

## Corporate Law

As of 1 January 2014, the Czech Republic has enacted new legal regulation including the rules regarding the corporate law. The main regulation of the corporate law is contained in Act No. 90/2012 Coll., on Business Companies and Cooperatives (Act on Business Corporations), as amended, and in Act. No 89/2012 Coll., the Civil Code, as amended.

### Types of Companies and Liability of Shareholders

Under Czech law, general partnership, limited partnership, limited liability company, joint-stock company, European Company and European Economic Interest Grouping are considered commercial companies or corporations. Besides these, the Czech law knows also cooperatives as additional legal form.

All companies and cooperatives are registered in the Commercial Register held by regional courts. Individual entrepreneurs may also be registered in the Commercial Register, otherwise if they hold a trade license, they are registered in the Trade Register.

**JOINT-STOCK COMPANY** (in Czech: *akciová společnost*): The joint-stock company is a separate legal entity the share capital of which is apportioned to certain number of shares. Shareholders are not liable for liabilities of the company (except for one extraordinary case). It is established by executing the Articles of Association before a Czech notary. The Articles of Association need to include the essentials set out in the applicable regulations. The joint stock company is established by registration into the Commercial Register, where the Articles of Association become part of the Collection of Deeds which is publicly accessible, mostly even online. The statutory minimum share capital is CZK 2,000,000, resp. EUR 80,000. At least 30% of the share capital must be paid in by the date of application for registration of the company in the Commercial Register. Joint-stock company is the corporate form adopted by larger companies with the major advantage that its shares can be transferred rather easily and, theoretically, be listed on a stock exchange, making it relatively easy to raise capital from the public.

**LIMITED LIABILITY COMPANY** (in Czech: *společnost s ručením omezeným*): The second form of corporations under Czech law is the limited liability company, which is the corporate entity most commonly used for enterprises in the Czech Republic. The minimum share

capital of a limited liability company is lowered to CZK 1.00, i.e. less than EUR 1, as of 2014. The liability of shareholders for liabilities of the company is limited to the amount of the aggregate of their unpaid contributions according to the state of registration of contributions payment in the Commercial Register at the moment they have been invited by the creditor to pay it (except for one extraordinary case). It is easier to establish and administer than the joint-stock company.

Local and foreign corporations and partnerships as well as individuals may become shareholders of a limited liability company. It is established by executing a Memorandum of Association or a Foundation Deed (in case of one shareholder) before a Czech notary. Again, the Memorandum of Association needs to include the essentials set out in the applicable regulations. The limited liability company is established by registration into the Commercial Register, where the memorandum of association becomes part of the Collection of Deeds.

**GENERAL PARTNERSHIP** (in Czech: *veřejná obchodní společnost*): General partnership is a company of at least two persons who participate in its business and administration of its assets and are liable jointly and severally for its liabilities.

**LIMITED PARTNERSHIP** (in Czech: *komanditní společnost*): Limited partnership is a company in which at least one partner is fully liable for all debts and at least one partner whose liability is limited to the amount of its unpaid contribution.

**COOPERATIVE** (in Czech: *družstvo*): A cooperative is an association of unlimited number of persons established to provide mutual support for its members or third parties or for business purposes. The cooperative shall have at least three members. Cooperatives are not so often used for business purposes and if they are, it is in traditional sectors such as agriculture. Only the members of the cooperative can be elected to the functions of the members of the bodies of the cooperative.

A special type of cooperative is a housing cooperative established to provide for housing needs of its members and social cooperative established to carry out activities for public benefit, aimed at supporting social cohesion in order to ensure labor and social integration of disadvantaged groups into the society, preferably by meeting the needs and using the resources local to the registered office and sphere of activities of the social cooperative, particularly in the areas of job creation, social services and health care, education, housing and sustainable development.

**BRANCHES**: A foreign company not interested in doing business through a separate Czech legal entity may establish a branch. The branch has to be registered in the Commercial Register. Although contracts may be signed in its name, a branch is not a separate legal

entity. For its registration, the court will request evidence of the existence of the foreign company.

Business may be also conducted through a silent partnership or a civil-law association which, however, are not considered separate legal entities.

The Czech legal system also knows other types of the legal entities, however these are not established for business purposes (e.g. Foundations, etc.).

### **Share Capital**

As mentioned above, the statutory minimum share capital is EUR 0.04 (CZK 1) for the limited liability company and EUR 80,000 for the joint-stock company. It has to be subscribed in full. Contributions can be made in cash or in kind. The share capital of a limited liability company is divided into ownership interests which are not issued in the form of certificates. Each shareholder holds an ownership interest corresponding to the amount of the original contribution, if not agreed otherwise. The Memorandum of Association may allow for different types of ownership interests to be formed. Each type shall be comprised of ownership interest associated with the same rights and duties. If provided by the Memorandum of Association, the shareholders can own more than one ownership interest in the company.

An ownership interests in a limited liability company may be transferred by assignment or inheritance. The contractual transfer can be made conditional upon the consent of the General Meeting of the company.

If provided by the Memorandum of Association, the ownership interests of the company may be represented by a common certificate. A common certificate can only be issued for the ownership interests that are not subject to any restrictions or conditions regarding its transferability. The common certificate is a security which can be transferred to other person in the same way as in case of joint-stock company shares, however it may not be subject to public offering or admitted for trading on a European regulated market or other public market and it cannot be issued as a book-entry security.

The share capital of a joint-stock company is divided into shares issued in the form of certificates. They may be issued as registered shares which contains the name of its owner and also the name of the owner is registered in the company's share register and may be issues either as certificates or as book-entry shares. Bearer shares can be only issued as book-entry securities. It means that there is not possibility to issue "anonymous" shares. Additionally, shares can be issued as ordinary shares or preferred shares. Bearer shares enjoy free transferability. The corporation is not allowed to restrict in any way their transfer, whereas a transfer of registered shares might subject to conditions (such as a

consent of the General Meeting of the company or another corporate body) stipulated by the Articles of Association.

In relation to the new Act No. 134/2016 Coll., on Public Procurement, effective as of 1 October 2016, the joint-stock companies shall book-entry their shares in case they wish to participate in public tenders. In case the shares of the company are not book-entry securities, the contracting authority can exclude such company from the tender.

### **Corporate Governance**

Shareholders decisions are made through shareholder resolutions passed in General Meetings in case of joint-stock companies and limited liability companies and partners meetings in case of partnerships.

**JOINT STOCK COMPANY:** The formal bodies of a joint-stock company are the General Meeting, the Board of Directors and the Supervisory Board. An individual cannot simultaneously be a member of both the Board of Directors and the Supervisory Board. The General Meeting is the supreme body of a joint-stock company. It must be held at least annually no later than 6 months from the end of the company's financial year. In case of a sole-shareholder, it fully acts in the capacity of the General Meeting and can decide on all matters that belong to the competences of the General Meeting according to legal regulation or Articles of Association of the company (e.g. approval of the Financial Statements, recall and election of the members of the bodies of the company, changing the Articles of Association, dissolution of the company, etc.).

Generally, the General Meeting constitutes a quorum if the present shareholders hold shares with the nominal value that exceeds 30 % of the registered capital of the company unless provided otherwise in the Articles of Association. A simple majority of votes is sufficient for most decisions, e.g. when electing and reappointing members of the Board of Directors and the Supervisory Board, as well as approving Financial Statements and profit allocations, unless mandatory law or the Articles of Association require a greater majority as may be the case for amendments to the Articles of Association or increases or decreases in capital, or change of the corporate form.

The statutory body of a joint-stock company is the Board of Directors. Members of the Board of Directors are elected by the General Meeting, unless the company's Articles of Association entrust this power to the Supervisory Board. The Board of Directors oversees the day-to-day operations of the company and it is responsible for maintaining proper accounting and reporting procedures. The members of the Board of Directors act and sign on behalf of the company in the manner stated in the Articles of Association. The

Board of Directors is a collective body and its members have to decide on any matter by their majority, unless any specific area is delegated to the powers of any of the members of the Board of Directors. However, it is necessary to differentiate between deciding on the matters of the company and acting on behalf of the company.

A joint-stock company must have a Supervisory Board elected by the General Meeting. The Supervisory Board monitors the activities of the Board of Directors and the performance of the company, as well as reviews the Financial Statements and the proposed allocation of profits or compensation for losses. In case the company has more than 500 employees, the number of members of the Supervisory Board shall be divisible by three and at least one third of the members of the Supervisory Board shall be elected by the employees of the company.

The system of Board of Directors and Supervisory Board is designated as the dualistic system and it was the only possible system until the end of 2013. As of 1 January 2014, the Act on Business Corporation introduced also the monistic structure with the Managing Director as the statutory body and the Management Board as the supervisory body which, however, determines the basic goals of business management. It is also possible to concentrate the powers of the two bodies into one person. The dualistic system of organization of the company still prevails.

**LIMITED LIABILITY COMPANY:** The General Meeting is also the supreme statutory body of a limited liability company and possesses rights similar to those of the General Meeting of a joint-stock company. The General Meeting must be held at least annually no later than 6 months from the end of the company's financial year. Again, in cases of a sole-shareholder, it fully acts in the capacity of the General Meeting. The General Meeting constitutes a quorum if the shareholders holding at least one half of the votes in the company are present at the General Meeting of the company, unless the Memorandum of Association of the company stipulates otherwise. One vote pertains to each CZK 1 (approx. EUR 0.04) of the contribution to the registered capital of the company and the majority of votes of the present shareholders is required for the adoption of the decisions, unless the Memorandum of Association set otherwise. For some types of decisions, a higher number of votes is required (e.g. change of the Memorandum of Association).

The General Meeting elects one or more Executive Directors. No Board of Directors is required. The Executive Director is the statutory body of the limited liability company and oversees the day-to-day operations of the company, it is responsible for maintaining proper accounting and reporting procedures and acts on behalf of the company by the manner stated in the Memorandum of Association. The Executive Directors are

individual bodies and for the decision on the matters of the company, the consent of the majority of the Executive Directors is required unless the Memorandum of Association stipulates otherwise. The Memorandum of Association may also set that the Executive Directors form a collective body and in such case, the same rules for the decision making as in case of the joint stock company apply. A Supervisory Board may be established for a limited liability company, but it is not mandatory. An individual cannot simultaneously be the Executive Director and a member of the Supervisory Board. Also, any other person authorized to act on behalf of the company and registered in the Commercial Register cannot be a member of the Supervisory Board of the limited liability company.

**RELATIONSHIP BETWEEN COMPANY AND MEMBER OF A CORPORATE BODY.** The relationships between the members of the bodies of the company and the company (their rights and obligations) are usually regulated by the agreement on performance of function. The agreement on performance of function has to be concluded in writing and the agreement and its changes have to be approved by the General Meeting of the company. The agreement on performance of function has to contain all remunerations (monetary and also non-monetary) that will be provided by the company to such member. In case the agreement on performance of function does not contain any remuneration, it shall be presumed that the performance of function is free of charge. Any other remuneration in favour of the person who is a member of a body of a business corporation other than those, to which the person is entitled to under legal regulations, the agreement on performance of function approved by the General Meeting or an internal document approved by the General Meeting, can only be granted with the consent of the General Meeting and subject to the opinion of the Supervisory Body, if established.

### **Commercial Register**

Under the Czech law, third parties rely on the information provided by the Commercial Register for any given company, in particular in determining which person can act on behalf of the company to bind the company. Furthermore, any change affecting the information registered in the Commercial Register shall be notified to the Court without any undue delay so that the Court can register such change in the Commercial Register.

Besides the obligation to register all changes in the Commercial Register, the companies shall file some of their corporate documents to be publicly available in the Collection of Deeds of the Commercial Register, e.g. whole wording of the Articles of Association/Memorandum of Association/Foundation Deed and its changes, decision on recall and election of the members of the corporate bodies, Annual Financial Statements,

decision of the General Meeting on the economic result of the company, Report on Relationships, etc.

### **Register of Ultimate Beneficial Owners**

As of 1 January 2018, new Register of Ultimate Beneficial Owners (“UBO Register”) was established in the Czech Republic. All legal entities registered in the Commercial Register shall register their ultimate beneficial owners (“UBO”) to the UBO Register till 1 January 2019 and legal entities registered in other Public Registers till 1 January 2021.

The UBO means a natural person who is in fact or legally able to exercise, directly or indirectly, a decisive influence in a legal entity, trust fund or other legal arrangement without legal personality. The indicators of the position of UBO in business corporation are that such person:

- has more than 25% of the voting rights of that business corporation or has a share in the registered capital of more than 25%
- alone or together with persons acting in concert, controls the person referred to in previous point above, or
- should be the beneficiary of at least 25% of the profits of this business corporation.

The identity of UBO and his/her position of UBO shall be proved during the registration of UBO to UBO Register.

The UBO Register is not publicly available, however the Ministry of Justice could enable the access to the information in UBO Register to the persons listed in Act 304/2013 Coll., on public registers of legal and natural persons and register of trust funds (e.g. Court, Police, Financial Authority, Czech National Bank, etc.).

### **Foreign investment in the Czech Republic**

#### **Conditions for an investment in the Czech Republic**

In general, there are fairly good conditions for foreign investment in the Czech Republic. Stable, consistent and predictable political and economic environment along with investments incentives are fine motivation for foreign entities to invest their funds in the Czech Republic.

Important aspect for investors to realize their investments in the Czech Republic is especially qualified and reliable workforce, together with advantageous geographical

location in the Central Europe, availability of various suppliers and wide options of financing.

The Czech Republic is also a member of various international organizations such as the World Trade Organization (WTO), Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF) and North Atlantic Treaty Organization (NATO). Furthermore, as an EU member, the Czech Republic adopts its legislation and standards.

Key industry sectors are automotive industry and mechanical engineering, but also aerospace engineering, nano-technologies and IT industry play its role.

### **The Czech currency – the “koruna”**

The Czech National Bank as the central bank maintains very high currency stability. The current exchange rate (as of September 2018) is EUR 1 = CZK 25.72. As the Czech National Bank ceased to pursue interventions on the monetary market in April 2017, the Czech currency slightly strengthen. Also, due to increase in interest rates, the Czech currency is expected to strengthen. The Czech currency koruna is fully convertible and there are wide options of exchange rate risk hedging.

### **Non-discrimination, repatriation of profits and transparency**

Under the Czech law and also international regulations by which the Czech Republic is bound, discrimination of foreign entities is strictly prohibited and such entities must be treated the same way as domestic entities in all areas. Generally, foreign investors may perform business activities under the same conditions and to the same extent as Czech investors and do not need any special permission or registration for making investment operations in the Czech Republic. Since 2004, acquire of real estates by foreign entities is not limited by Czech laws.

There are in general no limitations regarding distribution and expatriation of profits related to foreign investments. Foreign investors are allowed to transfer profits to their state of origin providing they act in compliance with Czech corporate and tax law.

In order to prevent double taxation of profits, the Czech Republic has concluded treaties with many countries, including the United States, Canada, Australia and all EU members.

Pursuant to the Act No. 253/2008 Coll., on selected measures against legitimization of proceeds of crime and financing of terrorism, as amended, banks and other entities are obliged to identify and check up on investors with regard to the sources of their funds used

for investments. Furthermore, since 2018, any legal entity or property trust registered in the Czech Commercial Register or other public register shall provide the administrator of the respective register with identification of the ultimate beneficial owner of the registered entity. Generally, this information shall not be disclosed to public, however it would be kept by the by regional courts maintaining the Commercial Register. For more details regarding UBO Register, please, see the part regarding Corporate Law.

### **Investment Protection**

The Czech Republic is a party to many bilateral treaties whose aim is to protect and support foreign investments. No discrimination based on the origin of the capital is allowed in the Czech Republic and foreign entities are protected against unlawful expropriation of their property by the Czech state.

The Czech Republic is also a member of the Multilateral Investment Guarantee Agency (MIGA), which is a member of the World Bank Group and its mission is among other things to promote foreign direct investment (FDI).

### **Investment Incentives**

The Czech Republic provides both new and existing investors with various investment incentives through its agency Czech Invest. The main objective of the Czech Invest is to promote the Czech Republic abroad as a suitable destination for investments. It is the exclusive organization that may submit applications for investment incentives to the governing bodies. The agency also supports Czech firms that are interested in becoming involved in the supply chains of multinational companies. Through its services and development programs, CzechInvest contributes to the development of domestic firms, Czech and foreign investors and the business environment as a whole.<sup>1</sup> . For more detailed information, you can visit [www.czechinvest.org](http://www.czechinvest.org).

- CzechInvest Services:
- assistance during implementation of investment projects;
- consulting services for foreign investors entering the Czech market;
- AfterCare services for foreign investors that are already operating on the Czech market;
- administration of a business-property database;

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<sup>1</sup> <https://www.czechinvest.org/en/About-CzechInvest/About-Us> (6.9.2018)

- support for suppliers – administration of a database of Czech supplier firms;
- mediation of state investment aid;
- mediation of contact with state administrative bodies and local authorities;
- partnering with entities in the research and development and academic spheres;
- assistance for the development of innovative start-up firms by means of the agency's programs.<sup>2</sup>

Types of investment incentives are:

- Tax incentive – Corporate income-tax relief for up to ten years for new companies
- Discounted price on land and related infrastructure
- Job creation grants – Financial support for creation of new jobs in less developed regions
- Training and re-training grants – financial support for training and retraining of new employees in less developed regions
- Cash grant for capital investment – Financial support in the case of strategic investments in manufacturing or in technology centres
- Property tax incentive – Property tax exemption up to five years for real estates in special industrial zones.

Currently, draft amendment to Act No. 72/2000 Coll., on Investment Incentives, is being prepared according to which the investment incentives system would focus more on support for projects with higher value added, in the future.<sup>3</sup>

### **Statistics and ratings**

The Czech Republic has in a long term very positive Foreign Currency Long-Term Sovereign Debt Ratings granted by all three major rating agencies.<sup>4</sup>

- Moody's – A1

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<sup>2</sup> <https://www.czechinvest.org/en/About-CzechInvest/About-Us> (6.9.2018)

<sup>3</sup> <https://www.czechinvest.org/en/Our-services/Investment-Incentives/Investment-Incentives-Amendment> (7.9.2018)

<sup>4</sup> [https://www.cnb.cz/en/about\\_cnb/international\\_relations/rating/](https://www.cnb.cz/en/about_cnb/international_relations/rating/) (6.9.2018)

- Fitch – AA-
- Standard and Poor's – AA-

According to the Global Competitiveness Report 2017-2018 prepared by World Economic Forum, the Czech Republic took 31th place in the competitiveness of the world economies ranking. With the score of 4.8-, the Czech Republic is 13<sup>th</sup> most competitive country in the European Union<sup>5</sup>.

### **Starting business in the Czech Republic**

**SOLE ENTREPRENEUR:** First of all, every entrepreneur must obtain trade license or any other required permission for its activities before he/she starts performing business activities in the Czech Republic. Generally, the most used permits for business activities are trade licences granted by the Trade Licensing Office.

Trade licenses are divided into free (without any special requirements) or regulated trades (specific requirement regarding education, professional certifications etc.). General requirements for obtaining trade license are clean criminal record in entrepreneur's home country or country where he or she lived more than 3 years (evidenced by a criminal record extract or affidavit in some cases) and a confirmation of a registered office in the Czech Republic (consent of the owner of the premises). If the entrepreneur does not fulfill the requirements set for the regulated trades, he/she can appoint an authorized representative for such trade who fulfills such requirements. Fee for applying for trade license is CZK 1,000 (approx. EUR 38.90). The application form may be accessed online at <http://www.rzp.cz/elpod.html>.

**ESTABLISHING A BRANCH OFFICE:** Foreign legal entities may establish a branch office in the Czech Republic, which needs to be registered in the Commercial Register maintained by the Regional Courts (or Municipal Court in Prague) under the name of the parent company's name with addendum "registered branch". Branch office is not considered as a separate legal entity by the Czech law, however it operates as a representative of a foreign entity. Branch office acts through its director and is allowed to conduct only those activities which the parent company lists in the Czech Commercial Register. Branch offices must obtain trade license or any other required permission for performing its business activities as well.

**ESTABLISHING A COMPANY:** As in case of the sole entrepreneur, also the company has to obtain trade licences or any other required permission for its activities before the

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<sup>5</sup> <http://www.cma.cz/zprava-o-globalni-konkurenceschopnosti-2017-2018/> (6.9.2018)

company starts performing its activities. For more details regarding the establishment of the company, please, see the part regarding the Corporate Law.

## **Labour Law**

### **Fundamental Principles**

Fundamental principles of the Czech labour relations are particularly legal protection of an employee, satisfactory and safe working conditions, fair salary, equal treatment and prohibition of discrimination. Employee protection provided by the Act. No. 262/2006 Coll., the Labour Code, as amended, is based mainly on international standards, by which the Czech Republic is bound. Even though, it is allowed to regulate rights and duties of parties in the employment contract differently than set in the Labour Code, however, these deviations may be arranged only in favour of the employee. Basically, the provisions of the Labour Code are generally applicable on all employment relations between employers and employees, nevertheless employment relations of certain groups of employees are subject to special legislation (administrative authorities, judges, armed forces, etc.). Moreover, the Labour Code does not apply to agreements on performance of functions concluded between business corporations and members of their bodies. These relations are conducted by the Act No. 90/2012 Coll, on the Business Companies and Cooperatives (Act on Business Corporations), as amended. For more details, please, see the section on Corporate Law.

### **Employment contract and other Labour Law Contracts**

An employee can work for an employer either based on an employment contract or based on agreements on work performed outside an employment relationship (so called work performance agreements), the later is allowed only for limited volume of time.

**EMPLOYMENT CONTRACT:** It must be executed in writing, however the lack of the written form cannot be interpreted in detriment of the employee.

An employment contract must include at least the type of work (job title) which the employee will perform for the employer, the place or places where the employee will perform the work and the date of commencement of the employment. Before the conclusion of the employment contract, the employer is obliged to provide the employee with information on the rights and obligation of the employee, employment conditions, etc.

An employment relationship shall last for an indefinite period of time, unless fixed term of its duration has been expressly agreed. Possibilities of fixed-term contracts are limited mainly by options of its prolongation. Generally, the fixed-term employment relationship should not exceed three years and can be prolonged only twice between the same contractual parties.

Besides other provisions, the employment contracts often include a probationary period. A probationary period shall be agreed in writing and may not be subsequently extended. Further, a probationary period may be concluded up to three consecutive months for regular employees and up to six consecutive months for chief officers. The probationary period may be agreed on the day which has been agreed as the day of commencement of the employment at the latest or on the day stated as the day of appointment of the chief officer. During a probationary period, the employer and also the employee may terminate the employment relationship due to any reason or without stating any reason. The termination notice within the probationary period has to be in writing and the employment relationship is terminated as of the delivery of the termination notice to the other contractual party or as of any later date specified in the termination notice.

Furthermore, a non-compete clause is also sometimes concluded. Non-compete clause (non-compete agreement) means, that an employee is obliged to undertake that for a certain period of time after the termination of his/her employment relationship, he/she shall not be engaged in a business activity which would be of competitive nature in respect of the former employer. The employer shall concurrently undertake to provide the employee with adequate monetary compensation for such period and this monetary compensation has to be at least in the amount of one half of the employee's monthly earnings for each month when the said obligation is fulfilled. Non-compete clause may include a contractual penalty so that in case the employee breaches his/her obligation, the employee shall pay such contractual penalty to the former employer. The employee's obligation is discharged on payment of the contractual penalty. The contractual penalty must be adequate to the nature and the significance of the obligation set in the non-compete clause.

### **Agreements on work performed outside an employment relationship**

There are two types of agreements on work performed outside an employment relationship. First of them is called agreement on work performance. The scope of work for which an agreement on work performance is concluded may not exceed 300 hours per employer in one calendar year. The said scope of working hours shall also include those hours of work for which a certain employee carried out some work for the same employer in one calendar year based on another agreement on work performance. The second type of agreement on

work performed outside an employment relationship is called agreement on working activity. The scope of work per calendar year may in this case exceed 300 hours, however the average scope of work may not exceed one-half of normal weekly working hours.

Unless the Labour Code expressly provides otherwise, the provisions regulating performance of work in an employment relationship also apply to work carried out on the basis of an agreement on work performance or an agreement on working activity. However, this does not apply to provisions regulating annual leave, severance pay, termination of an employment relationship and a few other provisions, unless agreed in the relevant agreement. The main advantage of agreements on work performed outside an employment relationship is their flexibility. They can be easily concluded as well as terminated. Both parties may terminate the contract by notice of termination with 15 days long notice period and no specific reasoning or legal ground for unilateral termination is required. Both agreements on work performed outside an employment relationship are often used for holiday workers.

### **Termination of Employment**

Employment relationship can be terminated by mutual consent in writing, by notice of termination, by immediate termination, on the expiry of agreed period in case of temporary employment contract and by termination within a probation period.

The grounds for unilateral termination by employer are strictly limited to those listed in the Labour Code (e.g. the employer's undertaking or its part is closed down or relocated; the employee becomes redundant based on the decision of the employer or decision of the employer's competent body on the change of the activities (tasks) or to introduce other organizational changes (restructuring); the employee has lost, long-term, his capability to perform his current work due to his state of health; the employee does not meet the prerequisites prescribed by statutory provisions for performance of the agreed work, etc.

Under specific circumstances set in the Labour Code, the employer may terminate the employment relationship immediately (e.g. the employee has been sentenced, under a final verdict, for a willful criminal offence to a term of unconditional imprisonment of over one year or if an employee has been sentenced, under a final verdict, for a willful criminal offence committed during performance of his working tasks, or in direct connection therewith, to an unconditional imprisonment of no less than six months or an employee has breached some obligation that arises from the statutory provisions and relates to his work performance in an especially gross manner).

In some cases also the employee may immediately terminate his/her employment relationship, however only under specific circumstances set in the Labour Code (e.g. if according to a medical certificate, the employee cannot perform his work any longer without a serious threat to his health and the employer has not transferred the employee to perform some suitable alternative work within 15 days of the submission of such medical certificate, or the employer has not paid employee's wage or salary or compensatory wage or compensatory salary or some part of such wage or salary within 15 days of the maturity date).

Stricter conditions apply to collective dismissals or in case of trade union established within the employer. Special conditions apply also to employees holding specific positions in upper management. If agreed in the employment contract, the employees appointed to a position of chief officers may be recalled from the position/resign at any time without any reason. However, their employment relationship does not terminate by recall/resignation, and subsequently they must be either offered another job position, or their employment relationship can be terminated by notice for redundancy reasons.

The Labour Code prohibits giving notice of termination to an employee during the “protection period” (while the female employee is pregnant or is on maternity leave, the employee cannot perform the work due to his/her health condition, the employee is released to exercise a public office, etc.). In case of the immediate termination, the employer cannot immediately terminate an employment relationship with a pregnant employee, a female employee who is on maternity leave, or a male or female employee who is on parental leave.

In case of termination by notice, the employment relationship terminates after expiry of two month (or longer, if agreed in writing) notice period which is the same for both parties and shall start running on the first day of the calendar month following the delivery of the notice.

Invalidity of termination of an employment relationship by notice, by immediate dismissal or resignation, by notice during the trial period or by agreement may be claimed by both parties, i.e by the employer and also by the employee, before the competent court within two months as of the date when the employment relationship should have terminated.

On termination of an employment relationship, an employee whose employment relationship is terminated by notice given by his employer for certain legal grounds (employer is closing down, relocating or the employee becomes redundant) or by agreement for the same reasons is entitled to receive from the employer severance pay (redundancy payment) at least in the amount equal to:

- once his average (monthly) earnings where an employment relationship to the employer lasted less than one year;

- twice his average earnings where an employment relationship to the employer lasted at least one year and less than two years;
- triple his average earnings where an employment relationship to the employer lasted at least two years.

The employee who has immediately terminated his employment relationship is entitled to receive compensatory wage or salary in the amount of average earnings for a period equal to the length of his notice period.

### **Collective Bargaining Agreements**

Collective bargaining is carried out in a wide scope of fields on a national or industry-wide level as well as on a regional or local level. Collective Bargaining agreements apply only to those employers who are members of the respective employer organization and to those employees on behalf of which the trade union concluded the agreement.

### **Works Councils**

Works councils can be formed in all companies and have from 3 to 15 members. The members are elected for three years and do not need to be union members. The rights of the works council range from information rights to co-determination rights in organizational, social, security and other matters.

### **Wages, Working Hours, Paid Leave, Public Holidays, Employee Benefits**

Wages of non-governmental employees may be agreed in the employment contract or determined by the employer. The wages must always respect the minimum monthly wage determined by governmental regulation. As of 1 January 2018, the minimum monthly wage is CZK 12,200 (approx. EUR 474) per month. This amount has increased considerably since 2013 due to a change of a political situation and it is expected to grow depending on the results of current political discussions.

There is also determined “guaranteed wage”, which assures the height of wage for some work positions. Any discrimination in pay is prohibited.

Besides the basic wages, the employee may become entitled to different bonus wage for overtime work, work on public holiday, work during weekend, work at night or in difficult conditions.

The length of standard work-week shall be 40 hours. Part-time work may be agreed, usually corresponding to half or third of standard work-week. A compulsory rest period of at least 0.5 hours applies to employees working over 6 hours (4.5 hours for young employees). These breaks are not included in working hours.

Overtime work may be ordered only exceptionally by an employer up to 8 hours a week and up to 150 hours a year (more can be agreed in writing). In case of overtime work, an employee is entitled to compensation of his/her average earnings and to a bonus wage; alternatively, employer and employee may agree that the employee will be provided with time off instead of the bonus wage.

Employers must provide the employees with four weeks of annual paid leave as a minimum and in case of governmental employees or a specific group of employees engaged in particularly hard work with five weeks of annual paid leave. Collective bargaining agreements as well as individual employment contracts may increase the number of leave days (often up to five weeks or more per year). An employee is entitled to receive leave with pay equal to his/her average earnings during leave.

The Czech Republic has the following public holidays during which the work performance usually cannot be required: New Year's Day (January 1), Big Friday, Easter Monday, Labour Day (May 1), Liberation Day (May 8), Cyril & Methodius Day (5 July), Jan Hus Day (6 July), Statehood Day (September 28), Czechoslovak Independence Day (October 28), Struggle for Freedom Day (November 17), Christmas (December 24-26).

The employer must ensure occupational safety and health protection of employees at work with regard to risks which might endanger his employees' life and health during performance of work.

Employees are often motivated to better performance by various job benefits. The most common benefits for the employees in the Czech Republic are: financial rewards (13th salary, performance bonuses etc.), professional trainings, language courses, option of home office, additional days off (extra leave days, study leave, sick days), flexible working hours, meal vouchers, contribution to insurances (e.g. life insurance or retirement pension insurance) and also provision of company's car for personal purposes (this benefit is subject to income tax, for more detail, please see the part Tax Law).

### **Social Contributions and Income Tax**

The Czech Republic has a compulsory social security system that provides for retirement pensions, contribution to state employment policy and illness allowances. Social security contribution and health insurance are paid separately. All the contributions are paid partly by

an employer and partly by an employee. An employer withholds an employee's share of the contribution from his wages.

The personal income tax in the Czech Republic is paid by an employee at a flat rate of 15 % applicable on a super-gross salary (gross salary increased by 34 % of employer part of Czech obligatory social security and health insurance contributions). For more information, please, see the part Tax Law.

## **Real Estate Law**

### **Types of Ownership**

A natural or legal person may be the sole owner of real estate or several owners may hold the real estate jointly. In case of general co-ownership, each co-owner owns an ideal (not physical) part of the real estate. Under Czech law, each ideal part of real estate is treated as if it was owned by a sole owner, so the co-owner can dispose with its share, i.e. can sell or encumber it without the consent of other co-owners. However, each co-owner is limited by the statutory pre-emptive right of other co-owners. Such pre-emptive right may be waived with effects for legal successors. All decisions related to disposal of the real estate as whole must be made jointly by all co-owners. In questions of use and administration, the co-owners decide by majority (with a few exceptions).

Special cases of joint ownership are the joint ownership of spouses and flat co-ownership. Each of the spouses owns the whole real property in joint co-ownership, but in case of extraordinary disposals, he or she should obtain the consent of the other spouse with such disposal. If one of the spouses refuses to give consent without a serious reason and contrary to the interests of the spouses, family or family household or is unable to express his/her will, the other spouse may apply to a court to substitute the consent of his spouse.

Flat co-ownership is a special legal institute which allows for ownership of separate parts of buildings. The ownership of a building is usually transformed to flat co-ownership by a legal act of the owner or co-owners. The building is then divided into two types of premises - units (which may be either of residential or non-residential nature) and so called common premises which include all bearing structures, windows, balconies, etc. A natural or legal person that becomes owner of a unit becomes at the same time a co-owner of the common premises and of the plot underneath the building. The share on the common premises and on the plot is inseparably connected with the ownership of the unit, i.e. it cannot be transferred separately.

### **Association of Unit Owners**

The purpose of the association of unit owners is ensuring the administration of the building where the separate flats (units) are located. The association may not pursue business activities on its own. Its capacity to act is limited to the purpose of administration of the building and the plot. For example, one of the main aims of the association is to ensure cleaning and repairs of the common premises.

The association of unit owners is founded by the approval of the Articles of Association by its members and established by its registration in the relevant register. After the building is divided to flats (units) by a legal act of the owners, the association of the unit owners must be established in case of a building where there are at least five units of which at least three are owned by different owners. If the association of unit owners is not established in such case, the Property Register refuses to register any transfer of ownership right regarding the units, until the association is established.

The supreme body of the association of unit owners is the Assembly consisting of all unit owners, each of them having number of votes equal to the percentage of his/her share in the common areas. The Assembly is competent to adopt decisions in areas specified by the Civil Code; these are mainly the most important issues regarding the administration of the building (e.g. approving the type of services and the amount of advance payments to pay these services). Other issues are dealt with operatively by the Committee of the association or the Chairman of the association, elected by the Assembly. To adopt a decision of the Assembly, unit owners having majority of votes have to be in favour of the proposal and at the same time, presence of unit owners having the majority of votes is necessary. The Article of Association may stipulate for a higher quorum for adopting a decision. Unit owners may request court review of the Assembly's decision within three months from the day the decision has been adopted.

### **Pre-emption right of different owners of the plot and building**

Through 1950 to 2014, a plot of land and a building constructed on it were conceived as two separate legal things. In 2014, the principle pursuant to which any building with solid foundations forms an integral part of the land on which the building is constructed was adopted. In order to deal with the existing different owners of land plots and buildings, the new Civil Code established a mutual pre-emption right of an owner of a land plot to the building situated on the land plot and vice versa.

### **Property Register**

In order to provide publicity to legal relations related to real estate, the Property Register discloses main legal relationships concerning land and certain constructions. Property

Register is kept by cadastral authorities. Every person is entitled to inspect the Property Register; the Property Register is even, in a limited extent, available online free of charge on <http://nahlizenidokn.cuzk.cz/>. Extracts from the Property Register may be purchased especially at notaries, municipal authorities, cadastral authorities and Czech Post. The Property Register is divided into sections by cadastral areas and each owner has its own ownership portfolio in the Property Register.

An ownership portfolio is made up of several sections: Section A provides information about the owner, Section B provides information on the registered real estate, in Section B1 other rights in the benefit of the real estate are registered (such as easements), Section C provides information about liens on the real properties such as mortgages or other encumbrances (e.g. easements) or limitations in disposition, Section D may contain other relevant information, usually not directly related to ownership title and its limitations, Section E lists the acquisition titles based on which the ownership title to the real properties was registered to the Property Register, Section F provides information on the quality of agricultural land.

Any change to the legal relations concerning real estate registered in the Property Register is marked in the relevant ownership portfolio on the day following the day the relevant application was delivered to the relevant cadastral authority to assure the highest possible publicity. The tendency is to protect those who acquire any right relying on the contents of the Property Register; however, the genuine owner has its ways to protect its ownership right against fraud.

In case the genuine owner claims to have his right affected by a registration in Property Register without a legal cause in favour of another (e.g. in case of a fraud), he/she is entitled to claim the deletion of such registration by a mean of a declaratory action filed with the relevant court. If the genuine owner asks the cadastral authority to note the existence of such dispute in the Property Register within one month from the date on which the owner learned of the registration, the genuine owner is protected against the effects of further dispositions with the real estate until his ownership is confirmed by the court's decision.

## **Transfer**

Real property can only be transferred by written agreements. The signatures must be on the same document and should be notarized (otherwise, the competent cadastral authority will have to verify the authenticity of the signatures personally). If the property is registered in the Property Register, the transfer becomes effective by the registration in the Property Register. Such registration is made based on an application of any of the parties to the contract on prescribed form. The registration of ownership right is subject to a fee in the amount of CZK 1,000 (approx. EUR 38.90)

Payment of the purchase price is usually secured through escrow (notarial, bank or with an advocate), the monies being released after the registration. Transfer of the real estate is subject to a transfer tax (4 % from the purchase price/value of the real estate) burdening the purchaser.

Pursuant to the Act No. 253/2008 Coll., on selected measures against legitimisation of proceeds of crime and financing of terrorism, as amended, real estate agents are obliged to check up on its client when arranging the sale of the real property for purchase price higher than EUR 10,000. The check-up shall consist of gathering information on intended purpose of the transaction, beneficial owner of the legal entity which is a party to the transaction and a source of the money or other property affected by the transaction.

### **Mortgages and Charges**

Mortgages or liens are rights in rem over real estate securing payment to a creditor (usually, but not exclusively a bank). The creditor of a lien on real property is, in case of default with payment by the debtor, entitled to claim compulsory enforcement through sale of the real property, usually in public auction. Establishing a mortgage over real property requires the same requisites as its transfer (written agreement, registration in the Property Register). The lien expires once the secured receivable is repaid. Real properties may also be charged by pre-emptive rights obliging the owner to make the first offer for sale to the entitled party from the pre-emptive right.

Easements, on the other hand, oblige the owner of the encumbered real property to suffer certain action of the entitled party or even provide certain performance (e.g. the right of the third person to use a footpath across the encumbered land plot). Easements can be established in favour of a real property or a person (natural or legal).

### **Restrictions on Acquisition**

Under Czech law, there are no more distinctions between Czech and foreign buyers of real estate. Any legal or natural person is entitled to buy real estate. Restrictions on transfer may be imposed either by agreement of the parties (i.e. a pre-emptive right), by applicable legal regulations (pre-emptive rights of co-owners or of a flat tenant in case of first transfer, etc.) or decisions of competent bodies (preliminary injunction of a court, commencement of enforcement in execution against a debtor, etc.).

### **Legal Protection for Buyers and Sellers**

Czech law gives no special protection to buyers or sellers of real properties, however, according to the Civil Code, the buyer has the right to apply hidden defects within a period of 5 years since the transfer. Those involved in property transactions will also usually use a solicitor to represent their interests. It is the job of the buyer's solicitor to ensure that the property being bought is free from undisclosed restrictions or obligations (usually based on examination of the extract from the Property Register and previous legal title) and that it is validly transferred.

### **Restrictions on Development**

To allow for development, the land must be designated for construction in the applicable zoning plan of the respective municipality. Zoning plans are adopted by municipal councils and specify how different parts of areas are to be used and developed. Before land can be developed, the relevant public law regulation requires obtaining planning and building permit from the building authority. Some types of minor development are permitted without planning permit. Obtaining the permits for bigger projects may be complicated or prolonged due to number of objections raised by owners of neighbouring plots in respective proceeding as some of the neighbouring owners often misuses the protection of their rights provided by construction laws. Issued building and planning permits may be subject to a court review.

Agricultural land is subject to special protection and its development requires special permit and payment of a fee.

### **Leases**

Czech law distinguishes between leases for private housing accommodation (flat leases) and leases for business purposes. Regulation of flat leases is highly protective on tenants and terms of lease contract for flat may not differ in detriment of the lessee from the provisions stipulated by the Civil Code. The possibilities of landlords to terminate the flat leases are limited. The housing market is still to a certain extent deformed by a high number of lease agreements concluded for indefinite period of time in the past without any indexation clause. The Civil Code now includes a procedure how to achieve the increase of the rent to market level.

Proper specification of the subject of lease is essential for the validity of the contract. The lease contract shall also specify the period of time, for which the lease is being concluded; it is either a definite period of time (the lease ceases to exist at the end of agreed period of time) or an indefinite period of time (the lease continues to be valid until it is terminated by an agreement or a notice of one of the parties). In case of tenant's death, the lease is ex lege transferred to a relative of the tenant who shared a household with the deceased tenant

provided that the relative does not have his/her own flat; such lease lasts for maximum of two years from the transfer. Unless specified differently by the lease agreement, the lease is prolonged (for a maximum of two years) if the tenant continues to use the flat for period of at least three months after the lease expired and the landlord does not request him to leave the flat.

As concerns the possibility of lease contract termination, the landlord is allowed to unilaterally terminate the lease only for specific reasons set out by the Civil Code with notice period of three months (for example in case the flat is to be vacated because it is necessary in the public interest to dispose of the apartment or the building in which the apartment is located in such a way that any use of the apartment will be impossible). In some serious cases, the landlord may terminate the lease with immediate effect, for example when the tenant is in default with rent payments for more than three months or if the tenant is seriously damaging the flat. The landlord must specify the reason of the termination in the notice and must advise the tenant about his right to object against the notice and right to apply for court review of the lawfulness of the termination, otherwise the termination is invalid.

Landlord is not allowed to provide for a contractual penalty for breach of tenant's obligation in a lease agreement. In case of tenant's default with rent payment, the landlord is entitled to statutory late-payment interest. Landlord may ask tenant to provide a financial deposit in maximum amount of three-month rent which may be used to satisfy landlord's financial claims against the tenant. After the end of the lease, the balance of the deposit shall be returned to the tenant.

In case of need for repairs of the leased flat, the costs of the repairs are divided between the landlord and the tenant as set out in the Governmental Decree No. 308/2015 Coll., on the Definition of the Term Regular Repair Related to Use of the Flat. The tenant bears all costs of regular repairs, specified in the governmental decree, up to CZK 100 (approx. EUR 3.89) per square meter of floor area per year.

### **Lease of Business Premises**

The respective regulation of the Civil Code applies only to lease of premises for the purpose of conducting business in such premises, regardless of whether or not the purpose of the lease is stated in the lease contract.

A lessee is not allowed to perform other activities than those agreed upon in the lease agreement or change the manner or conditions of the business activity if such a change would deteriorate the conditions in the immovable thing or be harmful to the lessor or other users of the immovable thing beyond a reasonable degree.

Upon consent of the lessor, the lessee may install signboards, posters and similar signs on the business premises. After the lease has ended, the lessee shall remove installed signs and restore the affected part of the real estate to its original conditions.

Lessee may terminate the lease if he/she loses the eligibility to perform business activities for which the business premises are intended or if the leased premises cannot be used for performance of the business activities they were intended for and the lessor fails to provide the lessee with adequate replacement premises or if the lessor materially breaches his duties towards the lessee.

Lessor may terminate the lease if the leased real estate is to be removed or reconstructed so that the further use of the premises is not possible and the lessor could not have foreseen it when concluding the contract or if the lessee materially breaches his duties despite having been requested to remedy the situation by the lessor (e.g. lessee being more than one month in default of the rent payment). The notice period is in all cases three months, unless agreed otherwise.

## **Tax Law**

Czech Republic's tax system is broadly based upon other taxation systems in the EU. The regulations were drawn up at the beginning of 1990's and came into force in 1993. Value-added tax and excise duties were adjusted in 2004, upon Czech Republic's EU accession. Tax laws are subject to frequent amendments, one of the major amendments was adopted together with the new Czech private law, effective as of 2014.

### **Income taxes**

Income taxes for both individuals and legal entities are regulated by Act No. 586/1992 Coll., on Income Taxes, as amended. Income tax is levied on the worldwide income of Czech residents and on foreign entities whose place of management/control is located in the Czech Republic. For non-resident entities, only income which is generated in the Czech Republic is subject to the income tax.

### **Individual taxes**

Individuals who are physically present in the Czech Republic for 183 days or more in a calendar year or who have established a permanent residence in the Czech Republic are treated as tax residents and are generally subject to taxation on their world-wide income in the Czech Republic. Individuals who spend less than 183 days in a calendar year in the Czech Republic and do not have a permanent residence in the Czech Republic are treated

as tax non-residents. They are liable to taxation on their Czech-source income, however, only subject to the provisions of the respective double taxation treaty.

The following types of income are subject to individual income tax:

**INCOME FROM DEPENDANT ACTIVITIES AND FUNCTIONAL BENEFITS:** It includes all income arising from employment, membership relationship, or a similar kind of relationship in which the taxpayer is obliged to follow his employer's instructions and income paid to Executive Directors and members of statutory bodies of legal entities. In addition to the basic salary, cash allowances and bonuses, the employment income also includes non-cash benefits provided to employees (e.g. company cars used for private purposes etc.).

**INCOME FROM BUSINESS ACTIVITIES AND OTHER SELF-EMPLOYMENT:** It consists of income from business activities and professional services reduced by deductible expenses. Different lump-sum expenses can be deducted for defined groups of individuals (e.g. expenses in amount of 80% of income for craftsmen, 40% of income for doctors, legal and accounting advisors etc., however calculated from limited amount of income);

**CAPITAL GAINS:** Capital gains are defined as the difference between the proceeds from the sale of an item and the cost of its acquisition plus any improvements. In the Czech Republic, capital gains are taxed as ordinary income. The sale of securities is exempt from taxation if the shares have been held for a period of more than 3 years or if total income from the sale of securities does not exceed CZK 100,000 (approx. EUR 3,890) for individual taxpayer per tax period.

**INCOME FROM LEASES:** Income from the lease of the real estate or movables. Lump-sum expenses in amount of 30% of income (maximum CZK 300,000, approx. EUR 11,660) may be deducted.

**OTHER INCOME (INHERITANCE AND GIFT TAX):** Among other things, inheritance and gifts are taxed within this category. All income from inheritance is an exempt from tax. Income from gifts is an exempt from tax provided that the donor and the gift recipient are relatives or if they share the same household for more than 1 year. Moreover, income from gifts is an exempt also if the gifts are received occasionally and the value of the gifts from one donor is less than CZK 15,000 (approx. EUR 583) per tax period.

The flat rate income tax of 15 % is currently applicable and will most likely remain in force in 2019. Currently, there are political discussions on changes of income tax in relation to proposed cancellation of super-gross salary and introduction of 2 new tax rates. The changes are not expected to be effective before 2020, however, it could not be ruled out.

Various tax discounts are also applicable. Any individual with a taxable income has a discount on income tax in the amount of CZK 24,840 (approx. EUR 965.80) per year, increased in case of having any children. Additional discount in the same amount may be applied in case that the taxpayer's spouse has a taxable income lesser than CZK 68,000 (approx. EUR 2,644) in a year (e.g. spouse on maternity leave etc.).

The taxable period for personal income tax purposes is the calendar year. Personal income tax returns must generally be filed by 31 March following the end of the tax year. This is extended to 30 June if a qualified Czech tax adviser prepares the return and the relevant power of attorney is filed with the Financial Authorities before 31 March.

Income tax prepayments are generally required either quarterly or semi-annually during the year based on the previous year's tax liability. Payment of any residual tax due must be made by the respective tax return filing deadline. Special rules apply for payroll tax withholdings on taxable income derived from employment.

### **Corporate Income Taxes**

Corporate income tax is levied on the worldwide income of Czech legal entities and on foreign entities whose place of management/control is located in the Czech Republic. For non-resident entities, only income which is generated in the Czech Republic is subject to corporate tax.

Czech general and limited partnerships are, for corporate income tax purposes, treated as fiscally transparent entities. The profits of a general partnership are not taxed at the company level, but at the level of the partners. Also, profits which are attributable to the general partners of a limited partnership are taxed at the partners' level, whereas profits which are attributable to limited partners are taxed at the company level.

The corporate income tax rate of 19 % is applicable for the tax period of 2018 and will probably remain for 2019.

Investment funds, mutual funds and pension funds are subject to 5 % tax. Corporate income tax is generally payable on trading results (profits or losses) as reported in Financial Statements after an adjustment of various assessable/non-assessable and deductible/non-deductible items has been carried out.

Generally, the taxable period for Czech corporate income tax purposes is the calendar year or the financial year. Calendar year tax returns for corporate income tax must generally be filed by 31 March following the end of the tax year. This is extended to 30 June if a qualified

Czech tax adviser prepares the return and the relevant power of attorney is filed with the financial authorities before 31 March or the company is required to have a statutory audit.

A corporation may change its accounting and tax period from the calendar year provided it notifies the financial and tax authorities at least three months before the end of the calendar year or three months before the start of the planned accounting and tax period.

Special rules apply for filing in the case of liquidations, mergers and transformations.

### **Value-added tax**

VAT is primarily regulated by Act No. 235/2004 Coll., on Value Added Tax, as amended, which is a transposition of the European Union Directive No. 2006/112/ES, on the Common System of Value Added Tax. VAT is generally chargeable on:

- Supplies of goods and services for consideration during the course of his economic activities with a place of supply in the Czech Republic.
- The import of goods into the Czech Republic (administered by the customs authorities, unless VAT is applied directly through a VAT return).
- The intra-community acquisition of goods for consideration effectuated by a taxable person in the course of his economic activities or non-taxable legal person in the territory of the Czech Republic.
- Intra-community acquisition of new goods meant for transport for consideration effectuated by a non-taxable person.

There are three tax rates, standard, the first reduced and the second reduced. The standard tax rate covers most goods and services, while the first reduced rate applies primarily to food-stuffs and pharmaceuticals and the second reduced rate applies primarily to baby food, cereal products and printed books. In 2017 the standard rate stood at 21 %, the first reduced rate at 15 % and the second reduced rate at 10 %.

In 2016, control reporting of VAT transactions was introduced. According to the new amendment, VAT payers shall provide the tax authorities with an electronic detailed list of completed transactions concerning VAT in monthly terms. Tax authorities may impose fines on persons breaching their duty to report the transactions in due time.

Another recently-introduced change to the VAT is the “reverse charge” mechanism of VAT payment for certain types of goods/services, meaning that the liability to pay VAT is transferred to purchaser (i.e. the receiver of the goods/services) instead of the seller/provider

of the service, who is primarily liable for payment of VAT. Examples of “reverse charge” types of transaction are construction or installation works, telecommunication services, purchase of waste and scrap, etc.

### **Real estate related taxes**

The real estate tax is imposed on real property. The tax rates depend on the type/purpose of the building or land, the size and desirability of the locality and the size of the building or land, however the amount of tax for standard types of real property is relatively low. Real estate tax returns must be filed by 31 January of a calendar year. Real estate tax is payable by 31 May and if exceeding CZK 5,000 (approx. EUR 194) it may be divided into two instalments, payable by 31 May and 30 November of the current year; several types of exemptions are available.

Transfer of real estate is subject to transfer tax amounting to 4 % of the purchase price (with some exceptions). Taxable person is the acquirer of the real estate and the tax is payable within three months of the month of registration of the transfer. Transfers without consideration (i.e. inheritance, donation etc.) are exempted from the transfer tax liability.

### **Road tax**

Road tax only applies to vehicles registered in the Czech Republic, used in the Czech Republic in connection with business activity (except for publicly beneficial entities). Vehicles used exclusively for private needs are exempt. The tax for passenger cars is calculated from the car’s engine capacity, for heavy-goods vehicles it depends on the number of axles and the total weight. All advance payments are generally due by April 15, July 15, October 15 and December 15, respectively.

The law also sets out a toll for the use of highways, applicable to all vehicles – passenger and freight, used for business or private travel. The fee for heavy-goods vehicles is charged per kilometer travelled using an electronic system; passenger cars pay a fixed sum and get a vignette which is to be placed on the front glass of the car. Extension of the electronic system to all vehicles and some other types of roads is still being considered.

### **Inheritance tax, Gift tax**

Inheritance and gift are taxed within the income tax, see above.

### **Environmental taxes**

Taxes referred to as environmental are governed by Act No. 261/2007 Coll., on Stabilization of Public Budgets, as amended, and are introduced in accordance with EU regulations. They include natural gas tax, solid fuels tax and electricity tax.

### **Excise duty**

Goods subject to excise duties are mineral oils, alcohol, alcoholic beverages and tobacco products. Similar to the value-added tax, excise duties are also harmonised with European Union's regulations. These taxes are administered by customs authorities.

### **Tax administration**

Tax administration is regulated by Act No. 280/2009 Coll., on the Tax Procedure Code, as amended. The administration is carried out by the Tax Authorities and, in some cases, customs authorities under the Ministry of Finance of the Czech Republic. Tax returns may also be filed electronically via data boxes (*datová schránka*), an electronic tool used for communication and document exchange between public authorities and legal or natural persons engaged in business activities.

### **EET (electronic evidence of receipts)**

In 2016, electronic evidence of receipts has been introduced by the Ministry of Finance to increase tax revenues and fight tax evasion. Some types of service providers (doctors, legal and accounting advisors, car services, craftsmen) were supposed to join the electronic evidence of receipts in March and June 2018, but due to the abolition of part of the law by the Constitutional Court, it would become effective not earlier than in the first half of 2019. In connection to this, entrepreneurs must now print receipts for any sales using special software which automatically registers the receipts within the database of Ministry of Finance. If the receipt is not registered right away (e.g. due to internet issues), the entrepreneur must send the receipt to the tax authority via data box within 48 hours after the sale/service is performed. Avoiding the evidence of the receipts is an administrative delict, fineable by the Tax Authorities.