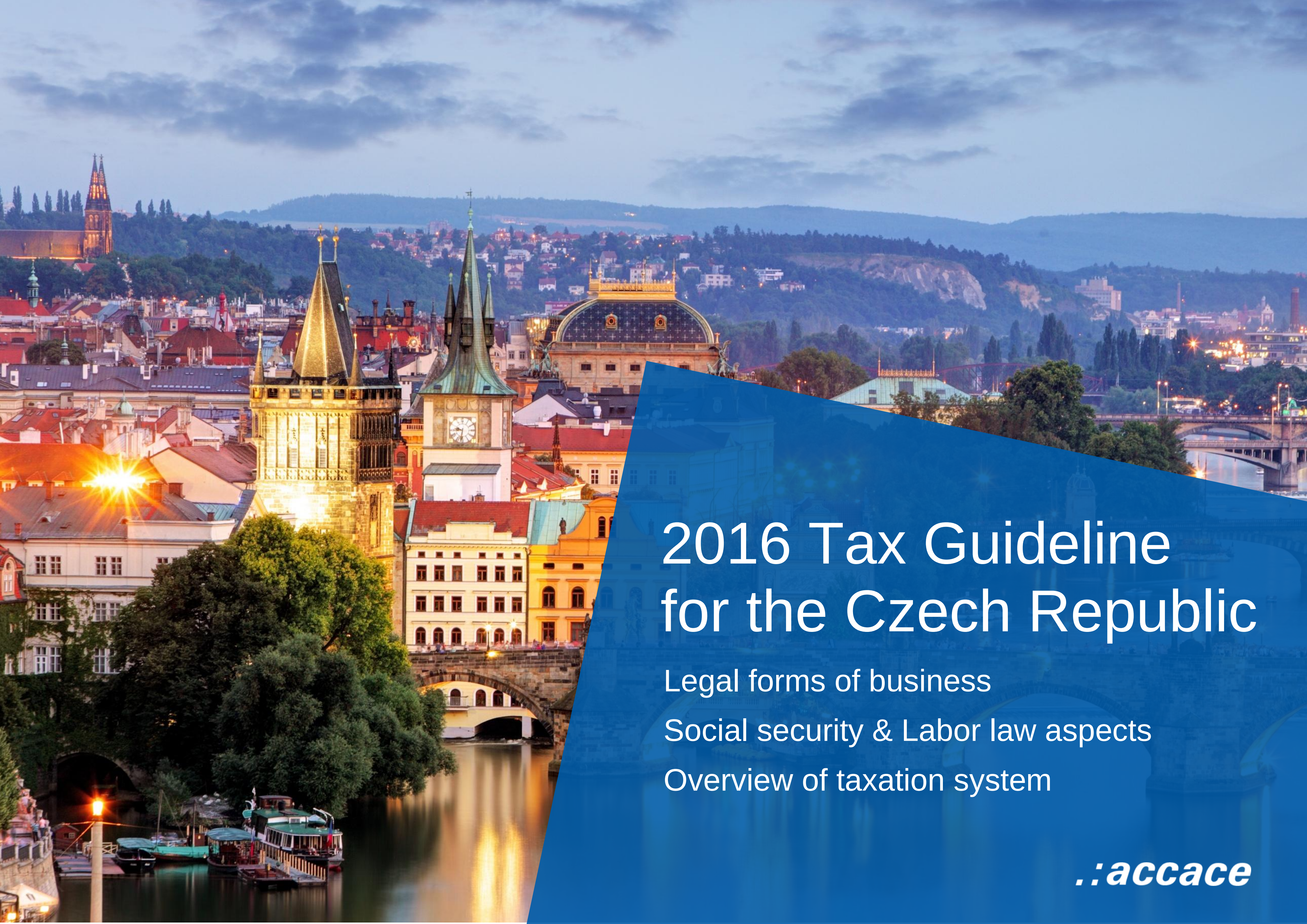


2016 Tax Guideline for the Czech Republic

Legal forms of business

Social security & Labor law aspects

Overview of taxation system

.:accace

General information about the Czech Republic

Location: The Czech Republic is located in Central Europe, bordered by Germany, Austria, Slovakia and Poland.

Capital: Prague

Area: 78,864 sqkm

Population: 10.5 million

Official language: Czech

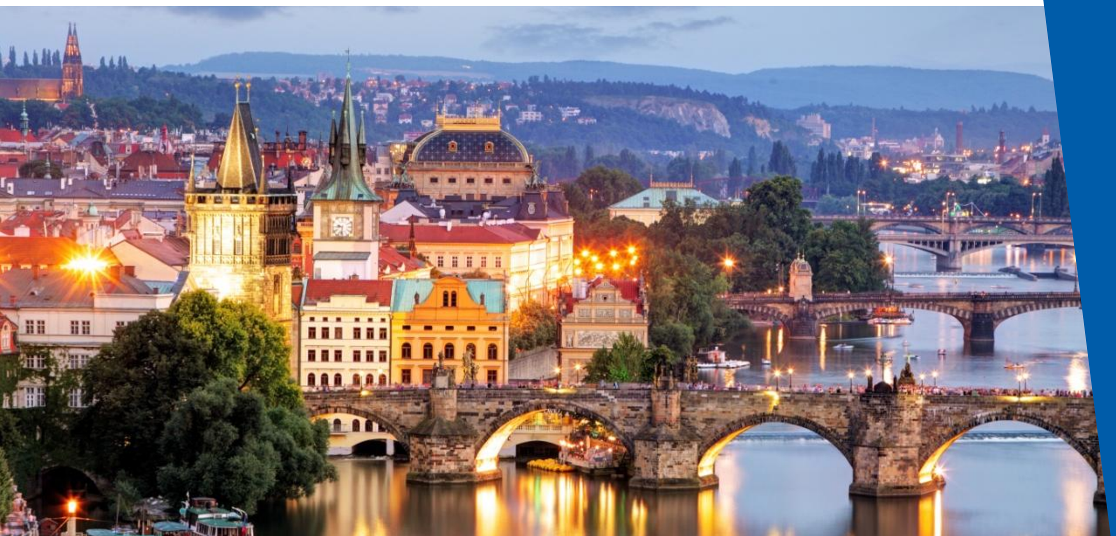
Official currency: CZK

The head of state: President

GDP growth: 3.8% in 2015 (www.cnb.cz, preliminary data)

Membership:

- European Union (2004)
- EU Shengen Agreement (2007)
- OECD (1995)
- UN (1993)
- GATT (1993)
- WTO (1995)
- NATO (1993) and some other international organisations.



Doing business in the Czech Republic

Contact us and find out how we can help you!

Petr Neškrábal

Managing Director

Tel.: +420 222 753 480

Mail: Petr.Neskrabal@accace.com

.:accace

Legal forms of business

General rules on purchasing of real estate

The real estate investor can acquire Czech real estate by way of an asset deal (e.g. direct acquisition of real estate) or a share deal (e.g. acquisition of a corporation owning real estate).

Asset deal

Foreign entities (natural or legal) may directly acquire real estate in the Czech Republic.

Share deal

As an option, the investment can be done through a resident corporation which directly owns the real estate.

Legal forms of business

The form of business		The minimum capital (approx. in EUR)	Corporate Income Tax treatment	Tax rates
English	Czech			
Unlimited Partnership	Veřejná obchodní společnost (v.o.s.)	N/A	Income tax base is calculated at the level of the partnership and then transferred to partners; tax is levied at the level of the partners. No need to file a tax return.	15%[1)] or 19% [2)]
Limited Partnership	Komanditní společnost (k.s.)	N/A	Income tax base attributable to general partners is transferred to general partners and tax is taxed at the level of general partners. The remaining part of the income tax base is taxed at the level of the entity.	15%[1)] or 19% [2)] 19% [3)]
Limited Liability Company	Společnost s ručením omezeným (s.r.o.)	N/A	Non-transparent, fully liable to tax.	19%
Joint Stock Company	Akciová společnost (a.s.)	CZK 2,000,000 (approx. EUR 73,100[4)])	Non-transparent, fully liable to tax.	19%
Branch	Organizační složka	N/A	Income tax base attributable to the Czech branch is taxable.	19%
Cooperative	Družstvo	N/A	Non-transparent, fully liable to tax.	19%
Sole entrepreneur	Živnost	N/A	Taxed as part of the overall liability of the individual.	15%

1) *In the case that the general partners are individuals, personal income tax rate of 15% applies.*
2) *In the case that the general partners are corporations, the corporate income tax rate of 19% applies.*
3) *Tax base attributable to limited partners is taxed at the level of the partnership at 19% corporate income tax rate.*
4) *Exchange rate used – 27,36 CZK/EUR, rounded to the nearest 10.*

Social security & labor law aspects

General social and health security

Contribution for	Maximum base per year	Employee	Employer	Sole entrepreneur
Pension insurance	CZK 1,296,288 (approx. EUR 47,379)	6.5 %	21.5 %	28 %
Sickness insurance		N/A	2.3 %	1.4 %[1)]
Unemployment insurance		N/A	1.2 %	1.2 %
Health insurance	N/A	4.5 %	9 %	13.5 %
TOTAL		**11%**	**34%**	**44.1%**

1) *The contribution is voluntary.*

Social security and health insurance assessment base of an employee is derived from salary income. In case of sole entrepreneur, the assessment base is calculated as the half of the personal income tax base.

The maximum base for social security contributions amounts to CZK 1,296,288 (approx. EUR 47,379) per year. If the assessment base exceeds the limit, the amount of income that is above the limit is not subject to social security. When an employee has more than one employer during the year, the limit is applicable for social security contributions (25%) for each employer separately.

Residents of the EU are covered by the provisions of EC Regulation 883/2004 regulating social security and health insurance rules in case of cross-border activities. If non-EU residents work in the Czech Republic or Czech nationals work in a third country a bilateral social security agreement may provide for the applicable social security legislation.

General comments on labour law

Main features of employment relationship		Applicable law on labor
Contract type	▪ Labor contract (either for definite or indefinite period) ▪ Agreement on work performance ▪ Agreement on working activity	▪ Act No. 262/2006 Coll. Labor Code ▪ Act No. 589/1992 Coll. on social insurance ▪ Act No. 48/1997 Coll. on health insurance ▪ Government regulation No. 567/2006 Coll. on minimum salary ▪ Act No. 309/2006 Coll. on safety and health protection at work ▪ Act No. 251/2005 Coll. on labor inspection
Contract must include	▪ Type of work ▪ Place of work ▪ The day the employee shall start his / her work (The contract must be concluded in writing)	
Working time	40 hours per week	
Holiday entitlement per year	20 days	
Other comments	Trial period (max. 3 or 6 months), statutory rules in case of employment termination, notice period (minimum of 2 months)	

.:accace

Taxes on corporate income

Corporate income tax ("CIT") – rates

Corporate income tax is levied at a general rate of 19%.

Corporate income tax rate of 5 % applies to basic investment funds. Pension funds are subject to tax rate of 0 %.

Corporate income tax – general information

Residence - A company is treated as resident if it has its legal seat or place of effective management in the Czech Republic.

Taxable income - Resident companies are taxable on their worldwide income. The taxable income is calculated on the basis of the accounting profits according to Czech accounting regulations and is adjusted for several items for tax purposes as described in the tax law. Non-resident companies are taxed only from Czech source income.

Tax period – The calendar year or the fiscal year.

Tax returns and assessment - The taxpayer has the obligation to calculate the tax due in the corporate income tax return (self-assessment). The time-limit for filing the return is generally three months. If the CIT return is filed by a tax advisor or the taxpayer is subject to a statutory audit, the time-limit for the submission of the CIT return is six months.

Tax advancement – Advance payments have to be paid semi-annually, if the last known tax liability is between CZK 30,000 – 150,000 (approx. EUR 1,100 – 5,480). Then the advance payment is 40% of the tax liability. If the last known tax liability is higher than CZK 150,000 (approx. EUR 5,480), the advance payment is ¼ of the previous tax liability and is paid quarterly.

Deductions - As a general rule, expenses incurred in obtaining, ensuring and maintaining taxable income are fully tax deductible, unless they are listed as non-deductible items or items which are deductible only up to a limit set by the law.

Deductions on research and development – Expenses on research and development projects can be deducted from tax base up to 100%, resp. 110% of the expense. In fact, research and development costs are claimed twice, because the cost of research and development project remains in the calculation of the tax base. Deduction can be made for up to 3 years.

Education tax deduction – Companies can obtain tax deductions in two forms. A deduction for assets acquired for professional education, can be made twice - first by the depreciation of asset which decreases the tax base, second by the deduction of up to 110 % of value of asset in the year of acquisition. Companies providing professional education can deduct CZK 200 (approx. EUR 7.30) per hour of educational activity, which is the second form of deduction.

Carryforward of losses - Tax losses derived after 1993 may be carried forward for 5 tax years.

Incentives

Investment incentives are available to both Czech and foreign investors for the following supported areas:

- Industry
- Technology centers
- Business support services centers - shared-services centers, software-development centers and high-technology repair centers, call centers and data centers.

While meeting the conditions, investments incentives can be provided in the following forms:

- Income tax relief for up to 10 years
- Financial support for creation of new jobs
- Financial support for training and retraining new employees
- Financial support in the case of strategic investments in manufacturing or in technology centres
- Transfer of public land at a favourable price
- Real estate tax exemption for up to 5 years

Withholding tax

Dividends

Dividends paid to residents and non-residents are subject to 15 % withholding tax. However, under the EU parent-subsidiary directive, dividends paid from subsidiary to parent company are exempted from taxation under the following conditions.

Dividends paid by a company to parent company are exempted from taxation, when the parent holds at least a 10 % share in a subsidiary for at least 12 uninterrupted months.

Withholding tax of 35 % applies when dividends are paid to other jurisdictions than EU/EAA states or states with which the Czech Republic concluded a double tax treaty.

Interest

Interest paid to non-residents is subject to a 15 % withholding tax. Exemption can be applied when interest is paid by a Czech resident to a company with permanent residency in the EU, Switzerland, Norway, Iceland or Liechtenstein. Taxpayers from EU/EEA are permitted to file a tax return to deduct costs related to interest payment.

A 35 % rate applies when interest is paid to other jurisdiction than EU/EAA states or states with which the Czech Republic concluded double tax treaty.

Royalties

Royalties paid to non-resident are subject to 15 % withholding tax. Royalties can be exempted from taxation when paid from Czech tax resident to company from EU member state, Switzerland, Norway, Iceland or Liechtenstein. Taxpayers from EU/EEA are permitted to file a tax return to deduct costs related to royalties.

A 35 % rate applies when royalties are paid to other jurisdiction than EU/EAA states or state with which the Czech Republic concluded double tax treaty.

Anti-avoidance rules

Thin capitalization

It is prohibited to deduct interest expenses from loans provided by related parties when the sum of loans during a tax period exceeds six times the equity if the recipient of a loan is a bank or insurance company or exceeds four times the equity for other recipients of loans.

Controlled foreign company

There is no CFC legislation.

Transfer pricing

The transfer pricing rules apply between related parties (both resident and foreign). Parties are related if one has direct or indirect participation of 25 % in capital or voting rights of the other party. Parties can also be related when the same person participate in management or control of both parties.

When prices in transaction between related parties differ from market prices and the difference is not justified, tax base can be adjusted by the difference.

International aspects

Double tax treaties

Elimination of double taxation (credit or exemption) is available under the relevant double tax treaty. The unused part of foreign tax may be deducted as a tax expense in the following period.

Taxes on individual income

Personal income tax - rates

The tax rate applicable for income derived in 2016 is 15%.

Moreover, an additional tax of 7% is to be paid from the income from independent activity and employment, if the total income (in case of employment) or tax base (in case of self-employment) exceeds CZK 1,296,288 (approx. EUR 47,379). The tax is paid only from the excess.

Certain types of income are not aggregated, but are subject to a final withholding tax of 15% or 35%.

Personal income tax – general information

Residence - Individuals who have their permanent residence or habitual abode in the Czech Republic are treated as Czech tax residents. An individual has his habitual abode in the Czech Republic if he/ she is present in the Czech Republic for at least 183 days (in aggregate) in a calendar year (except individuals who stay there for the purposes of studying or receiving medical treatment). All other individuals are treated as Czech tax non-residents.

Taxable income - Individuals who are residents for tax purposes in the Czech Republic are taxed on their worldwide income. Czech tax non-residents are taxed only on Czech source income. Taxable income of an individual is usually calculated by aggregating the separate net results of the following income categories:

- employment income;
- income from the independent activity;
- capital income;
- rental income;
- other income.

Related expenses can be applied only for the income from the independent activity, rental and other income. Specific exemptions and deductions differ for each income category, for the income from the independent activity and rental income, expenses can be applied as a percentage of income or as actual expenses.

Tax base for the employment income is increased by social security contributions and health insurance paid by an employer. It is usually 34% of the income (the percentage rate can vary due to maximum base on social security).

Exemption from the taxation – income from a sale of house or flat is exempted from taxation, if the seller has a permanent residence for at least 2 years before the sale. Income from a sale of immovable asset is exempted from taxation, when the period of ownership of the asset exceed 5 years before the sale. Income from sale of movable property is also tax exempted (some exceptions apply).

Income from a sale of a share in a limited liability company entity is exempted from taxation if the share was held for at least 5 years before the sale. Income from sale of securities is exempted if they are held for at least 3 years before the sale or if the total income does not exceed CZK 100,000 (approx. EUR 3,650).

Social transfers are exempted from taxation. Pensions are exempted up to CZK 331,200 (approx. EUR 12,100).

Tax period - Calendar year.

Tax assessment – Tax return must be filed by 1 April of the following year. The deadline can be extended until 1 July if the tax return is prepared and filed by a tax advisor.

Losses - Tax losses generated from independent activities and rental activities may be set off against all types of income (except of employment income). Losses that cannot be set off may be carried forward. The standard carry-forward period is 5 years.

Personal deductions – The following deductions can be applied by an individual:

- Donations – minimum of 2% of personal income tax base or CZK 1,000 (approx. EUR 36), maximum of 15% of personal income tax base
- Interests from a loan from building society, paid during tax period – maximum of CZK 300,000 (approx. EUR 10,960)
- Private pension insurance – except for first CZK 12,000 (approx. EUR 440), maximum of CZK 12,000 (approx. EUR 440)
- Private life insurance – maximum of CZK 12,000 (approx. EUR 440)

Allowances

Basic personal allowances

In 2016, the annual basic personal allowance can be claimed in the amount of CZK 24,840 (approx. EUR 910).

Dependent–spouse allowance

Allowance of up to 24,840 CZK (approx. EUR 910) can be claimed by a resident taxpayer whose spouse does not have annual taxable income higher than CZK 68,000 (approx. EUR 2,490). The basic dependent-spouse allowance doubles in case of disability of the spouse.

Other allowance

Taxpayers with disability may apply an allowance from CZK 2,520 (approx. EUR 90) to CZK 16,140 (approx. EUR 590), depending on the extent of the disability.

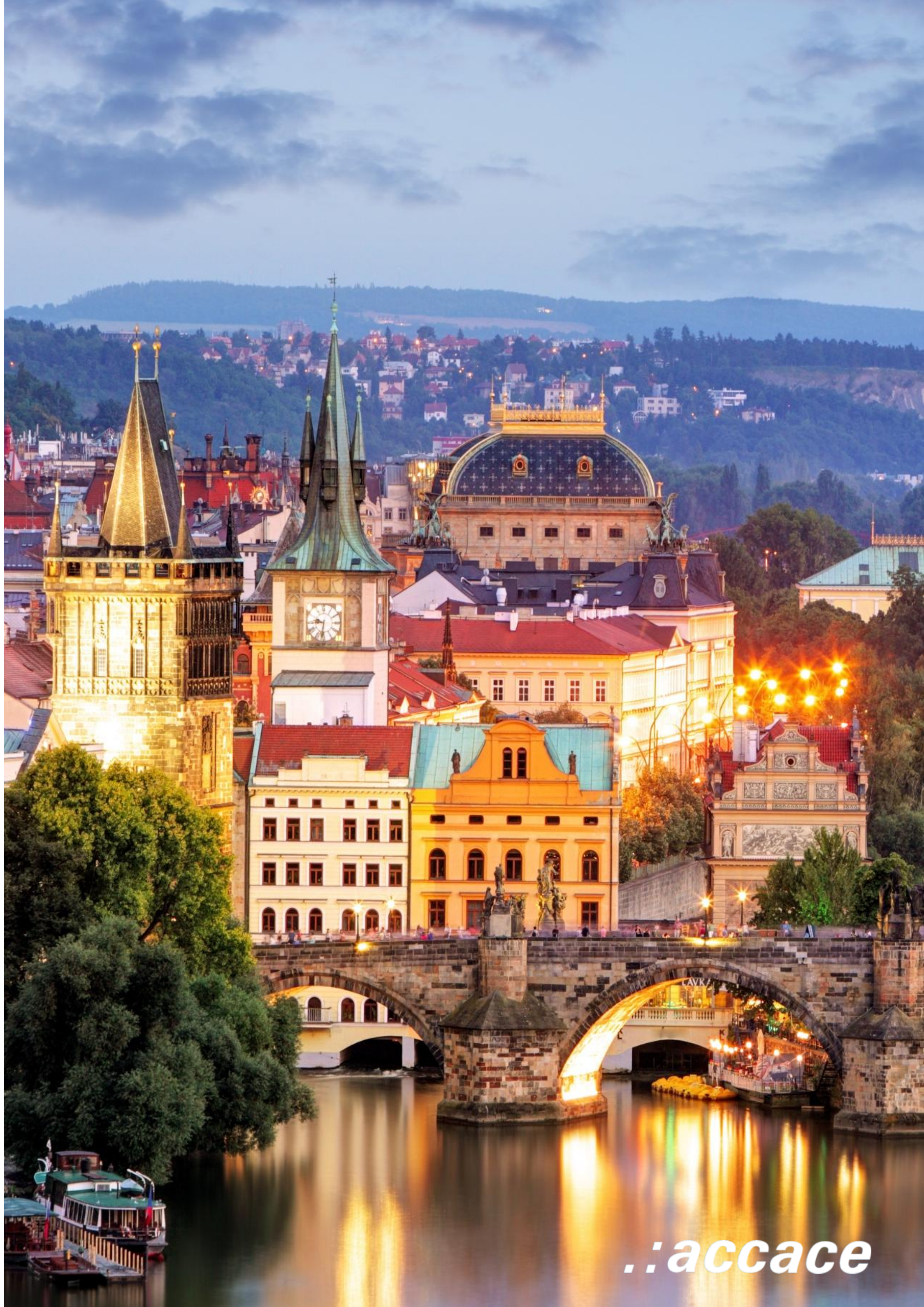
An allowance for students is CZK 4,020 (approx. EUR 150) and can be applied up to 26 years of age.

Credits

Resident taxpayers are entitled to a tax credit for each child living in the same household with him. The amount depends on the number of children. Annual tax credit is CZK 13,404 (approx. EUR 490) for the first, CZK 15,804 (approx. EUR 580) for the second and CZK 17,004 (approx. EUR 620)[1] for any other.

All the allowances and credits mentioned above are annual and can be applied for any resident of EU/EEC, if the income from the Czech Republic is at least 90% of overall taxpayer´s income.

[1] The tax relief for second and third child should be increased as of 2016 based on the Amendment to law currently discussed in the Parliament of the CR (CZK 17,004 for the second child and CZK 20,604 for the third child).



Value added tax

Value added tax - rates

Standard rate: 21%. Reduced rate 15% applies on food, beverage, medical treatments etc. Reduced rate 10% applies on books, infant nutrition etc.

Value added tax – general information

Legislation - The VAT rules are based on the principles of the Council Directive 2006/112/EC on the Common System of Value Added Tax. The Directive is implemented in the Czech law by Act No 235/2004 Coll., on Value Added tax.

Taxable person - Legal entities and individuals that carry on an economic activity.

Taxable event:

- the supply of goods and services in relation with an economic activity within the territory of the Czech Republic ;
- the intra-Community acquisition of goods for consideration within the territory of the Czech Republic from another EU Member State; and
- the importation of goods into the Czech Republic

Taxable amount - Total consideration charged for the supply, excluding VAT but including any excise duties or other taxes and fees.

Tax period - Month or quarter, based on turnover for 12 previous consecutive calendar months. Compulsory tax period for newly registered VAT payers is calendar month.

Tax assessment - Periodical VAT returns (monthly or quarterly, by the 25th day of the following month). The amount of VAT liability consists of the VAT due on supply of goods and services carried out by the entrepreneur less input VAT of the same period.

In addition, taxable person carrying out intra-Community supplies or supplying services according to the basic rule for "*business to business*" services has to file an EC Sales List (that shows the VAT identification numbers of his business partners and the total value of all the supplies of goods and services performed by the entrepreneur) on a monthly or quarterly basis depending on the situation.

VAT control statement - From 2016, VAT registered persons are also obliged to file a recapitulative statement that contains details of transactions subject to VAT in the Czech Republic as well as of transactions where input VAT deduction is claimed.

Reverse charge – Reverse charge applies for the intra-community acquisition. Local reverse charge is applicable in some cases between two Czech VAT payers.

If the total amount of the tax base for the taxable supply exceeds CZK 100,000 the local reverse charge mechanism applies to the following commodities:

- corn and industrial crops, including oilseeds and sugar beets,
- metals, including precious metals, except those covered by the special regime pursuant to § 90 of the VAT Act and those subject to a reverse charge mechanism pursuant to § 92c of the VAT Act,
- mobile phones,
- integrated circuits such as microprocessors and central processing units,
- portable automatic data processing devices (such as laptops, tablets etc.),
- video game consoles
- supply of intangible property when VAT is included in the price voluntary

Regardless of the amount of the tax base for the taxable supply, local reverse charge regime applies on supply of gold and supply of construction and installation services.

VAT registration

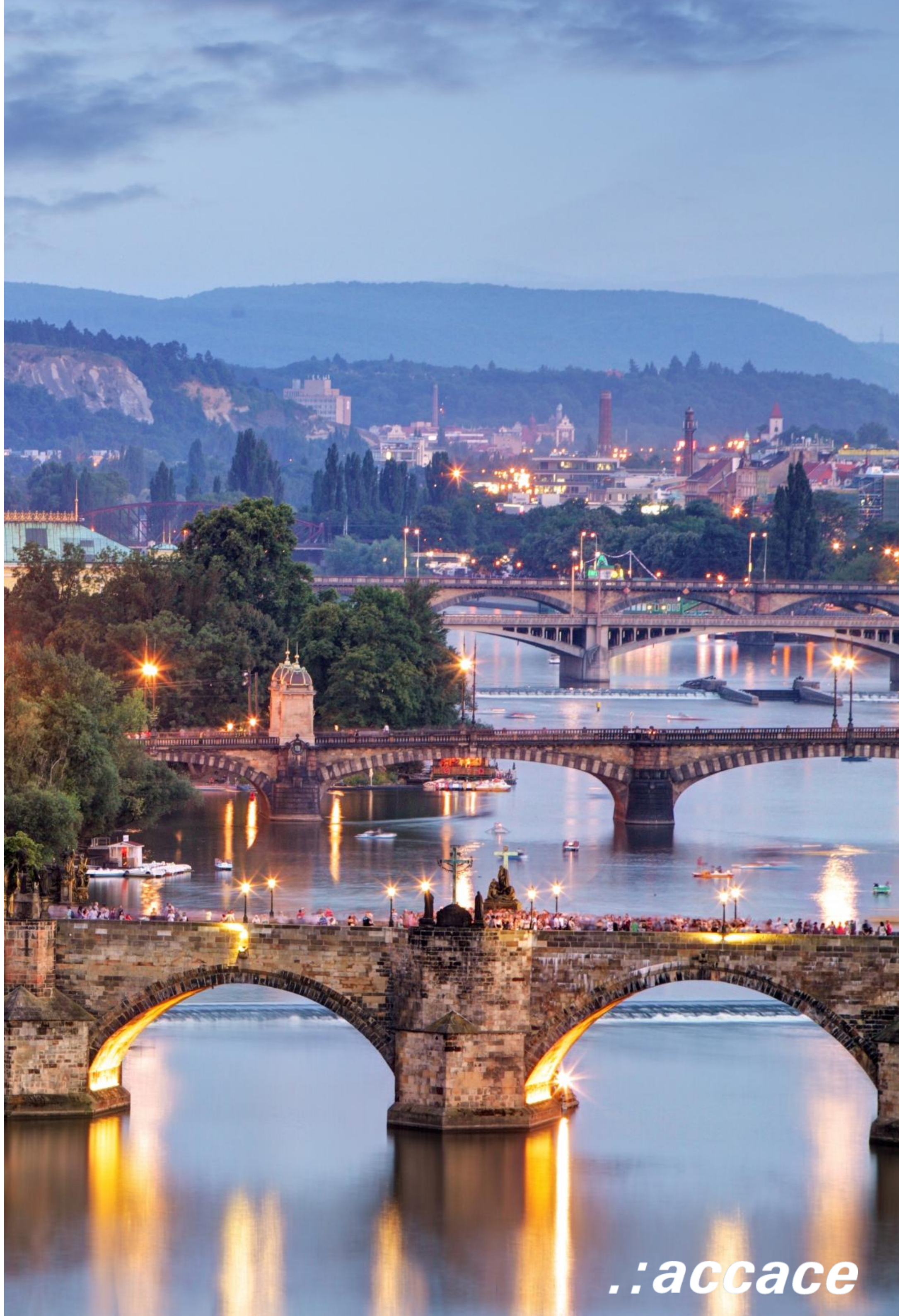
The threshold for mandatory VAT registration for taxable person with registered office, place of business or fixed establishment in the Czech Republic is the turnover of CZK 1,000,000 (approx. EUR 36,550) for a period of 12 previous consecutive calendar months. Voluntary VAT registration is possible as well.

A foreign taxable person that makes long-distance sales (mail order business) in the Czech Republic to any person that is not registered for VAT in the Czech Republic has to register for VAT in the Czech Republic if the total value of the goods / supplies reaches CZK 1,140,000 (approx. EUR 41,670) in a calendar year.

Identified person – Taxable person has to register as an identified person in the following situations:

- purchase of services from persons established outside the Czech Republic with place of supply in the Czech republic
- supply of services with place of supply in another EU Member State
- intra-community acquisition of goods from another EU-Member state when the value of those transactions cumulative exceeds approx. CZK 326,000 (approx. EUR 11,920) per calendar year.

VAT group registration - Several taxable persons who have their seat, place of business or fixed establishment within the territory of the Czech Republic and are connected financially, economically and organizationally, may be deemed as a single taxable person.



Other taxes

Taxes on capital

Net worth tax

There is no net worth tax in the Czech Republic.

Real estate tax

This tax consists of land tax and building and apartment tax. Amount of the real estate tax depends on the purpose of the land, building or apartment and location. The basic rates can be increased by decision of municipality.

Real estate transfer tax

The real estate transfer tax rate is 4 %.

Other business related taxes

Road tax

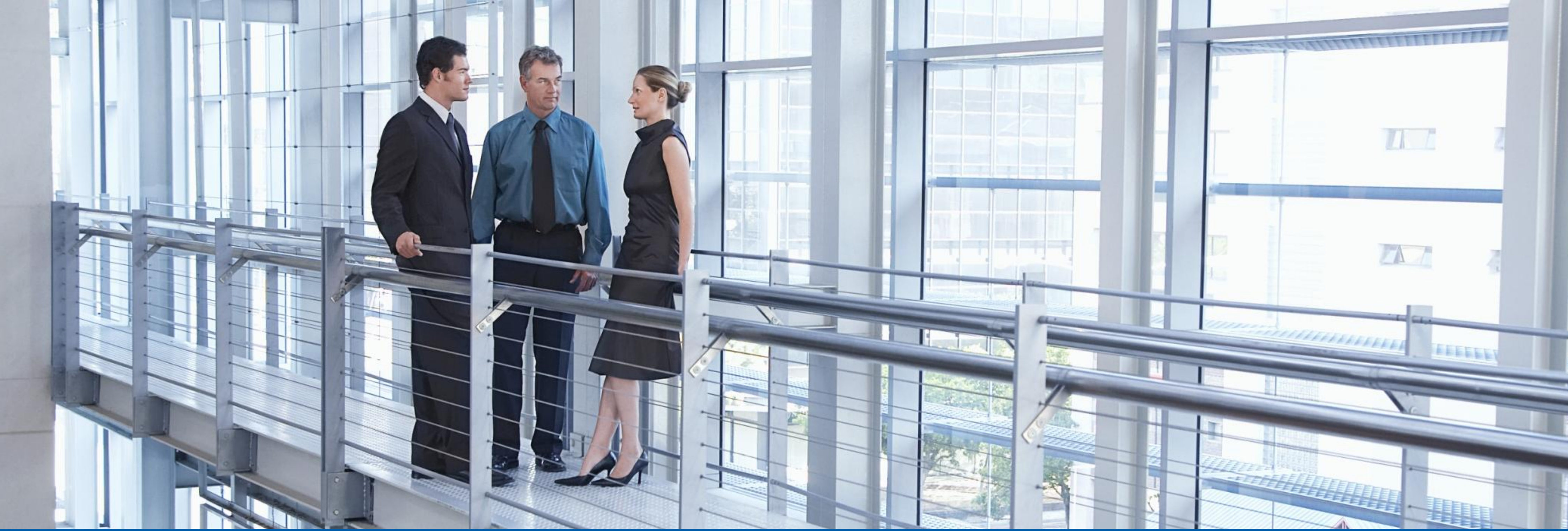
Levied on motor vehicles and trailers if registered in the Czech Republic and used for business purposes. Regardless of the purpose, vehicles exceeding 3,5 t are subject to tax always.

Excise duties

Excise duties are levied on mineral oil, beer, wine, spirits, electricity, coal, natural gas and tobacco products.

Customs duties

Goods imported from non-EU countries are subject to import customs clearance.



Accace s.r.o.

Hvězdova 1716/2b

140 78 Praha 4

Czech Republic

Tel: +420 222 753 480

Mail: czechrepublic@accace.com

www.accace.com

Subscribe to our News Flash!

About Accace

With more than 250 professionals and branches in 7 countries, Accace counts as one of the leading outsourcing and consultancy services providers in Central and Eastern Europe. During past years, while having more than 1400 international companies as customers, Accace set in motion its strategic expansion outside CEE to become a provider with truly global reach.

Accace offices are located in Czech Republic, Hungary, Romania, Slovakia, Poland, Ukraine and Germany. Locations in other European countries and globally are covered via Accace's trusted partners network.

.:accace