

OECD Model Tax Convention on Income and on Capital (Condensed version 2008) and Key Tax Features of Member countries 2008

Sample except

CZECH REPUBLIC

I. TAXES ON CORPORATE INCOME

1. Corporate income tax

Corporate profits are subject to corporate income tax.

1.1. Residence

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

1.2. Taxable income

Resident companies are generally taxable on their worldwide income, including capital gains. The taxable income is computed on the basis of the accounting profits and is adjusted for several items as described in the tax law. Exempt income includes, subject to conditions, domestic and foreign dividends as well as capital gains on shares in resident and non-resident companies.

1.3. Losses

Losses may be carried forward for 5 years. No carry-back of losses is allowed.

1.4. Rates

1.4.1. Income and capital gains

From 1 January 2008, the general rate of corporate income tax is 21% (previously 24%). This rate will be reduced to 20% for 2009 and to 19% for 2010 and later years. A special rate of 5% applies to the profits of investment and pension funds. Companies with at least 25 employees of whom more than 50% are disabled may be entitled to a 50% reduction of their corporate income tax liability.

1.4.2. Withholding tax

A final withholding tax of 15% (12.5% from 2009) is levied on dividends and other similar profit distributions. An exemption from the withholding tax is available with respect to certain qualifying distributions to corporate shareholders (see I.1.6.).

1.5. Incentives

The following incentives are available:

- incentives for large-scale investment;
- research and development incentive; and
- employment incentives.

1.6. Intercompany dividends and group treatment

No withholding tax is levied on dividends paid to corporate shareholders, provided that:

- both the distributing company and the recipient company are either a jointstock company, a limited liability company or a cooperative; and
- the recipient company has owned at least 10% of the distributing company's capital continuously for at least 1 year. The holding period requirement can be met subsequently, provided that the 10% shareholding requirement was met on the dividend declaration day.

There is no group taxation under Czech law.

2. Other taxes on corporate income

There is no other tax on corporate income.

3. International aspects

3.1. Resident companies

Resident companies are generally subject to tax on their worldwide income, including capital gains. Foreign-source dividend income derived by a resident company, however, constitutes a separate tax base that is subject to a tax of 15% (12.5% from 1 January 2009).

Exempt income includes, subject to conditions, domestic and foreign dividends as well as capital gains on shares in resident and non-resident companies. No unilateral relief from double taxation of foreign income is provided. Double taxation relief may be obtained under a tax treaty. Corporate income tax paid abroad (if no tax treaty applies) or any excess foreign tax credit is, however, deductible as an expense (deducted in the immediately following tax year).

3.2. Non-resident companies

3.2.1. Taxable income

Non-resident companies are taxed on income derived from Czech sources and, generally, according to the same rules as apply to residents.

3.2.2. Withholding tax

A final withholding tax of 15% (12.5% from 1 January 2009) is levied on dividends and other distributions, and on profits transferred to a controlling person on the basis of a contract on the transfer of profits or a controlling contract.

Under the domestic law implementing the provisions of the EC Parent-Subsidiary Directive (90/435/EEC), as amended, and the EU-Switzerland Savings Agreement, there is no withholding tax on dividends paid by a resident subsidiary to its parent company resident in an EU Member State or Switzerland if the parent company has held at least 10% of the capital of the subsidiary continuously for at least 1 year. The holding period requirement can be met subsequently, provided that the 10% shareholding requirement was met on the dividend declaration day.

Interest and other yields on credits and loans (interest on mortgage bonds is exempt) are subject to a final withholding tax at a rate of 15% (12.5% from 1 January 2009). Under the domestic law implementing the provisions of the EC Interest and Royalties Directive (2003/49/EC) and the EU-Switzerland Savings Agreement, outbound interest payments are exempt from withholding tax, provided that the beneficial owner of the interest is an associated company of the paying company and is resident in another EU Member State or Switzerland or such a company's permanent establishment situated in another Member State or Switzerland. Two companies are "associated companies" if (a) one of them has a direct minimum holding of 25% in the capital of the other or (b) a third EU or Swiss company has a direct minimum holding of 25% in the capital of the two companies. A minimum holding period of 2 years is required (can be met subsequently). The recipient must obtain an approval from the Czech tax authorities.

Royalties are subject to a final withholding tax at a rate of 15% (12.5% from 1 January 2009). The EC Interest and Royalties Directive (see above) precludes any taxation on royalty payments to associated EU companies. The Czech Republic, however, has been granted a transitional regime under which it may levy a withholding tax on royalties at 10% for 6 years starting from 1 July 2005. According to the Czech implementing law, this transitional regime will apply until 31 December 2010.

Withholding tax at the rate of 15% (12.5% from 1 January 2009) is levied also on:

- payments for services provided in the Czech Republic, including payments for commercial, technical, consultancy or management services; and
- rental payments (income from a financial lease with subsequent purchase of the leased asset is subject to a 5% withholding tax).

These rates may be reduced under a tax treaty.

When taxable income not subject to withholding tax is paid to non-EEA residents, the payer must withhold 10% of the gross income as prepayment securing the payment of tax. A rate of 1% applies to income from the sale of investment instruments and from settlement of debt claims taken over from another creditor. The general corporate income tax rate (see I.1.4.1.) applies to any item of income that is paid to a non-EEA resident general partner of a Czech general or limited partnership. The tax withheld is credited against the final tax liability.