, in which case the donor bears it. Gifts and inheritance transfers between close relatives are tax exempt. The rate of gift tax for other taxpayers is between 7 per cent and 40 per cent, depending on the value of the gift. Inheritance tax is charged at half of the gift tax rate.

ROAD TAX

Road tax is generally payable by the operator of a vehicle registered in the Czech Republic.

The tax rate varies from CZK 1,200 to CZK 4,200 in the case of passenger vehicles and from CZK 1,800 to CZK 50,400 in the case of other vehicles.

DOUBLE TAX TREATY NETWORK

Treaties with the following countries were in force as at January 2009:

Albania	Japan	Singapore
Australia	Jordan	Slovakia
Austria	Kazakhstan	Slovenia
Azerbaijan	Kuwait	South Africa
Belgium	Latvia	South Korea
Belarus	Lebanon	Spain
Brazil	Lithuania	Sri Lanka
Bulgaria	Luxembourg	Sweden
Canada	Macedonia	Switzerland
China	Malaysia	Tajikistan
Croatia	Malta	Thailand
Cyprus	Mexico	Tunisia
Denmark	Moldova	Turkey
Egypt	Mongolia	Ukraine
Estonia	Montenegro	United Arab Emirates
Ethiopia	Morocco	United Kingdom
Finland	Netherlands	United States
France	New Zealand	Uzbekistan
Georgia	Nigeria	Venezuela
Germany	Norway	Vietnam
Greece	People's Republic of	Yugoslavia
Hungary	Korea	(this treaty applies to
Iceland	Philippines	Bosnia and Herzegovina)
India	Poland	
Indonesia	Portugal	
Ireland	Romania	
Israel	Russia	
Italy	Serbia	

Manufacturing

The main incentives for manufacturing companies are:

- income tax relief for up to five years for both new and existing entities
- financial support for the creation of new jobs and training of employees
- transfers of land at advantageous prices

The maximum amount of the incentives depends on where the investment is located. The total value of income tax relief, financial support for creation of new jobs and discounted land purchases can be up to 40 per cent of the investment amount. Financial support for training of employees covers 35 per cent of training costs.

The main conditions are:

- minimum investment of CZK 100 million, which is reduced to CZK 60 (50) million if unemployment in the region is 25 per cent (50 per cent) or more above the national average
- at least 60 per cent of the investment must be in machinery
- the machinery must be purchased at market prices and must be manufactured no more than 2 years before its acquisition

The current scope of the Investment Incentives Act is currently under review. Please contact us for an update on new developments in this area.

EU funds

Additional subsidies are available from Czech and EU funds. A number of subsidy programs are available for both businesses and municipalities up to 2013.

For more information please contact us:

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This card was prepared as a quick-reference tool for the most common tax rates and amounts and represents the position at 1 April 2009.

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