

Czech Republic

Legal Provisions

Compiled by:

Embassy of Switzerland in the Czech Republic

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GENERAL REMARKS

The Czech Republic was established on 1 January 1993 and became a member of the European Union in 2004. It is part of several international organisations including the United Nations, NATO and the WTO.

The Czech legal system is based on the civil law system, especially the Germanic branch. It is built on written sources of law (acts), which are adopted by the Parliament as well as delegated legislation adopted by the government or ministries, ratified international treaties and EU law.

The Constitutional Court ensures the protection of fundamental rights. The Supreme Court is the highest body in civil and criminal justice and administrative adjudication.

The new Civil Code and Business Corporations Act were implemented on 1 January 2014 and are inspired by the Austrian, French, German, Italian, Quebec and Swiss civil codes.

In 2015, Eurostat declared the Czech Republic as the most industrialised country in the European Union. The year-on-year GDP growth of 2017 amounted to 4.5%.

CUSTOMS

Source: **Customs Administration of the Czech Republic**

<https://www.celnisprava.cz/en/Pages/default.aspx>

The Czech Republic follows EU customs regulations, including the EU tariff nomenclature, customs code and others. The transfer of goods into and out of other EU member states is not considered as export or import. Imports from other countries are subject to import customs duties, excise duties, VAT and other commercial policy measures based on the EU customs tariff. The goods have to be registered at the customs office.

The Customs Administration of the Czech Republic, subordinated to the Ministry of Finance, is the entity in charge of customs regulations.

IMPORT AND EXPORT REGULATIONS

Imports and exports between the Czech Republic and Switzerland are regulated by the Free Trade Agreement with the EU. The imports and exports are generally customs free.

For more information see:

TARIC https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/what-is-common-customs-tariff/taric_en

Trade Helpdesk <http://trade.ec.europa.eu/tradehelp/>

The Combined Nomenclature https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/what-is-common-customs-tariff/combined-nomenclature_en

Trade Switzerland- EU <http://ec.europa.eu/trade/policy/countries-and-regions/countries/switzerland/>

CURRENCY REGULATIONS

Source: **Czech National Bank** <https://www.cnb.cz/en/index.html>

The currency is the Czech Koruna/ Crown (CZK), issued by the Czech National Bank CNB. The country committed to adopting the Euro at the time of its accession to the European Union in 2004 but there is currently no target date.

One CHF amounts to CZK 22.9 (10 September 2018). In April 2017 the currency cap of 27 CZK/EUR was removed due to growing inflation. The targeted annual inflation rate lies two percent.

The primary objective of the CNB's monetary policy is price stability, which it achieves by using available instruments, especially key interest rates, to influence monetary conditions.

There are no foreign exchange controls affecting trade. Companies in the Czech Republic have free access to foreign currencies.

Any person entering the European Union with cash amounting to 10'000€ or more has to declare the amount to the relevant authorities in the country of arrival. There are no restrictions within the EU.

REGISTRATION PROCEDURE FOR PRODUCTS

Trademarks: Trademarks are registered with the Czech Trademark Register. The application for the trademark is filed with the Intellectual Property Office (IPO) or any legal entity. The filing fee amounts to CZK 5000¹. Upon application, the trademark receives a priority right until the registration process is completed about six months later. The trademark is protected for ten years and can be renewed for a second period.

Patents: Patents are registered with the Intellectual Property Office (IPO) by the inventor or an authorised person. A description of the invention and the claims for the patent have to be submitted during the application. The process costs CZK 1200 or CZK 600 if the application is submitted by the inventor him- or herself. The patent is protected for 20 years starting the registration date and an annual maintenance fee has to be paid. These fees do not exceed a total of CZK 165'000.

Copyrights: Copyrights are divided into two components: personal rights and economic rights. The former cannot be transferred to another person whereas the latter can be passed on through licenses or statutory provisions. Economic rights are protected for the lifetime of the author and 70 years upon their death. The 70-year period begins on the first day of the year following the decease. After this period, the copyrighted work enters the public domain. Personal rights cease at the end of the author's life. Copyrights are not registered but are protected under the Copyright Act.

STANDARDS, TECHNICAL RULES, LABELLING REGULATIONS

Sources: **Santander Trade Portal** <https://en.portal.santandertrade.com/international-shipments/czech-republic/packaging-and-standards>

Czech Office for Standards, Metrology and Testing www.unmz.cz/office/en

The standards, technical rules and labelling regulations are harmonized with the EU standards. They fall under the jurisdiction of the Czech Office for Standards, Metrology and Testing (UNMZ).

¹ All fees mentioned in this document are applicable in September 2018. Changes may occur.

The European Commission publishes national technical regulations on their website (<http://ec.europa.eu/growth/tools-databases/tris/en/>).

Labels of products must be in Czech language but can be attached to the product or on a leaflet. The units of measurements are metric and the mark of origin has to be included. The labels require following information: name of the product, name of producer, country of origin, and when applicable, instructions for use.

Labels for products, such as foods, beverages, food supplements, and textiles, must also provide content/composition. Food products as well as some non-food products also require a use-by date, special conditions for storage and use, and the amount of alcohol for beverages exceeding a volume of 1.2% alcohol.

Special labelling rules for products with biotech content have recently been introduced. In addition, international norms for warning labels on consumer products apply.

ISO 9000 standards are becoming more common in Czech Republic to signal the high quality of the standards. Original Czech standards (10% of the overall annual production of technical standards), which can only be used in areas where European or international standards do not exist, are designated by : CSN + 2 numbers of the class + 2 numbers showing the rank under the class + 2 numbers showing only the sort order (CSN 73 4301).

TAXES

Corporate income tax- the corporate income tax rate has been set to 19% since 2010. Certain domestic and foreign investment funds are subject to 5% income tax and pension funds to 0%. Corporate group taxation is not permitted and each company in a group is taxed individually. Exemptions based on EU directives implemented in the Czech Republic can be obtained.

VAT- the Directive 2006/112/EC on the common system of VAT was implemented in the Czech Republic and is harmonised with the system of the EU. There are three VAT rates:

21% for the majority of goods and services.

15% for the majority of food and non-alcoholic beverages, regular mass transport, accommodation and construction works on social housing.

10% for certain types of medication, books, newspapers, magazines and products for the production of food suitable for people with coeliac disease.

Banking services, rent and supply of immovable property are exempted from VAT.

Income tax- the income of residents and non-residents is taxed at 15%. Individuals with an annual income exceeding CZK 1,438,992.00 are charged an additional 7% solidarity surcharge.

Other taxes- there are property taxes, property transfer taxes and road taxes in the Czech Republic.

Double taxation treaty- a double taxation treaty between the Czech Republic and Switzerland has been in force since October 1996.

Individual taxes are handled by the General Financial Directorate and the local tax authorities. Large taxpayers with an annual turnover of more than CZK 2 billion fall under the jurisdiction of the Special Financial Authority. The Supreme Administrative Court settles disputes in tax areas.

Based on the Investment Incentives Act, the Czech tax system provides incentives for investments. CzechInvest provides detailed information on investment incentives on their website (<https://www.czechinvest.org/en/Our-services/Investment-Incentives>).

Tips:

- Before setting up a new legal entity, the tax residency of the shareholders should be considered. This is relevant for obtaining tax-exempt status for dividends and capital gains.
- The incentive schemes should be reviewed before entering the Czech Republic, as the timing and structuring of the investment can optimise tax savings and additional funding.
- The effective tax base can be decreased. Opportunities include the deductions of tax losses carried forward over five years, the possibility to suspend tax depreciation in order to accelerate utilisation of tax losses carried forward and claiming of a double deduction of qualifying expenses incurred with respect to R&D projects.
- Additional certainty should be obtained in certain tax areas such as transfer pricing, R&D credit, capital vs. operational expenses, withholding tax on royalties, and tax losses carried forward upon registration.
- Setting up of internal processes is crucial, even though VAT is neutral for most entrepreneurs. A focus is set on documentation supporting intra-community supply outside the territory of the Czech Republic.
- It is possible to obtain a property-tax exemption for up to five years if the building or production facility is located in a special industrial zone.

COMMERCIAL LAW

Czech laws are compatible with the EU laws. The legal system recognizes core legal concepts common in developed legal systems.

SETTING UP COMPANIES

Non-EU entities that want to do business in the Czech Republic have to register a branch or found a company. EU entities can provide temporary services or do business permanently without an

establishment. The latter option can increase the risks of uncertainty in relation to official authorities. Registration is therefore recommended. There are different vehicles to set up a business:

1. A **branch**: recommended for entrepreneurs coming to the Czech Republic for the first time. It does not have a distinct legal personality and the assets and debts belong to the founder. Registration capital is not required but a legal representative has to be appointed (can be a foreign national). The branch can only have one founder, so joint ventures are not possible. It does not require a notary deed, which makes the establishment much cheaper than companies.
2. **Unlimited Liability Companies**: as all assets of at least one partner are exposed to risks, the unlimited liability companies or partnerships are not a popular vehicle.
3. **Limited Liability Companies (LLC)**: have their own legal personality and act via their statutory body, the director. The director and members of the corporate bodies can be foreign nationals. The company can be founded by one person or multiple co-founders. The founders and shareholders can be natural persons or legal entities. The minimum registered capital is CZK 1 but a start capital of at least CZK 10'000 is recommended to cover the costs of the establishment without the risk of insolvency. Once the registered capital is fully paid up, the shareholders are not liable for any debts of the LLC. It must have at least one director.
4. **Joint-stock companies (JSC)**: the minimum registered capital is CZK 2'000'000. The structure can be either dualistic, with at least one director and one member of the supervisory board, or monistic, with a sole director and a member of the administrative board, who can be the same person.

When **setting up the business**, the branches and companies are entered into the Czech Commercial Register by the founder or a notarized power of attorney. This can be done by notaries public, saving time. The entity has to apply for a **trade licence**, which takes five business days and costs CZK 1000. Thereupon the application is submitted to the registration court. The entity is required to have an **office in the Czech Republic** and the use of the premise has to be proven by an affidavit of the owner. Virtual offices are available. It takes around five days to enter the new entity into the **Commercial Register**.

Branches require a **founding deed** signed by the founder with all the basic information. The registration costs CZK 6000.

LLCs and JSCs require the execution of the **articles of association** in the form of a notarial deed. These contain detailed information about the company and its representatives, its purpose and scope of business, the relationships between the shareholders, the types of shares and the duties and

liabilities of the directors. In the case of a JSC, unlike LLCs, the identity of the shareholders is hidden, unless there is only a sole shareholder. The costs of registration are CZK 6000 for LLCs and CZK 12'000 for JSCs.

After the establishment, the entity has to register itself at the **Tax Office** and its employees with the **Social Security Office** and **health-insurance** company.

Additional points to note:

- LLCs or JSCs can be bought as ready-made companies without a prior economic history. They can then be rearranged according to the needs.
- A JSC can be established as a Societas Europea. The minimum registered capital is 120'000€.
- Extracts of the criminal record of directors and branch founders have to be provided to the Trade License Office, registration court or a notary public upon registration.
- A branch does not require a bank account in the Czech Republic.
- A JSC must have a website in Czech.
- Beneficial owners of all legal entities have to be registered in the Ultimate Beneficial Owner Register.
- Branches and companies are required to keep accounting records.

PROMOTION OF INVESTMENT

The Czech Republic supports foreign investments. As a member of the European Union, it fully complies with the principles of free trade and capital flows. There are virtually no restrictions or administrative burdens for foreign investors. The utilisation of liquidity management structures are permitted and investors can manage their intragroup funding through local and cross-border target balancing and cash pooling systems. The banking system allows for external funding. Local banks are able and willing to finance viable foreign investments at competitive prices in domestic and foreign currencies. Larger investments can be financed through debt and equity capital markets. Investors with a registered office in the Czech Republic can obtain aid in the form of investment incentives. These include corporate income-tax relief, cash grants for job creation, exemption from property tax, cash grants for acquisition of assets and cash grants for training and retaining new employees.

ENTRY CONDITIONS, WORK PERMITS, RESIDENCE PERMITS, LABOUR LAW

Source: **Ministry of the Interior** <http://www.mvcr.cz/mvcren/ministry-interior-czech-republic.aspx>
Accace <https://accace.com/wp-content/uploads/2018/02/2018-01-Labour-Law-and-Employment-Czech-Republic-EN-compressed.pdf>

The Czech Republic is part of the Schengen Area without external borders. Upon arrival at the international airport, Swiss citizens may be subjected to border controls and asked to provide a valid travel document.

If the intended stay exceeds 30 days, the presence has to be reported to the Foreign Police Department within 30 days upon arrival. The person providing accommodation, such as hotels, can submit the registration form on behalf of the foreigner. Changes in surname, marital status or other data contained in the residence card have to be reported. In case of a stay without a residence card, these changes are to be reported to the Foreign Police. In case a residence permit/certificate was issued, changes are reported to the Ministry of the Interior. Swiss citizens can temporarily stay in the Czech Republic without any special permit, solely on the basis of a travel document or an identity card. If they intend to stay in the Czech Republic for longer than 3 months, they can request a certificate of temporary residence or a permanent residence permit.

Citizens of the EU and Switzerland do not need a work permit in the Czech Republic.

The Czech labour law is very similar to other EU countries and Switzerland. Peculiarities include:

- The employer must specify the reasons for termination of the contract based on a list of reasons provided by law.
- The notice period of termination has to be the same for the employer and the employee and cannot be less than 2 months.
- Contributions paid by the employer: 25% of gross earnings for social security and 9% for health insurance.
- Contributions paid by the employee: 6.5% of gross earnings for social security and 4.5% for health insurance.
- Standard weekly working time is 40 hours and shifts cannot exceed 12 hours.
- Basic statutory period of leave is 4 weeks a year.
- Female employees are entitled to 28 weeks of paid maternity leave, beginning six to eight weeks before birth.
- Fathers are entitled to seven days of paternity leave and 70% of the salary within the first six weeks after birth. After six weeks, the mother's maternity support can be split between the parents.
- Parents can choose to take two, three or four years of parental leave.

PROCEDURES FOR COLLECTING PAYMENT

Prepayments or partial prepayments are common in the Czech Republic, with the remaining amount due at the time of delivery or within 30-days. In case the debt is not paid by the due date, the creditor can send dunning letters but is not obligated to do so. Prior to filing legal actions, the creditor is

required to send the debtor a letter with request for payment and a notice of the legal actions. The filing of the legal action can follow 7 days upon delivery of the letter.

SOURCES OF INFORMATION AND LINKS

See the links embedded in the texts.

Further information is provided by:

AFI Business Guidebook https://issuu.com/afi.cz/docs/guidebook_afi_2018_final

U.S. Department of Commerce <https://www.export.gov/article?id=Czech-Republic-Market-Overview>

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