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TAX SERVICES

Tax Card 2011

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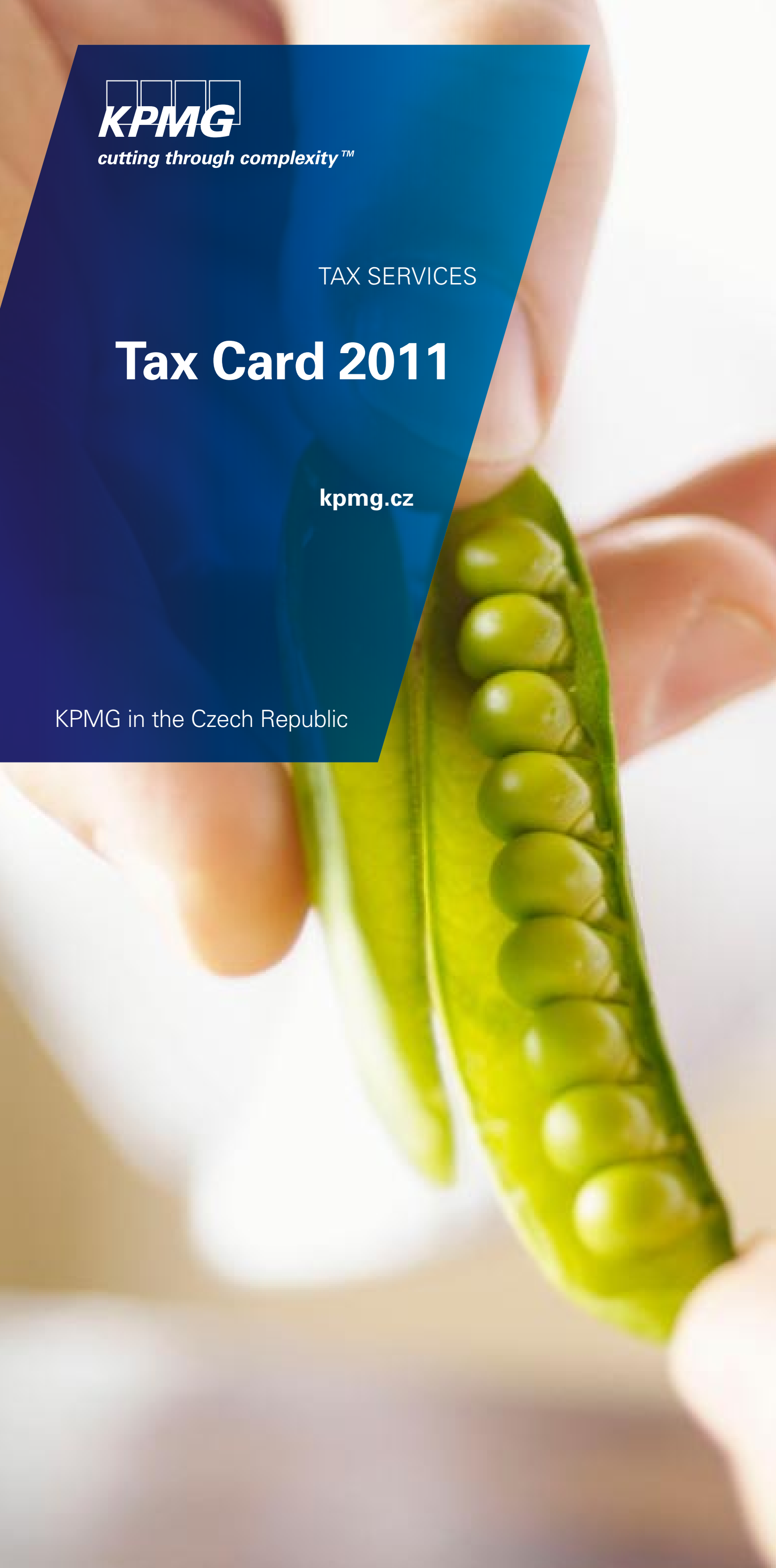
KPMG in the Czech Republic



CORPORATE INCOME TAX

- Standard rate 19%
- Investment and mutual funds, pension funds 5%
- Dividends (withholding tax) 15/0%

Tax depreciation periods

Category		Years
1	IT equipment, certain machinery	3
2	Office equipment, certain machinery, vehicles	5
3	Heavy machinery	10
4	Pipelines	20
5	Buildings other than category 6	30
6	Administrative and commercial buildings, hotels, department stores	50

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

Fixed assets used for the production of solar energy must be depreciated on a straight line basis over 240 months.

Tax depreciation of intangible assets acquired after 1 January 2004

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

Only straight line depreciation is available.

Loss utilisation

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

Withholding taxes on income of non-residents

For example:

- Dividends.......... 15/0%
- Interest.......... 15/0%
- Royalties.......... 15%
- Operating lease rentals.......... 15%
- Finance lease rentals.......... 5%

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

Persons from EU and EEA countries who receive income subject to withholding tax (except for dividends) have the option either to apply the withholding tax as a final tax, or to file a tax return including expenses and deduct the withholding tax from the final tax liability.

Participation exemption

Dividends received by a Czech parent company or a permanent establishment of an EU company from subsidiaries registered in EU countries, Norway or Iceland are tax exempt provided that certain conditions are met (e.g. specific legal forms, minimum 10 percent shareholding, 12-month uninterrupted holding of the shares). Dividends received from subsidiaries which are resident in other countries that have entered into double taxation treaties with the Czech Republic are also exempt as long as the profits have been subject to corporate tax of at least 12 percent.

Dividends paid to a parent company registered in the Czech Republic, an EU member state, Norway, Iceland or Switzerland are not subject to withholding tax provided that certain conditions are met (e.g. specific legal form of shareholder, minimum 10 percent shareholding for 12-months).

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

Intercompany interest and royalties

Interest and royalties paid by a Czech resident company or a Czech permanent establishment of a company registered in another EU member state to an associated company resident in another EU member state, Iceland, Norway or Switzerland are not subject to withholding tax in the Czech Republic provided that certain conditions are met (e.g. uninterrupted direct share holding for at least 24 months).

Transfer pricing

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

Thin capitalisation

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

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

Taxable period

The taxable period is generally the calendar year. However, taxpayers may choose a different taxable period if they notify the tax authorities.

PERSONAL INCOME TAX

Rates

15%

Tax base for employees

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

The effective tax and social security rate for a person who is subject to Czech social and health insurance scheme earning EUR 50,000 is 31.1 percent.

Taxable benefits

Examples:

- Cost of living allowance
- Home leave allowance
- One percent per month of the purchase price of a company car used for private purposes
- Private fuel paid by an employer
- Private medical insurance paid by an employer
- Stock option income
- Reimbursement of foreign and/or domestic taxes

Tax free benefits/allowances

Examples:

- Pension and life insurance premiums up to statutory limits
- Housing provided by the employer under certain conditions (subject to a monthly limit of CZK 3,500)
- Medical care in non-cash form
- School fees in non-cash form

Personal tax reliefs

Examples:

- Basic allowance .... CZK 23,640
- Child allowance .... CZK 11,604
- Spouse allowance .... CZK 24,840

Social and health insurance

Type of insurance	Paid by Employer (%)	Employee (%)	Total (%)
Social:			
• Pension insurance fund	21.5	6.5	28.0
• Sickness insurance fund	2.3	0	2.3
• Employment insurance fund	1.2	0	1.2
Health	9.0	4.5	13.5
Total (%)	**34.0**	**11.0**	**45.0**

There is an annual cap on social and health insurance contributions equal to 72-times the average national monthly salary (CZK 1,781,280 in 2011). This is applicable for employed and self-employed persons.

Employers are obliged to pay wage compensation to employees for the first 21 days of illness. Statutory sick pay is paid from the 22nd day.

Tax base for self-employed persons

Self-employed persons cannot deduct social security and health insurance contributions from their tax base. They can apply lump sum deductions instead of claiming actual expenses in the range of 40-60 percent (80 percent for farming activities).

Investment income

Capital gains from the transfer of real estate are included in an individual's tax base. Gains on assets held for non-business purposes can qualify for a tax exemption if the necessary holding periods have been met.

Capital gains on securities are exempt after a holding period of 6 months, provided that the investor's direct participation in the capital or voting rights of the issuer did not exceed 5 percent at any time during the 24-month period preceding the sale of the securities. If the conditions are not met the gains are tax exempt after a holding period of 5 years.

Capital gains from participation rights in limited liability companies and cooperatives are exempt after a holding period of 5 years.

VAT

There are two VAT rates:
General VAT rate 20 percent – most products and services
Reduced VAT rate 10 percent – basic foodstuffs, pharmaceutical products, paper products, books, newspapers, certain medical equipment, heating, social housing
Zero rate – export of goods, intra-Community supplies, international transport and related services, services on goods subsequently dispatched outside the EU and other supplies defined in the VAT Act

Certain supplies (e.g. financial services, real estate) are exempt.

The recovery of input tax is determined by direct attribution to taxable and exempt supplies, or if this is not possible, by a pro rata method. Czech individuals and legal entities must register for VAT if their turnover (excluding earnings from exempt activities) in the preceding 12 calendar months exceeded CZK 1 million (EURO 38,461). There is no minimum threshold for foreign entities.

VAT group registration is available.

EXCISE DUTIES

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

ENERGY TAXES

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

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

REAL ESTATE TAX

The tax on buildings is based on the area of land occupied. The rates range from CZK 2 to 10 for buildings. Increased rates apply in certain circumstances. Real estate tax on agricultural land is 0.75 per cent of the deemed value. Special rates apply for forests, lakes and ponds. For other types of land, the tax is based on the area; the rate is CZK 2 per square metre for building plots and CZK 0.20 per square metre in other cases.

Real estate tax is deductible for corporate income tax purposes.

REAL ESTATE TRANSFER TAX

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

GIFT AND INHERITANCE TAXES

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

ROAD TAX

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

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

DOUBLE TAX TREATY NETWORK

Treaties with the following countries were in force as at 1 January 2011:

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

TAX INCENTIVES

The main incentives for manufacturing companies are:

- Income tax relief for up to five years for both new and existing entities
- Financial support for the creation of new jobs and training of employees in selected regions of the Czech Republic
- Transfers of land at advantageous prices

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

The main conditions are:

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

A special deduction:
R&D expenses incurred by businesses can be claimed as a special deductible item; in effect, the eligible R&D costs are deducted twice for tax purposes.

EU FUNDS

Additional subsidies are available from Czech and EU funds. Various subsidy programmes are available for both businesses and municipalities up to 2013.

For more information please contact us:

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This card was prepared as a quick-reference tool for the most common tax rates and amounts and represents the position at 1 January 2011.

Designed and produced by KPMG Česká republika, s.r.o.

Printed in the Czech Republic

February 2011