

**Baker
McKenzie.**

Doing Business Guide in the Czech Republic



2024

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Preface

Baker McKenzie is one of the world's largest law firms, with a presence in 74 locations in 45 countries. We have been active in the Czech Republic since 1993. Our work includes a full range of legal and tax services directed primarily toward foreign investors doing business in the Czech Republic, but also, increasingly, to large, domestic Czech companies, especially as they seek to expand into new markets.

The Czech Republic formally joined the EU on 1 May 2004. Since then, it has adopted new laws in virtually every area of regulation and its legal system continues to develop in line with European norms.

"Doing Business in the Czech Republic" has been prepared by the Prague office of Baker McKenzie as a general guide for those companies or persons wishing to engage in business activities or invest in the Czech Republic.

The information contained in this publication is general in nature and is intended only to provide an introduction to the Czech legal system and investment climate. This publication may not be relied upon in relation to any transaction or investment decision and it should not be viewed as a substitute for specific legal and tax advice. In addition, readers should be aware that the law and its interpretation are constantly changing in the Czech Republic; as such, the information contained in this publication may quickly become outdated.

We would be pleased to provide you with updates on the material contained in this guide, or to provide you with further information regarding a specific industry or area of Czech law in which you have a particular interest.

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The Czech Republic

Key facts

Area	78,866 square kilometers
Population	10.9 million (approx.)
Capital	Prague
Language	Czech
Currency	Czech koruna (CZK)

The Czech Republic is located in the heart of Europe, neighboring Germany (to the west), Poland (to the north), Slovakia (to the east) and Austria (to the south). The country is comprised of three historically defined regions: Bohemia, Moravia and Silesia. It has a population of approximately 10.9 million, which is comparable to other medium-sized European nations (e.g., Hungary and Austria). Approximately one-fifth of the population lives in the four largest cities: Prague, Brno, Ostrava and Plzen. The capital city, Prague, has approximately 1.38 million inhabitants. Prague has historically been regarded as the "geographic center" of Europe. Its cobblestone streets form a maze of cozy restaurants, shops, galleries and bars. Prague has excellent conference facilities, hotels with the latest business services and an economy that makes doing business here advantageous.

The Czech Republic is a parliamentary republic. The National Legislature consists of two houses: the lower house, the Chamber of Deputies, which has 200 members; and the upper house, the Senate, which has 81 members. The electoral system declares universal direct suffrage for party proportional representation, subject to a 5% threshold. The Czech Republic is divided into 14 regions (higher territorial self-governing units — Vyšší územní samosprávné celky — VÚSC in Czech), which came into effect on 1 January 2000. The regions are further subdivided into 205 districts of the municipalities with extended authority (Správní obvody obcí s rozšířenou působností in Czech). Selected competencies have been transferred from the central government to self-governing regional councils.

Czech history has always been interwoven with the history of Europe. Prior to World War I, it was an integral part of the Habsburg Empire. In 1918, after the defeat of the Austrian-Hungarian Empire, several centuries of Habsburg rule came to an end with the birth of independent Czechoslovakia, uniting the Czechs and Slovaks in one nation-state. During the interwar years, the First Republic (as it is referred to) was a rapidly developing industrial society, with a stable democratic system of governance and a vibrant cultural and intellectual life. However, the Munich Agreement, signed in October 1938, essentially sealed Czechoslovakia's fate and led to its occupation by Nazi Germany in March 1939. At the end of the war, Czechoslovakia fell into the de facto sphere of Soviet influence. From 1948, the Communist Party took full control of the state and Soviet dominance extended for the next 40 years. In 1989, the Soviet empire in Europe began to crumble and, on 17 November, communism in the Czech lands gave way to the popular and peaceful demonstrations known as the Velvet Revolution. In 1993, Czechoslovakia underwent a "velvet divorce" and peacefully dissolved into the Czech and Slovak republics.

Although not without setbacks, the Czech Republic has made great progress in its transition to a pluralistic, democratic and market-oriented society. The country boasts a highly skilled and educated workforce and eminent foreign direct investment, especially since the introduction of large-scale investment incentives by the Czech government in 1998, enacted into law by Act No. 72/2000 Coll. The Czech Republic became a member of the EU on 1 May 2004. It has currently one of the lowest unemployment rates, but at the same time, one of the highest inflation rates in Europe.

Political and economic stability

The Czech Republic is a parliamentary democracy and one of the most advanced CEE countries. Economic policy is consistent and predictable. An independent central bank (the Czech National Bank) has maintained a high degree of currency stability since 1991.

Czech legislation is in accordance with the regulations of the EU. Czech commercial, accounting and bankruptcy laws are compatible with Western standards. Under Czech law, foreign and domestic entities are treated identically in all areas, from protection of property rights to investment incentives. The government does not screen any foreign investment projects except for those in the defense and banking sectors. The Czech Republic is committed to nondiscrimination against foreign investors in privatization sales, with the same aforementioned exceptions.

The Czech koruna is fully convertible. All international transfers (e.g., profits and royalties) related to an investment can be carried out freely and without delay.

The Czech Republic was the first CEE country to be admitted into the Organization for Economic Co-operation and Development (OECD). The country is a member of the North Atlantic Treaty Organization (NATO) and is fully integrated into other international organizations, such as the European Bank for Reconstruction and Development (EBRD), the World Trade Organization (WTO) and the International Monetary Fund (IMF).

Investment protection

The Czech Republic is a member of the Multilateral Investment Guarantee Agency, an international organization for the protection of investment, belonging to the World Bank-IMF group. The Czech Republic has signed a number of bilateral international treaties that support and protect foreign investments, for example, with Australia, Canada, China, Israel, Mexico, Norway, South Africa, South Korea, Switzerland, Türkiye, the UK, Ukraine and the US.

Protection of property rights

The Czech Republic is a signatory to the Bern, Paris and Universal Copyright conventions. Existing legislation guarantees the protection of all forms of property, including patents, copyrights, trademarks and semiconductor chip layout designs. Trademark law and copyright law are compatible with EU directives.

The only case where the property of a foreign person or entity could be expropriated in the Czech Republic would be on public interest grounds that could not be satisfied by any other means, which would then have to be implemented through an act of parliament and with full compensation at market value.

Repatriation of profits

No limitations exist concerning the distribution and expatriation of profits by Czech subsidiaries to their foreign parent companies, other than the obligation of joint-stock and limited liability companies to pay withholding taxes.

The Czech Republic has treaties to prevent double taxation with a number of countries, including all EU countries, Australia, Canada, Japan, Switzerland, the UK and the US.

Double taxation treaties cover taxes on dividends, interests and royalties. The actual rates of withholding tax are determined by the treaty and range from 0% to 15%.

1 Corporate registration and compliance

1.1 Transition to new corporate regulation

In 2014, the new Act on Business Corporations and the new Act No. 89/2012 Coll., the Civil Code, ("**Civil Code**") became effective and replaced the previous Commercial Code and Civil Code. The adoption of this new legislation is the most significant change to Czech business companies legislation since the adoption of the Commercial Code in 1991, affecting all companies operating pursuant to Czech law. Aligned with the Act on Business Corporations and the new Civil Code, other accompanying regulations have also been adopted (including new regulation on registration in the commercial register).

The new Act on Business Corporations applies in full to business companies established after 1 January 2014. Business companies existing before this date were obligated to amend their constituent documents in compliance with the new legislation to the extent stipulated by the Act on Business Corporations and file the amended constituent documents with the collection of documents of the relevant commercial register by 30 June 2014.

Additionally, business companies existing before 1 January 2014 were able to decide, by 1 January 2016, whether they would submit to the regime set forth by the Act on Business Corporations as a whole and register such submission in the commercial register. In such cases, business companies have subsequently been regulated solely by the Act on Business Corporations. With respect to those business companies existing before 1 January 2014 that did not submit to the regime set forth by the Act on Business Corporations as a whole, the provisions of the Commercial Code still apply, to the extent that regulating rights and duties of the participants (shareholders) do not contravene the mandatory provisions of the new Act on Business Corporations, or if the participants (shareholders) did not deviate from such provisions of the Commercial Code in the constituent documents.

Although the above deadline has already passed, most of the legal community are inclined to believe that the above is not a foreclosure period and that, therefore, companies that haven't so far submitted to the new regime may do so even after this deadline.

1.2 Forms of business vehicles

The Czech Act on Business Corporations and the new Civil Code recognize a variety of legal entities and forms of business vehicles (some of which, such as a branch office, are not legal entities) under which it is possible to do business in the Czech Republic.

The legally recognized entities or registered forms of business vehicles that are typically utilized and encountered by foreign investors are as follows:

- (i) Limited liability company (commonly referred to as "s.r.o." or a "spol. s r.o.") (společnost s ručením omezeným)
- (ii) Joint-stock company (commonly referred to as "a.s." or an "akc. spol.") (akciová společnost)
- (iii) Limited commercial partnership (commonly referred to as "k. s." or a "kom. spol.") (komanditní společnost)
- (iv) General commercial partnership (commonly referred to as "v. o. s." or a "veř. obch. spol.") (veřejná obchodní společnost)
- (v) Branch office (pobočka or, if registered in the commercial register, odštěpný závod)
- (vi) Cooperative (družstvo)
- (vii) European company (evropská společnost)

- (viii) European economic interest grouping (evropské hospodářské zájmové sdružení)
- (ix) European cooperative company (evropská družstevní společnost)
- (x) Sole entrepreneur (fyzická osoba — podnikatel)

Some of the above vehicles need to be registered in the commercial register.

Specific acts may also enable other business vehicles that are based on the above common forms and that purport to facilitate business in a particular area. A typical example is a joint-stock company with a variable share capital (akciová společnost s proměnným základním kapitálem) or a limited commercial partnership with investment certificates (komanditní společnost na investiční listy), both regulated by Act No. 240/2013 Coll. on Investment Companies and Investment Funds.

In addition, Czech law provides for the possibility of establishing associations (spolek). Such associations are legal entities and need to be registered. The principal activity of associations, however, cannot be to operate entrepreneurial or other gainful activities — such entrepreneurial or other gainful activities can be performed by associations as an ancillary activity.

1.2.1 Limited liability company

The principal features of a Limited liability company (společnost s ručením omezeným) are as follows:

- (i) **Constituent documentation:** A limited liability company can be formed based on a constituent document, which is a memorandum of association (společenská smlouva) if the company has more than one participant, or a founding deed (zakladatelská listina) if the company has only one participant. In both cases, the constituent document must be drawn up in the form of a notarial deed. The Act on Business Corporations stipulates requirements on the minimum content of the constituent document.

Those interested in establishing a Czech limited liability company can use a template of the constituent document as published on the Ministry of Justice of the Czech Republic's website.
- (ii) **No shares:** No shares are issued to the participants; rather, the participants acquire a participation interest (also referred to as a quota or ownership interest) in the limited liability company. However, this does not apply if the limited liability company will issue a participation certificate (see below).
- (iii) **Participation interest:** A limited liability company's constituent document may permit the existence of various types of participation interests with various rights and duties attached to these (such as a fixed share in profit or a right to appoint a certain number of members of the statutory body; special rights or duties attributable to or imposed on the participant). The constituent document can also establish a participation interest without a voting right; however, there has to be at least one participation interest with a voting right in the company. A participant may own more participation interests (either of the same or a different type) if the constituent document so permits.
- (iv) **Transferability of participation interest:** The participation interest can be transferred to another participant or a third person subject to any transfer restrictions or preemption rights contained in the limited liability company's constituent document or the Act on Business Corporations. Unless the company's constituent document provides otherwise, the participant can transfer its participation interest to another participant without the approval of a company's body and to a third person with only the approval of the general meeting.
- (v) **Pledge of participation interest:** A participation interest in a limited liability company can be pledged under the same conditions set by law for its transfer, unless it is prohibited either by

law or by the constituent document. The constituent document may also stipulate further limitations for a pledge of the participation interest.

- (vi) **Participation certificate:** If the constituent document so provides, the company can issue a participation certificate (kmenový list) representing and incorporating the participation interest. Incorporating the participation interest into the participation certificate will enable the participation interest to be easily transferred (instead of concluding a written agreement on transfer of participation interest with notarized signatures — in the case of a transfer of participation interests not represented by the participation certificate, an agreement with endorsement of the participation certificate and subsequent handover of the certificate is sufficient).
- (vii) **Company's bodies:** A limited liability company has no board of directors; instead, the company is represented by one or more executives. The executives can, however, form a board as a collective body if the limited liability company's constituent document so provides. There is no need to establish a supervisory board.
- (viii) **Registered capital:** Each participant's minimum initial capital is 1 Czech koruna (CZK) unless the constituent document determines the initial capital as being higher. Before filing a petition for registration of the limited liability company into the commercial register, the whole contribution premium (vkladové ážio) and 30% of each participant's initial capital must be paid into a special bank account (the remainder of the initial capital must be paid within five years from the registration of the limited liability company into the commercial register, unless the constituent document provides for a shorter time period). However, the contributions in kind shall be contributed in full prior to the registration. If the monetary contributions of all participants do not exceed CZK 20,000 in total, a special bank account does not have to be established prior the establishment of the limited liability company and the contributions can be paid in another way (e.g., in cash).
- (ix) **Ownership structure:** The limited liability company must have at least one participant. There is no maximum limit as to the number of participants.
- (x) **No reserve fund:** The limited liability company does not have to keep a reserve fund to cover the company's loss.
- (xi) **Participants' liability:** Liability of the participants in a limited liability company is limited (the participants guarantee jointly and severally the company's obligations up to the total amount of the unpaid contributions to the registered capital as registered in the commercial register at the time the participants were requested for payment by a creditor of the company).
- (xii) **Tax:** A limited liability company is not a flow-through entity for Czech tax purposes.

1.2.2 Joint-stock company

The principal features of a joint-stock company (akciová společnost) are as follows:

- (i) **Constituent documentation:** A joint-stock company can be formed based on a constituent document, being articles of association (stanovy). The constituent document must be drawn up in the form of a notarial deed and must contain the minimum requirements prescribed by the Act on Business Corporations.
- (ii) **Shares:** Capital stock is divided into shares, which may be issued in the form of a bearer or registered share ("**Shares**"). The registered shares can be issued as certified shares or can be maintained in the form of book-entry (computer entry) securities in a special account at the Central Securities Depository, which is maintained by the joint-stock company, Centrální depozitář cenných papírů, a.s., or can be immobilized. With the

aim of increasing transparency of the ownership structure of joint-stock companies, the bearer shares can only be issued as book-entry securities or as immobilized securities. Certified bearer shares that had not been immobilized prior to 1 January 2014 have been transformed automatically to certified registered shares (with effect from 1 January 2014) pursuant to the Act on Certain Measures to Increase the Transparency of Joint-Stock Companies. Moreover, the identity of shareholders holding shares exceeding 10% of the registered capital has to be known by the company to take part in public procurement procedures since the rules on public procurement require the submission of a list of such shareholders, which must be part of a bid.

A joint-stock company can either issue shares with a nominal value or shares without a nominal value (kusové akcie). Such shares do not have a nominal value and each of them represents an identical share in the company's registered capital. If shares without a nominal value are issued, the company is not allowed to issue shares with a nominal value.

A joint-stock company can issue shares with special rights attached. The Act on Business Corporations states expressly that a joint-stock company can also issue shares with a different weight of votes or with no voting rights at all. These special rights attached to shares must, however, be specified in the constituent document. The nominal value of nonvoting shares must not exceed 90% of a joint-stock company's registered capital.

A joint-stock company can further issue preference shares. Such shares are associated with the preferential right to dividend, other own sources of the company or a share in the proceeds of liquidation. Preference shares are nonvoting, unless determined otherwise in the constituent document.

- (iii) Pledge of shares: The shares in a joint-stock company may be pledged under the same conditions set by law for their transfer, subject to the limitations stipulated by the law or a constituent document.
- (iv) Limitation on the transfer of assets for two years after formation: Should the company acquire assets from its founder or its shareholder for consideration in the amount of at least 10% of the subscribed registered capital within two years of the company's formation, the payment for such assets must not exceed the value of the acquired asset as determined by an expert (or by another manner enabled by the Act on Business Corporations). Such a transfer, including the payment, must also be approved by the general meeting. The above-mentioned does not apply if the acquisition of assets takes place under arm's length conditions, or when the acquisition is carried out at the initiative or under the supervision of a state authority or in the European regulated market.
- (v) Monistic/dualistic structure: The joint-stock company can have either a monistic or dualistic structure of corporate management. A dualistic structure anticipates that the company's bodies will include (in addition to the general meeting) the board of directors (představenstvo) and supervisory board (dozorčí rada). The monistic structure means that, in addition to the general meeting, the company's bodies will only include a board of trustees (správní rada), the competence of which shall combine the competences pertaining to the supervisory board and the board of directors in a dualistic structure.

In the case of a joint-stock company with a dualistic structure, the board of directors and the supervisory board each consist of three members (unless the constituent document provides otherwise). The term of office of individual members of the board of directors and supervisory board is to be stated in the constituent document or in the agreement on performance of the office. If the term is not stated in either of these documents, the term of office of members of the board of directors and of members of the supervisory board is three years. Ex-members of the board of directors and the supervisory board can be reappointed.

In a joint-stock company with more than 500 employees in employment relationships, the number of supervisory board members must be divisible by three and one-third of the members must be elected by the employees. The articles of association can provide that more than one-third of the members must be elected by the employees; however, the number of supervisory board members elected by employees shall not exceed the number of supervisory board members elected by the general meeting.

In the case of a joint-stock company with a monistic structure, the board of trustees consists of three members (unless the constituent document provides otherwise). The term of office of individual members of the board of trustees is to be stated in the constituent document or in the agreement on performance of the office. If the term is not stated in either of these documents, the term of office of members of the board of trustees is three years.

- (vi) Registered capital: The minimum capitalization of a joint-stock company is CZK 2 million. If a joint-stock company keeps books in euros, according to special regulation, it may stipulate the registered capital in euros. For such a case, the minimum capitalization of a joint-stock company is EUR 80,000.
- (vii) Ownership structure: A joint-stock company must have at least one shareholder. There is no limit as to the number of shareholders.
- (viii) Separately transferable rights: Right to distribution of profit, preference right to subscribe to new shares and convertible and preference bonds, the right to share in liquidation surplus, and other similar proprietary rights, which are stipulated by the constituent document, may be transferred independently from the share. In addition, such rights may be incorporated into a security if this is admitted in the constituent document or by law.
- (ix) Bonds: A joint-stock company may issue convertible bonds and preference bonds.
- (x) No reserve fund: A joint-stock company does not have to keep a reserve fund to cover the company's loss.
- (xi) Mandatory web pages: A joint-stock company must maintain web pages and publish statutory information on the web pages (such as information that must be stated in the business documents, information on convocation of general meeting, etc.).
- (xii) Shareholders' liability: Shareholders are not liable for the company's obligations (but the company is liable for its all assets).
- (xiii) Tax: A joint-stock company is not a flow-through entity for Czech tax purposes.

1.2.3 Limited commercial partnership

The principal features of a limited commercial partnership (komanditní společnost) are as follows:

- (i) Constituent documentation: A limited commercial partnership can be formed based on a memorandum of association (společenská smlouva), which does not have to be drawn up in the form of a notarial deed; a written form with officially verified signatures is sufficient. The Act on Business Corporations stipulates requirements on the minimum content of the memorandum of association.
- (ii) Ownership structure: At least one limited partner and one general partner must found the partnership. The minimum contribution for a limited partner is to be set out in the memorandum of association.
- (iii) Liability: The limited partner(s) guarantee(s) the partnership's obligations together with other partners (general and limited) jointly and severally up to the amount of its unpaid

contribution(s) as registered with the commercial register; the general partner(s) face(s) unlimited liability regarding the partnership's obligations. The memorandum of association can stipulate that the limited partners guarantee the partnership's obligations up to the amount mentioned in the memorandum of association (such an amount cannot be lower than a limited partner's contribution).

- (iv) Business management: Only the general partner(s) is/are authorized to carry out commercial management of the partnership.
- (v) Tax: A limited commercial partnership is a flow-through entity with regard to the general partner for Czech tax purposes.

1.2.4 General commercial partnership

The principal features of a general commercial partnership (veřejná obchodní společnost) are as follows:

- (i) Constituent documentation: A general commercial partnership can be formed based on a memorandum of association (společenská smlouva), which does not have to be drawn up in the form of a notarial deed; a written form with officially verified signatures is sufficient. The Act on Business Corporations stipulates requirements on the minimum content of the memorandum of association.
- (ii) Ownership structure: At least two partners are required to establish a general partnership and all partners jointly and severally guarantee all the partnership's obligations.
- (iii) Profit sharing: Profits are shared equally among the partners, if not stipulated otherwise in the memorandum of association.
- (iv) Transferability of participation interest: The participation interest cannot be transferred to another partner or to a third person.
- (v) Tax: The partnership is a flow-through entity for Czech tax purposes.

1.2.5 Branch office

The principal features of a branch office (odštěpný závod) are as follows:

- (i) Constituent documentation: The branch is founded by a simple resolution of the founder of the branch. The formal requirements for such resolution (if any) are prescribed by the law of incorporation of the founder.
- (ii) No legal capacity: A branch is not a separate legal entity, i.e., it does not have a legal capacity under Czech law and its capability to make any legal acts and perform any steps is derived from the legal capacity of its founder.
- (iii) Dependency on founder: The branch's activity depends on its founder's directions and instructions. Business activities carried out in the Czech Republic by the branch must not exceed the scope of business activities that may be carried out by the founder.
- (iv) Restrictions on reorganization: The branch may not be sold or merged with another branch unless the founders are sold or merged at the same time. It is possible to sell the branch's enterprise or the assets.
- (v) The branch's bodies: The head of the branch (provided that the branch office as well as the head of the branch are registered in the commercial register) is authorized to represent the founder in all matters regarding the branch;

- (vi) No registered capital: There are no capitalization requirements for a branch.
- (vii) Accounting: A branch is required to maintain its books according to Czech accounting standards and on an accrual basis.
- (viii) Tax: Subject to the provisions of any applicable tax treaty, a branch would be subject to Czech taxation on all income attributed to the branch's activities.

1.2.6 Choice of entity or vehicle

Most foreign investors utilize a limited liability company, joint-stock company or branch office as the vehicle for carrying out their business activities in the Czech Republic.

The principal advantage of a branch office is that there are no capitalization requirements, and, in the case of its dissolution, it is a relatively simple and less time-consuming process. The disadvantage of a branch office is that it is not a separate legal entity, thus exposing the offshore "parent company" to direct liability for actions by the branch office.

The choice between a limited liability company and a joint-stock company often depends on the following factors:

	LLC	JSC
Minimum capital	CZK 1 (minimum initial capital for each participant)	CZK 2 million or eventually EUR 83,000 (minimum amount of registered capital)
Minimum number of appointments required	One (executive)	Dualistic structure: <ul style="list-style-type: none"> • Two (one member of the board of directors and one member of the supervisory board); or • Four (one member of the board of directors and three members of the supervisory board) in the case of a company with more than 500 employees in employment relationships Monistic structure: one (one member of the board of trustees)
Supervisory board	Optional	Mandatory (In the case of a monistic structure, the supervisory board will not be established. Instead, a board of trustees having, among other things, competence of the supervisory board must be established.)
Listed on a recognized Czech stock exchange	No	Optional

	LLC	JSC
Registered at the Central Securities Depository	No	Depending on the form of shares
Web pages	Optional (mandatory if the LLC entity will be part of an acknowledged holding structure)	Mandatory

1.3 Corporate governance

Annual general meeting: The Act on Business Corporations stipulates a six-month period after the termination of the relevant accounting period for the general meeting to discuss the ordinary financial statements for the relevant accounting period. However, according to the amendment to the Act on Business Corporations effective since 1 January 2021, it is officially possible to decide on the distribution of a profit and other own resources based on the financial statements approved at the general meeting held by the end of the accounting period following the accounting period for which the financial statements were prepared.

In the case of a **limited liability company**, the general meeting of participants adopts resolutions by a simple majority of votes of the participants present, unless either (i) a provision of law or (ii) the company's constitutional document requires a higher number of votes. A quorum is constituted if participants having at least half of the votes are present at the meeting (unless the constitutional document requires a different quorum).

In the case of a **joint-stock company**, the general meeting of shareholders adopts resolutions by a majority of votes of the shareholders present, unless either (i) a provision of law or (ii) the company's articles of association require a higher number of votes. A quorum is constituted if the shareholders who are present hold shares with a total nominal value (or hold a number of shares in the case of shares without nominal value) exceeding 30% of the joint-stock company's registered capital, if the joint-stock company's articles of association do not provide otherwise.

Related parties report: A related parties report must be prepared by the company's statutory body within three months of the end of the company's accounting period. This report should state the structure of relations between related parties (controlling entity, controlled entity and other entities controlled by the same controlling entity), the controlled entity's role in such a relationship, the methods and means of controlling, the overview of actions undertaken in the last accounting period made on the instigation or in the interest of the controlling entity or entities controlled by such entity, on the condition that such actions concern assets exceeding 10% of the controlled entity's equity capital identified in the last financial statements, overview of agreements concluded between related parties, and an assessment of whether any detriment arose to the controlled entity and whether such detriment was settled. The report should also evaluate the advantages and disadvantages arising from the relationship between related parties and state whether advantages or disadvantages prevail and what risks arise for the controlled person. Furthermore, the report should state whether, how and in what period the eventual detriment was or will be balanced. If the company is subject to a statutory audit (see below), the related parties report constitutes part of the annual report and is subject to the audit as well.

ESG reporting: Further to the implementation of the Corporate Sustainability Reporting Directive (CSRD), certain accounting units as defined by the Czech Accounting Act, namely large undertakings that are public interest entities with an average number of employees in excess of 500, will now be obliged to include sustainability reporting in their annual report. The mandatory content of the sustainability reporting is set by the Czech Accounting Act and must include, in particular,

environmental, social, human rights, governance, employment, anti-corruption and anti-bribery matters. The obliged accounting units must start providing sustainability reporting in their annual report for the fiscal year starting in 2024. The sustainability reporting will be subject to an assurance opinion by a statutory auditor.

Filing: The resolution of the annual general meeting, the financial statements and the related parties report must then be filed with the relevant company's collection of documents maintained by the commercial register. If the company's financial statements must be audited, the auditor's report and the annual report of the company must also be filed with the collection of documents. Such filing has to be done within 30 days following the approval of the auditor (if required) and approval from the annual general meeting. In any event, i.e., even in the absence of the auditor's report or approval from the annual general meeting, the company must file these documents with the collection of documents in the commercial register by the end of the next financial period (year).

Mandatory audit: The Czech Accounting Act distinguishes four categories of entities subject to accounting duty.

- (i) Micro entity — as of the balance sheet date, it has not fulfilled any two of the following criteria:
 - (a) Total amount of assets exceeding CZK 9 million
 - (b) One-year net turnover exceeding CZK 18 million
 - (c) Average amount of employees during the accounting period exceeding 10
- (ii) Small entity — an entity that is not a micro entity and, as of the balance sheet date, has not fulfilled any two of the following criteria:
 - (a) Total amount of assets exceeding CZK 100 million
 - (b) One-year net turnover exceeding CZK 200 million
 - (c) Average amount of employees during the accounting period exceeding 50
- (iii) Medium entity — an entity that is neither a micro entity nor a small entity and, as of the balance sheet date, has not fulfilled any two of the following criteria:
 - (a) Total amount of assets exceeding CZK 500 million
 - (b) One-year net turnover exceeding CZK 1 billion
 - (c) Average amount of employees during the accounting period exceeding 250
- (iv) Large entity — as of the balance sheet date, it has fulfilled at least two of the following criteria:
 - (a) Total amount of assets exceeding CZK 500 million
 - (b) One-year net turnover exceeding CZK 1 billion
 - (c) Average amount of employees during the accounting period exceeding 250

In reference to the above, the following entities are required to have a statutory audit (subject to the exceptions set by law):

- (a) Large entities
- (b) Medium entities

- (c) Joint-stock companies that are small entities if, as of the balance sheet date of the relevant accounting period and of the previous accounting period, at least one of the following criteria has been met:
 - (i) Total amount of assets is equal to or exceeds CZK 40 million
 - (ii) One-year net turnover is equal to or exceeds CZK 80 million
 - (iii) Average amount of employees during the accounting period is equal to or exceeds 50
- (d) Other small entities if, as of the balance sheet date of the relevant accounting period and of the previous accounting period, at least two of the following criteria have been met:
 - (i) Total amount of assets is equal to or exceeds CZK 40 million
 - (ii) One-year net turnover is equal to or exceeds CZK 80 million
 - (iii) Average amount of employees during the accounting period is equal to or exceeds 50

Data mailboxes, accessible through the internet and only operated in the Czech language, serve as an electronic receiver of documents originating with state administrative bodies on one side, and as a platform for sending documents to state administrative bodies on the other. Data mailboxes are established automatically and are free of charge for legal entities registered in the Czech commercial register and branch offices of a foreign legal entity registered in the commercial register. Generally, a document is deemed to have been delivered at the moment that the individual entitled to access the data mailbox logs in. Alternatively, if log-in does not occur within 10 days from the document's delivery into the data mailbox, the document is deemed to have been delivered on the last day of this 10-day period, except for certain cases when such substitute delivery is excluded by statute. From 1 January 2023, data mailboxes are mandatory even for sole entrepreneurs (individuals).

Commercial documents: Each entrepreneur is required to state its business name and seat on all business documents and make these details available to the public within the information published by means of remote access (web pages). If an entrepreneur is registered in the commercial register, it should also give details of such entry, including the relevant section and insert number. Any entrepreneur registered in another public register shall give details about such registration. If the entrepreneur is not registered in the public register, it will state details about its registration into another evidence. If the entrepreneur was assigned an identifier (identification number), such an identifier must also be stated on commercial documents. The entrepreneur can also state further details, on the condition that such details are not capable of being misleading.

Beneficial owner: On 1 June 2021, Act No. 37/2021 Sb. on the Registration of Ultimate Beneficial Owners ("**UBO Act**") took effect, implementing Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 (AML Directive V) into Czech law. It introduced new requirements regarding the publicity of selected data on beneficial owners, adopted mechanisms for verifying and checking the genuineness of data maintained in the register, and stipulated sanctions for failure to fulfill certain duties. As of 1 October 2022, the UBO Act was amended ("**Amendment**"). This Amendment changed the definition of beneficial owner and the scope of entities required to register their beneficial owner.

According to the UBO Act, any legal entity with its registered office in the Czech Republic is obligated to identify, maintain evidence of and have its beneficial owner registered in the Register of Ultimate Beneficial Owners ("**UBO Register**"), save for entities and subjects that do not have a beneficial owner as a matter of law (the state, state-owned enterprises, legal entities established by law or by an international treaty, etc.).

All existing legal entities that fulfilled the obligation to ensure that their entry in the UBO Register complies with the requirements of the UBO Act by 30 September 2022 at the latest are, according to the Amendment, obligated to ensure that their entry in the UBO Register complies with the new requirements by 1 April 2023. In case of noncompliance, the sanctions (as described below) may apply.

All newly established entities that are legally required to be registered in the UBO Register are required to file a petition for registration of their beneficial owner within 15 days of their registration in the commercial register. The application may be filed before this date, but no earlier than the date on which the petition for registration of the new entity in the commercial register is submitted to the registry court or notary.

The amended UBO Act abandoned the previous division of beneficial owners between persons with ultimate influence and ultimate recipients. Newly, the law only recognizes one single category of material beneficial owner, which is characterized as any person ultimately owning or controlling a corporation.

According to the new definition, a beneficial owner of a corporation is any natural person who ultimately owns or controls a legal entity, i.e., who, directly or indirectly, through another person or legal arrangement, does one of the following:

- (i) Has a share in the corporation or a share in voting rights exceeding 25%
- (ii) Has the right to a share in profit, other corporate funds or liquidation balance exceeding 25%
- (iii) Exerts a decisive influence in the corporation or in corporations that hold, independently or jointly, a share in such corporation exceeding 25%
- (iv) Exerts a decisive influence in the corporation via other means

If no beneficial owner can be identified despite all efforts as may be reasonably required, or if the person with ultimate influence is a legal entity that has no beneficial owner under the UBO Act (see above), all members of the entity's top management with ultimate influence shall be considered beneficial owners. A member of the top management is any individual providing for the entity's day-to-day or regular management, while being either a member of its statutory body, a person in a similar position, or a person reporting directly to the statutory body or a member of it.

The UBO Act has further introduced a variety of new sanctions for noncompliance with the requirements it sets out. The sanctions include suspension of the beneficial owner's voting rights (including voting rights of any entities with the same beneficial owner) in the concerned entity or prohibition on distributing the entity's profit to the beneficial owner (including to any entities with the same beneficial owner) if such beneficial owner is not duly registered in the UBO Register as the beneficial owner of the concerned entity. Additionally, a penalty of up to CZK 500,000 (approx. EUR 20,000) may be imposed on an entity that fails to register data on its beneficial owner in the UBO Register or that registers data that does not correspond to the actual state, despite having been provided with a reasonable deadline to remedy this.

Furthermore, the UBO Act introduced public access to data on beneficial owners on the UBO Register's website, maintained by the Ministry of Justice. The following information is publicly available with respect to individuals registered as beneficial owners: (a) full name, (b) month and year

of birth, (c) country of citizenship, (d) country of residence, (e) information on the nature of their position as a beneficial owner, and (f) the size of their direct or indirect share in voting rights, if applicable. All information recorded in the UBO Register is available to a range of public institutions (such as courts, notaries, tax authorities or the police) and persons subject to certain anti-money laundering obligations.

1.4 Requirements for/duties of members of statutory and supervisory bodies

A member of a body of the company (an executive of a limited liability company, a member of the board of directors and a member of the supervisory board in the case of a joint-stock company with a dualistic structure, a member of the board of trustees of a joint-stock company with a monistic structure) may be a natural person or a legal person. If a legal person is a member of such a company's body, it must authorize an individual to represent the legal entity in such a company's body. As of 1 January 2021, this individual must be registered with the commercial register along with the legal entity that has become the member of the company's body.

A member of the statutory or supervisory body of a company who is an individual must be fully capable of performing legal acts (generally, an individual becomes fully capable of performing legal acts at the age of 18).

Additionally, a person is not eligible to be a member of the company's body if there exists an impediment to perform the function, namely if (i) they have been prohibited from performing the function by a public authority of the Czech Republic, another member state of the EU or a state of the European Economic Area or by a decision of an international organization, (ii) they have been convicted of a selected criminal offense of a property or economic nature and (iii) insolvency proceedings or similar proceedings abroad have been conducted with respect to their property or the property of the company in which they held office in the last three years. The Ministry of Justice of the Czech Republic maintains a list of persons disqualified from being a member of a company's body under the Act on Business Corporations, which registry courts and notaries public use for registering persons in elected positions to the commercial register. However, this list is not publicly accessible. Eligibility to be a member of a company's body is proved by an affidavit of the person to be registered. A person to be elected as a member of a body of a company is obliged to inform upfront the founder or the company (i) if such person is not eligible to perform the function, (ii) of the matters that could reasonably result in an impediment to perform the function, or (iii) if domestic or foreign insolvency proceedings were conducted in respect of such person's property or the property of an entity where such person has an office or had an office in the last three years. If a member of a body of a company learns of these events during their tenure, they must inform the company without undue delay.

The above conditions for an individual to be a member of a company's statutory or supervisory body must also be fulfilled by a representative of a legal person that is a member of such company's body.

Non-Czech citizens may be appointed as executives or members of a body of a limited liability company as well as a joint-stock company. A residency permit or visa is not required for their registration in the commercial register.

A head of a branch office, if non-Czech, also does not need to possess a residency permit or visa for their registration with the commercial register.

Conflict of interests: A notification obligation is imposed on members of a body of a business company who, in connection with performing their position, find themselves in existing or potential conflicts with a business company's interests. In such a case, a member of a body of a business company should, without undue delay, inform the body of which it is a member and the supervisory body (if established; otherwise, the general meeting of the company) about the conflict. A similar

procedure will be used in the case of a conflict of interests between the company and a person close to the member of a body of a business company or a person influenced or controlled by such a member, or when such a member is influenced by the acts of either an influential or controlling person. A supervisory body or the general meeting may then temporarily suspend the concerned member of a body of a business company from their office. The supervisory body must then inform the general meeting about any information on the conflict of interests it has been notified of.

Self-contracting: If a member of a body of a business company intends to conclude an agreement with the business company, it must inform the body of which it is a member and the supervisory body (if established; otherwise, the general meeting of the company) without undue delay. Simultaneously, it must state the conditions under which the agreement is to be concluded. The same applies for agreements between the company and a person close to the member of the body of the company, a person influenced or controlled by such a member or when such a member is influenced by the acts of either an influential or controlling person. The above-mentioned will also apply if the company secures or confirms the obligation of the persons mentioned above or becomes their co-debtor. However, these requirements do not apply to agreements concluded under arm's length conditions.

1.5 Trade licenses

Most business activities (whether carried out by a branch, a limited liability company or a joint-stock company) require the issuance of a trade license by the business license department of any municipal office in the Czech Republic ("**Office**"). The type of trade license required depends on the scope of business of the branch or legal entity. Certain activities, such as banking, insurance and broadcasting, require special licenses issued directly by the relevant state authority.

Please note that there are two categories of trades: "notifiable" trades, which might be carried out by virtue of a notification to the relevant Office, and "concession" trades, which might be carried out by virtue of a concession granted by the relevant Office. To engage in business activities that fall within the scope of "notifiable" trades, the applicant only needs to notify the relevant Office (in the prescribed form) that it intends to engage in such activities. Provided that the general conditions have been met, notification alone is sufficient to allow the company (applicant) to commence such activities. On the other hand, business activities that fall within the scope of "concession" trades may only be undertaken after the relevant Office grants permission (concession). In the case of a newly incorporated entity, authorization to carry out business activity originates, at the earliest, as of the day that the new entity is registered in the commercial register.

The following types of business activities are classified as "notifiable trades":

- (i) Unregulated trades (e.g., the purchase and sale of goods, consulting services)
- (ii) Crafts (e.g., woodwork, metalworking, printing, leatherworking)
- (iii) Regulated trades (including professional qualifications) (e.g., engineering)

Except for the unregulated trades (which are the simplest trade licenses to obtain), a qualified person is required to carry out a trade. In the case of a natural person, a qualified person may be the trade license holder provided that they have the necessary qualification. However, in the case of a legal person, it shall appoint its so-called "responsible representative" who is responsible for carrying out a trade and fulfilling trade license regulations. A trade license holder — a natural person may also appoint such a responsible representative voluntarily.

The responsible representative does not need to do the following:

- (i) Be in an employment relationship with the company (trade license holder) (Any kind of contractual relationship with the company is acceptable; however, a trade license responsible

representative cannot be a member of the supervisory board or another supervisory body of the company (trade license holder.)

- (ii) Be a resident of the Czech Republic (does not need a permanent residency address)
- (iii) Prove their knowledge of the Czech or Slovak languages (Trade license holders selling goods or providing services to consumers in an establishment/shop must have a Czech- or Slovak-speaking person present in their place of business.)

The responsible person must possess certain educational and practice requirements depending on the type of the trade.

1.6 Foreign investments

A new Foreign Investments Review Act ("**FIR Act**") entered into force as of 1 May 2021, introducing a foreign direct investment screening mechanism in the Czech Republic and drawing on the new EU framework for screening foreign direct investments.

According to the FIR Act, all acquisitions by non-EU investors of at least a 10% stake or other form of effective control in a Czech company doing business in certain sensitive sectors (see below) are subject to approval from the Ministry of Industry and Trade ("**Ministry**"). Investments conferring effective control are mandatorily notifiable where the target engages in one or more of the following activities:

- (i) Manufacturing, research, development, innovation or arranging for a life cycle of **arms and military equipment**
- (ii) Operations of **critical infrastructure** (including infrastructure related to energy, water management, food and agriculture, healthcare, transportation, communication and IT systems, financial markets, emergency services, or public administration)
- (iii) Administration of an information or a communication system of **critical information infrastructure** or of an essential service, or operation of an **essential service**
- (iv) Manufacturing or development of **dual-use items** (i.e., items that may be used for both civilian and military purposes) set out in **Annex IV** of Council Regulation (EC) No. 428/2009

The Ministry will issue the approval where it concludes that the investment will not compromise the security of the Czech Republic or its internal or public order. Additionally, the Ministry is authorized to review any non-notified foreign investment capable of compromising the security of the Czech Republic or its internal or public order within five years of its completion.

In the case of foreign investments in the **media sector**, a mandatory consultation procedure with the Ministry is prescribed. The foreign investor must file a request for consultation if the target (i) holds a nationwide radio or television broadcasting license or (ii) publishes periodical(s) with an aggregate average printed circulation of at least 100,000 copies per day.

Otherwise, no specific restrictions apply to investments in the Czech Republic by a nonresident. Certain further limitations may apply according to the Czech Crisis Management Act (Act No. 240/2000 Coll.). In the case of an emergency, the Czech government can particularly prohibit the following:

- (i) Acquiring foreign currency assets, securities and book-entry securities, the issuer of which is a resident or domiciled outside the territory of the Czech Republic, for Czech currency
- (ii) Making all payments from the Czech Republic abroad, including payments between payment service providers and their branches

- (iii) Depositing funds for accounts abroad
- (iv) Selling securities and book-entry securities, the issuer of which is a resident or registered office in the Czech Republic, persons with a permanent residence or registered office outside the territory of the Czech Republic
- (v) Receiving loans from persons with a permanent residence or registered office outside the territory of the Czech Republic
- (vi) Establishing accounts in the Czech Republic for persons with a permanent residence or residence outside the territory of the Czech Republic and depositing funds into their accounts
- (vii) Implementing all payments from abroad to the Czech Republic between payment service providers and their branches

The Czech Republic has adopted the Sanctions Act, which implements the process for including the entities on the Czech national sanctions list or the EU sanctions list and the rules for adopting national restrictive measures against certain entities for actions sanctionable under the relevant EU regulation. The Sanctions Act responds to situations where a restrictive measure cannot be achieved at the EU level or where the length of the approval process does not allow for a flexible response to the situation. The Sanctions Act, published as Act No. 1/2023 Coll. on Restrictive Measures Against Certain Serious Acts in International Affairs, entered into force on 3 January 2023.

For detailed information on Czech Republic corporate registration and compliance matters, please contact:



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2 Taxation

2.1 General overview

2.1.1 Applicable taxes

The following taxes apply in the Czech Republic:

- (i) Income tax, which is divided into (a) personal income tax and (b) corporate income tax
- (ii) Value-added tax (VAT)
- (iii) Excise duties (on hydrocarbon fuels, spirits, tobacco, beer and wine)
- (iv) Road tax (on motor vehicles (trucks) and their trailers used for business purposes with a weight of more than 12 tons)
- (v) Environmental taxes
- (vi) Real estate tax

No stamp/registration duties or capital increase/contribution duties currently apply in the Czech Republic. Environmental taxes (excise duties on some other fuels (coal, gas, electricity)) were introduced as of 1 January 2008.

No real estate transfer tax has applied on the sale of real estate since 2020.

2.1.2 Tax authorities and tax ruling

Taxation is administered by district "financial offices," which report to the General Financial Directorate. Tax authorities' decisions may be reviewed by administrative courts. A decision from regional administrative courts may be reviewed by the Supreme Administrative Court.

Czech tax authorities do not issue any individual legally binding tax rulings (with minor exceptions). Furthermore, legally binding guidelines are not issued regarding individual bodies of tax law. The General Financial Directorate issues general guidelines interpreting some provisions of tax law. These guidelines should be binding for tax administrators, though not for taxpayers, but are also practically followed by taxpayers.

2.1.3 Tax audits

Tax authorities may perform a tax audit and reassess tax for up to three years following the date on which the tax return was due. This time period is automatically extended for a new three-year period as a result of a tax audit. The time period is also automatically extended by an additional one year if, in the last 12 months, the taxpayer filed an additional tax return, the tax authorities' decision or appeal decision was delivered to the taxpayer, or certain other circumstances occurred. Nonetheless, tax cannot be reassessed once a period of 10 years has expired following the date when the tax return was due. The only exception is if a tax offense was committed according to a final decision of the court. A special time period applies for taxpayers in a tax-loss position.

2.1.4 Tax penalties

- Penalty of 0.05% of actual tax liability for each day (up to 5% of actual tax liability, maximally up to CZK 300,000) when a tax return is filed after the statutory deadline (or 0.01% of actual tax loss, maximally up to 5% of the tax loss)
- Penalty of 20% when a taxpayer's tax liability is increased or its tax deduction is reduced by the tax authorities during a tax audit

- Penalty of 1% if the tax authorities reduce the amount of a taxpayer's tax losses
- Interest for late payment of tax of the Czech National Bank's repo rate (currently 6.75% per annum), increased by eight percentage points
- Further, penalties for noncompliance with the administrative obligations can be imposed in the following amounts:
 - (i) Up to CZK 500,000 for noncompliance with the registrations or other notification obligations
 - (ii) CZK 1,000 if the taxpayer does not meet the requirement to submit certain filings electronically (This penalty can be increased to up to CZK 50,000 in serious cases.)

2.2 Corporate income tax

2.2.1 Scope of taxation

For Czech legal entities, as well as foreign entities whose place of management is in the Czech Republic ("**Czech Tax Residents**"), income subject to taxation is generally gross worldwide income (excluding tax-exempt income), less tax-deductible expenses, less nontaxable revenue and allowable deductions.

2.2.2 Partnerships

A special tax regime applies to general partnerships and limited partnerships, which are partly or entirely "transparent" companies for Czech tax purposes. Income of general partners is taxed at the partner's level, whereas income of limited partners is taxed at the company's level, with a potential withholding tax on distributed dividends in certain cases.

2.2.3 Permanent establishment

Branches of foreign entities are generally regarded as permanent establishments of foreign enterprises for Czech tax purposes. Tax authorities may deem a branch's profit to be that of a similar-sized entity if it is not possible to ascertain the actual profit attributable to the branch's activities in the Czech Republic. A special method of taxation could be granted to "non-trading" branches by tax authorities.

The concept of a permanent establishment is broadly defined in the Czech Income Taxes Act, as well as in the double tax treaties concluded by the Czech Republic. Nonetheless, besides the fixed place of business through which a foreign enterprise's business is carried out, a permanent establishment is also deemed to exist if services are provided on the territory of the Czech Republic for a period exceeding six months in any 12-month period (this period has been modified by some double tax treaties).

2.2.4 Tax rates

Income generated by legal entities is subject to a corporate tax rate of 21% for tax periods beginning in 2024 or later. A special tax rate of 5% applies for income of certain investment, mutual and pension funds. Legal entities' capital gains are treated as ordinary income and taxed at the standard rate of 21%, but participation exemption is also available in certain cases.

2.2.5 Windfall tax

From 2023 to 2025, profits of selected legal entities from the energy, oil and mining, and banking sectors will be subject to tax on extraordinary profits (windfall tax).

The windfall tax only applies to legal entities with income exceeding the threshold set separately for each sector (e.g., the threshold for trade of electricity is CZK 2 billion and for banking CZK 6 billion).

The selected taxpayers are obliged to pay the windfall tax at the rate of 60% on the extraordinary profits in addition to the standard corporate income tax rate of 21%. The extraordinary profits will be calculated by comparing the legal entity's tax base in the actual year with the average of its tax bases for the tax years of 2018 to 2021. In addition, as of 1 January 2023, the legal entities subject to the windfall tax are obliged to pay tax advances. The basis for the calculation of the first tax advance payments in 2023 are the financial results for 2022.

2.2.6 Source of income

Czech Tax Residents are subject to Czech income tax on their worldwide income. Czech tax nonresidents are only subject to Czech income tax on their Czech-sourced income, which is deemed to be as follows, regardless of who pays such income (with the exception of point I):

- (a) Income derived from activities carried out by a permanent establishment
- (b) Income derived from services (with the exception of construction assembly projects), including income from commercial, technical or other consultancy services, managerial or intermediary services, and similar kinds of services provided in the Czech Republic
- (c) Income generated from the sale of real estate situated in the Czech Republic and rights related to this
- (d) Income generated from the use of real estate (or its parts), including flats (or their parts) situated in the Czech Republic
- (e) Income derived from Czech Tax Residents and from Czech permanent establishments of Czech tax nonresidents, which is the following:
 - (i) Payments for the right to use, or for using, someone else's intangible industrial (intellectual) rights, software, production and technological knowhow, and other economically exploitable knowhow
 - (ii) Payments for the right to use, or for using, copyrights, or rights similar to copyrights
 - (iii) Shares in profits, settlement shares, liquidation shares in business entities, including cooperatives, other income derived from capital and a proportion of after-tax profits paid to a silent partner (Shares in profits shall also mean an income of unjustified differences between an agreed price and the usual arm's length price in transactions between related persons, as well as interest expenses to be considered as tax non-deductible as a result of the thin capitalization rules.)
 - (iv) Interest and other yields on credits and loans, deposits, and securities
 - (v) Income derived from the use of a movable asset, or its part, in the Czech Republic
 - (vi) Income derived from the sale of movable assets that are included in the business property of a permanent establishment, securities issued by taxpayers whose registered office is in the Czech Republic, property rights registered in the Czech Republic, and an ownership interest or share in a business entity that has its registered seat in the Czech Republic
 - (vii) Income of the shareholder of a business entity derived in relation to a decrease of registered capital
 - (viii) Income from settlement of a receivable acquired through assignment

- (ix) Contractual penalties
 - (x) Revenues for no consideration
- (f) Income from the sale of participation in Czech resident business corporations

The aforementioned regulations of Czech-sourced income subject to Czech income tax could be modified by a relevant double tax treaty.

2.2.7 Tax base

Tax base is based on economic results, calculated based on Czech statutory accounting standards and adjusted by tax non-deductible expenses and nontaxable incomes. A tax base may also be deducted by certain tax base allowances (e.g., charity donations). Tax liability calculated from a final tax base may be reduced by certain tax allowances (e.g., allowances for disabled employees).

2.2.8 Tax-deductible expenses

Generally, any expense can be deducted for tax purposes provided that it has been incurred to generate, maintain and secure taxable income and that the taxpayer is able to prove that occurrence. This general definition is accompanied by a non-exhaustive list of expenses, which are expressly stated as tax-deductible. Deductible expenses include the following:

- Tax depreciation of tangible assets and tax amortization of fixed intangible assets (For intangible fixed assets, various statutory provisions apply based on the year that the asset was acquired.)
- Tax net book value of tangible and intangible assets upon their disposal by way of sale or liquidation
- Mandatory health and social security payments made by employers (provided that they have been paid no later than one month after the end of the taxable period)
- Rental paid for lease of business premises (subject to certain restrictions when a leased asset is purchased by the tenant)
- Financial leasing installments (subject to certain regulated limits) and ordinary leasing installments
- Certain taxes paid (including real estate and income taxes)
- Bank and other professional fees (e.g., brokerage fees for securities trades, organization of employers), but excluding company associations fees (e.g., chambers of commerce participation fees)
- Business trip expenses (e.g., expenditure on accommodation, travel expenses and meal allowances up to certain statutory limits)
- Employee benefits (e.g., severance payment payable upon termination of employment caused from the employer's side) that arise from any internal company regulation, a collective bargaining agreement with any applicable union, or an employment or other agreement, unless tax law stipulates otherwise for some kind of benefits (Employee benefits are only provided under employment agreements when provided for work performed.)

2.2.9 Tax non-deductible expenses

Some tax non-deductible expenses are also expressly defined. This non-exhaustive list of tax non-deductible expenses includes the following, among other things:

- Loss from the sale of a receivable decreased by created statutory bad debt provisions
- Expenses on the holding of a share in a subsidiary, including interest expenses
- Taxes paid on behalf of another taxpayer

2.2.10 Tax depreciation

Tangible fixed assets with a price exceeding CZK 80,000 and with an operational life of more than one year are depreciated annually (with minor exceptions). The minimum tax depreciation period varies according to the depreciation group into which that particular tangible asset is classified. Currently, Czech tax law divides tangible fixed assets into six categories, with depreciation periods ranging from three to 50 years. Tangible fixed assets are generally depreciated up to the acquisition value.

Two tax depreciation methods are generally available: a straight-line method and an accelerated method. The choice of method must be made on an asset-by-asset basis and, once made, cannot be changed. Certain assets may not be depreciated (e.g., natural resources, plots of land). In addition, extraordinary depreciation may be used for certain tangible fixed assets acquired from 1 January 2024 until 31 December 2028 (under certain conditions).

Intangible fixed assets acquired after 1 January 2021 are not depreciated. The depreciation of intangible fixed assets was repealed as of 1 January 2021. As such, costs for intangible fixed assets may be considered tax-deductible costs.

Intangible fixed assets acquired before 1 January 2021 with a price exceeding CZK 60,000 are depreciated on a monthly basis (with minor exceptions). The depreciation periods range from 18 to 72 months.

Expenditures for technical improvements to fixed assets exceeding a certain threshold increase the asset's acquisition/residual value and must be depreciated together with the improved asset. A special regime applies to improvements of leased assets financed by the lessee and when the improvement could be depreciated by the lessee as a separate fixed asset.

2.2.11 Tax loss utilization

Tax base may be reduced by tax losses from previous years and may be carried forward for a period of up to five years. Furthermore, the possibility of utilizing a tax loss carried forward from previous tax periods is generally restricted, provided that the company was subject to a change in ownership or participated in a legal transformation and that the company's scope of business materially changed in comparison with the tax period when the tax loss was incurred. A legally binding ruling could be obtained from the Czech tax authorities on whether the tax loss could be utilized in a particular case.

In 2020, tax loss carryback rules were introduced in the Czech Republic. According to the new rules, a tax loss can be carried back for a period of two years immediately preceding the period in which the tax loss was incurred. The amount that can be carried back is limited to CZK 30 million.

2.2.12 Capital gains and losses

Capital gains from sale of fixed and financial assets are taxable at the general corporate income tax rate of 21% (5% for mutual, investment and pension funds). Capital gains realized by Czech tax nonresidents from the sale of shares/ownership interest in a Czech company to a Czech Tax Resident

(or to a Czech permanent establishment of a Czech tax nonresident) represent Czech-sourced income subject to Czech income tax. Nonetheless, this tax on capital is normally eliminated by the applicable double tax treaties (with certain exceptions).

Capital losses from the disposal of tangible and intangible assets are generally recognized as tax-deductible (with exceptions for loss from sale of land). Losses on securities, shares not valued at market value (shares in subsidiaries), promissory notes and other items (e.g., receivables, ownership interests in limited liability companies) are non-deductible and cannot be carried forward.

2.2.13 Participation exemption

Based on the tax legislation effective as of 1 January 2008, parent companies' dividends and capital gains realized on the sale of shares and participations in their subsidiaries qualify for corporate income tax exemption if certain conditions are met.

Generally, the conditions can be divided into two sections, i.e., those that are applicable to all subsidiaries and those that deviate depending on the subsidiary's location. Both categories are briefly summarized below.

The overall conditions for corporate income tax exemption are as follows:

- (a) Capital gain is realized by a parent company established or effectively managed in the Czech Republic or a tax resident of another EU country, Norway or Iceland.
- (b) The parent company has the legal form of a limited liability company, a joint-stock company or a cooperation under Czech commercial law or a legal form mentioned in the Annex to Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states.
- (c) The parent company is the beneficial owner of the capital gain.
- (d) The parent company keeps at least 10% of the subsidiary's registered capital for a period of at least 12 months.
- (e) The subsidiary is not in the process of liquidation.
- (f) Shares or participation that are subject to the sale were not acquired within a transfer of business or its part.

The specific conditions for corporate income tax exemption are as follows:

- A subsidiary — a Czech entity
 - (i) The subsidiary is established or effectively managed in the Czech Republic.
 - (ii) The subsidiary has the legal form of a Czech limited liability company, joint-stock company or cooperation under Czech commercial law.
- A subsidiary — a foreign entity located in the EU, Norway and Iceland
 - (i) The subsidiary is a tax resident of a member state of the EU, Norway or Iceland.
 - (ii) The subsidiary has the legal form mentioned in the Annex to Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states.

- (iii) The subsidiary is subject to tax mentioned in the Annex to Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states.
- (iv) The subsidiary is not exempt from corporate income tax, does not have an option for exemption and is not subject to the zero rate of corporate income tax (or similar tax).
- A subsidiary — a foreign entity located outside the EU, Norway and Iceland
 - (i) The subsidiary is a tax resident of a country that concluded a double tax treaty with the Czech Republic.
 - (ii) The subsidiary has a legal form similar to a Czech limited liability company, joint-stock company or cooperation.
 - (iii) The subsidiary is subject to tax similar to Czech corporate income tax at least at the tax rate of 12%. This criterion must be met, at the very least, in the taxable period of transfer and in one previous taxable period.

To benefit from the corporate income tax exemption, all the conditions mentioned above need to be met. If any one or more conditions are not fulfilled, capital gain from the transfer of a share is subject to corporate income tax of 21%. The original purchase price and certain other costs related to the transferred share may be used, with some exceptions, as tax-deductible items.

2.2.14 Transfer pricing

Transfer prices agreed between persons related either by capital or by another manner should be based on an arm's length principle; otherwise, the tax authorities are authorized to adjust the taxpayer's tax base by an ascertained difference.

The tax authorities have been instructed to follow the OECD Transfer Pricing Guidelines when determining the arm's length price between taxpayers when one of them is from a country that concluded a tax treaty with the Czech Republic.

Persons related by capital are generally those whose direct or indirect participation in the capital of, or voting rights in, one company by another company is greater than 25%. Persons related by another manner are those who have relationships between persons directly or indirectly participating in management or control, or have entered into a legal relation for the purpose of decreasing the tax base or increasing the tax loss.

2.2.15 Tax grouping and tax consolidation

Tax grouping has not been introduced; therefore, each taxpayer must file its own tax return and any intragroup transaction cannot be consolidated for Czech income tax purposes. Furthermore, the fiscal unity concept has not been introduced, and it is not possible to offset intragroup losses and profits (with certain exceptions for partnerships).

2.2.16 Tax period

An accounting and tax period is either a calendar year or an economic year. An economic year is the 12-month period beginning on the first of day of a month other than January. Any change of an accounting and tax period from a calendar year to an economic year, and vice versa, must be notified to the competent tax office at least three months prior to the planned change.

A newly established company can decide within 30 days following its establishment to apply the economic year. This decision has to be notified to the tax authorities within 30 days after the company's establishment.

2.2.17 Income tax returns and payments

A tax return must be filed, at the latest, three months following the end of the annual tax period. By that same time, the due tax declared in the tax return must be settled.

The deadline is extended by one month if the tax return has not been filed within the first three months and is subsequently filed electronically. Legal persons registered in the Czech commercial register are only obliged to submit the tax return electronically.

The date for submission is also extended by three months if the taxpayer appoints a tax adviser or attorney to submit the tax return under a power of attorney. This extension is automatic for taxpayers who are required by law to have their financial statements audited.

2.2.18 Withholding taxes

A withholding tax of 15% applies on dividends modified by applicable double tax treaties and, in certain cases, by Czech tax law. The rate of 15% applies on interest paid abroad by a Czech debtor — modified by applicable tax treaties. A rate of 15% also applies on royalties paid abroad by a Czech licensee — modified by an applicable tax treaty.

As of 1 January 2013, a withholding tax rate of 35% was introduced. This tax rate applies to income of the following recipients:

- (a) Recipients who are not residents of another EU member state or of a member state of the European Economic Area
- (b) Recipients who are not residents of a state with which the Czech Republic has concluded a valid and effective treaty for avoiding double taxation or a treaty for exchanging tax-related information

Where Czech-sourced income is paid abroad but not subject to withholding tax, a Czech payer could be required to withhold tax securing from 1% to 10% (not applicable in certain cases, e.g., when the receiver of income is a tax resident in the EU or in another state of the European Economic Area).

2.2.19 EU Parent Subsidiary Directive

This was implemented into Czech tax law for dividend distributions approved after 1 May 2004. Distributed dividends are exempt from tax under the following conditions:

- (a) The dividend is received by a parent company established or effectively managed in the Czech Republic or a tax resident of another EU country, Norway, Iceland or Switzerland.
- (b) The parent company has the legal form of a limited liability company, a joint-stock company or a cooperation under Czech commercial law or legal form mentioned in the Annex to Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states.
- (c) The parent company is the beneficial owner of the dividends.
- (d) The parent company keeps at least 10% of the subsidiary's registered capital for a period of at least 12 months, either prospectively or retrospectively.
- (e) A Czech subsidiary has a legal form of either a limited liability company, a stock exchange company or a cooperative.
- (f) The Czech subsidiary is not in the process of liquidation.

2.2.20 EU Merger Directive

Mergers (as well as de-mergers, capital contributions and share exchanges) are generally treated as a tax-neutral operations with no tax on unrealized incomes arising from the mergers. Tax-effective step-up is not available during a merger.

Tax-effective reserves, provisions and losses (assessed for the tax period that started in 2004 at the earliest) of the liquidated company may be utilized by the surviving company under certain conditions. Nonetheless, a tax loss cannot be carried forward if the merger is tax driven, i.e., the surviving company's scope of business must be retained to a certain extent by the surviving company to utilize the tax loss.

2.2.21 EU Interest and Royalty Directive

Interest payments from a Czech company to its related company, established in another EU member state, are exempt from Czech withholding tax. The same tax exemption for royalties applies from 1 January 2011. A receiver must obtain a special decision of the Czech tax authorities on applying the tax exemption.

2.2.22 EU Private Savings Directive

Tax exemption for interest on private savings for individuals seated in other EU member states has been implemented. These provisions became effective once the directive came into force (1 June 2005).

2.3 Personal income tax

2.3.1 Taxable income and tax rates

Individuals with a permanent address in the Czech Republic or physically present in the Czech Republic for more than 183 days during a particular calendar year are deemed to be Czech Tax Residents and are taxed on their worldwide income in the Czech Republic (with possible tax relief under the double tax treaties by tax credit or exemption). An individual's tax status/domicile may be affected by an applicable tax treaty's tiebreaker provisions.

Other individuals who do not have Czech tax residency are only taxable on their Czech-sourced income. This especially includes income from dependent activity performed on the territory of the Czech Republic. Provisions of relevant double tax treaties may provide relief from Czech tax, both for Czech Tax Residents and nonresidents.

Two tax rates apply for individuals.

- (i) 15% tax rate applicable on an individual's total income not exceeding the amount of the average salary multiplied by 36 (i.e., in total CZK 1,582,812 for 2024)
- (ii) 23% tax rate applicable on an individual's total income exceeding the amount of the average salary multiplied by 36 (i.e., in total CZK 1,582,812 for 2024)

2.3.2 Income from dependent activities

This includes salaries, wages, bonuses and other compensations, irrespective of their nature and title, for activities where a person must follow their employer's instructions. This income also includes fees paid to directors, members of companies' statutory bodies, and executives and partners of limited liability companies for work performed, even if they are not obligated to follow orders given by another person.

The tax base for calculating personal income tax from dependent activities includes the employee's gross income increased by the benefits provided by the employer (monetary or nonmonetary), unless they are exempt from taxation.

Tax allowances (e.g., interest on housing saving loans and mortgage loans) may be claimed in the actual amount after the end of the relevant taxable period. Documented tax credits (e.g., annual personal tax credit, tax credit for a disabled spouse, tax credit for dependent children, etc.) can be claimed on a monthly basis, in the amount of one-twelfth of the annual relief.

Under provisions dealing with payroll administration from 1 January 2008, employers are obligated to withhold tax advances in the amount of 15% from the monthly tax base adjusted by the tax relief specified above.

Fees paid to non-Czech members of a Czech legal entity's statutory bodies are subject to a 15% final withholding tax at the source.

2.3.3 Income from business activities

An individual's tax base from business activities and professional services includes the following:

- Income from business trades and other independent business activities
- Income of general partners of general partnerships and limited partnerships
- Income from copyrights and industrial property royalties
- Income from lease of property included in the business property

The taxpayer may choose the method of tax base calculation. The following methods may be used for this purpose:

- Economic results based on accounting
- Difference between income and expenses based on tax evidence
- Difference between income and a lump-sum deduction of 30% to 80% of income (with some limitations)

If economic results are used for tax base calculation, the income may be deducted by tax-deductible expenses, which is the same for legal entities.

Subject to further conditions, selected individuals that only have income from business activities not exceeding CZK 2 million per year may use an optional regime of lump-sum tax. Under this regime, the individuals pay fixed monthly installments that include tax, social security and health insurance contributions. Registration for the lump-sum tax is voluntary.

2.3.4 Capital income

An individual's income from capital includes the following:

- Interest income
- Dividends income
- Income from silent partnerships
- Income from bank deposits

- Gain from a single deposit

Dividends and interest income from private bank savings are subject to a final withholding tax of 15%. Other income is subject to regular income tax rates representing part of the individual's tax base.

2.3.5 Rental income

Rental income includes, among other things, income from leasing real estate or flats and income from leasing movable assets, except for occasional leasing.

Rental income is included in the general tax base subject to the regular income tax rate. When calculating the tax base, expenses incurred to generate, secure or maintain taxable income are generally tax-deductible. An individual has an option to deduct lump-sum expenses if they do not demonstrate the actual amount of the deductible expenses incurred. The rate of 30% of gross revenues applies for such lump-sum expenses where the maximum amount that can be claimed as a taxable expense is CZK 600,000.

2.3.6 Other income

This category includes any other income that increases the taxpayer's property and that is not specified in other income categories. For example, if not exempt from tax according to other provisions of the legislation, this category includes income from the sale of certain shares, income from the sale of participation interests in a limited liability company, income from the sale of real estate and income for no consideration (e.g., gifts).

2.3.7 Tax allowances

The sum of partial tax bases may be reduced by the following tax allowances:

- Interest on housing saving loans and mortgage loans used for individual's housing needs up to CZK 300,000 annually (As of 1 January 2021, the amount of CZK 300,000 was decreased to CZK 150,000 and applies to taxpayers who procured their housing needs after 1 January 2021.)
- Life insurance contributions; pension fund contributions; long-term investment product and long-term care insurance up to CZK 48,000 per tax period (under certain conditions)
- Contributions to trade unions up to 1.5% of the individual's employment tax base (but not more than CZK 3,000)
- Charity contributions of up to 15% of the individual's tax base (under certain conditions)

2.3.8 Tax credits

Tax liability may be further reduced by the following tax credits:

- Annual personal tax credit of CZK 30,840
- Annual tax credit per child of CZK 15,204, per second child of CZK 22,320 and per third and more children of CZK 27,840

2.3.9 Tax return

An individual who receives taxable income must file their annual tax return, except for (i) income from employment subject to Czech payroll tax, (ii) income subject to final withholding tax, and (iii) nontaxable income and tax-exempt income.

A tax return must be filed, at the latest, three months following the end of the calendar year (i.e., by 1 April). The deadline is extended by one month (i.e., by 1 May) if the tax return has not been filed within the first three months and is subsequently filed electronically.

The date for submission is also extended by three months (i.e., by 1 July) if the taxpayer appoints a tax adviser or an attorney to submit the tax return under a power of attorney. Due tax must be settled within the same deadlines.

2.3.10 Mandatory social and health insurance contributions

Income from dependent activities, as well as from performing independent business activities, is subject to mandatory social and health insurance contributions, provided that the individual participates (obligatory or voluntarily) in the Czech social system.

Individuals working in the Czech Republic must generally participate in the Czech social security system (comprising of pension insurance, sickness insurance, unemployment insurance and health insurance) and pay related contributions. It is irrelevant whether the employment contract is governed by Czech or foreign law. Nonetheless, EU social security legislation has been applicable in the Czech Republic since 1 May 2004 and modifies the application of the Czech social security system to certain migrating individuals.

The following social security and health insurance rates apply for 2024:

	Employer	Employee	Total
Social security	24.8%	7.1%	31.9%
Health insurance	9%	4.5%	13.5%
Total	33.8%	11.6%	45.4%

The annual basis for calculating social security insurance contributions is capped at the amount of 48 times the average monthly salary per employee. Calculating the average monthly salary is subject to special rules. For 2024, the annual cap for social insurance amounts to CZK 2,110,416.

The cap for health insurance was abolished in 2013.

The employee's contribution must be withheld by the employer from the employee's remuneration and, together with the employer's contribution, must be transferred to the social security and health insurance authorities.

2.4 Value-added tax (VAT)

2.4.1 General

Czech VAT law is harmonized with EU VAT law. Czech VAT is levied upon the following transactions performed within the Czech Republic:

- Supplying goods, including transferring certain real estate, and providing services, including transferring rights
- Acquiring goods (intra-community acquisition) from other EU countries and acquiring services (reverse-charge) from other EU countries and from third countries
- Importing goods from third countries

A distinction must be made between the following:

- VAT nontaxable supplies, such as the sale or capital contribution of a business unit/enterprise or assignment of an owned receivable, where no output VAT is payable, but input VAT may be deductible
- VAT taxable supplies, where output VAT is payable, but input VAT may be deducted on received supplies
- VAT tax-exempt supplies with a right for an input VAT deduction, such as the export of goods to non-EU countries or the intra-community supply of goods to VAT payers seated in other EU member states, or international transportation services related to the import/export of goods, where no output VAT is payable, but input VAT is deductible
- VAT tax-exempt supplies without a right for an input VAT deduction, such as broadcasting, financial, social and educational services, transfer of ownership in certain buildings or parts of buildings or lease of real estate, where no output VAT is payable, but input VAT is not deductible

2.4.2 VAT payers

Persons or entities that have a seat, place of business or establishment in the Czech Republic, who carry on economic activities and whose turnover exceeds CZK 2 million for a maximum of the past 12 successive months are liable to register for VAT purposes. Should a person not achieve the registration threshold, voluntary registration is possible if the person is able to demonstrate that they carry out economic activities. A foreign entity is obligated to register for Czech VAT purposes once it starts to perform taxable supplies, having the place in the Czech Republic (if this entity is obliged to assess and pay VAT) or it starts to supply goods to another EU member state from the Czech Republic. There is no registration threshold stipulated for these entities.

Special VAT registration thresholds apply in certain cases.

- Acquisition of goods from another EU country with worth exceeding CZK 326,000 in the relevant calendar year
- Sale of goods by a taxable person from another EU member state to Czech noncommercial persons through distance selling with a worth exceeding EUR 10,000 within the EU in both the relevant calendar year and the year immediately preceding it

2.4.3 Identified persons

Together with VAT payers, the Czech VAT Act also recognizes identified persons who are liable to register for VAT; however, they do not have the same rights and obligations as VAT payers.

For example, the following are considered identified persons:

- (i) Taxable persons who are not Czech VAT payers that acquire goods subject to the VAT from another EU member state
- (ii) Persons or entities that have a seat, place of business or establishment in the Czech Republic, who are not VAT payers and who acquire services from a person not established in the Czech Republic
- (iii) Persons or entities that have a seat, place of business or establishment in the Czech Republic, who are not VAT payers and who provide services that have a place of taxable supply in other EU member states

The identified persons are only obliged to declare the VAT relating to the cross-border supplies. From the Czech market perspective (i.e., for the local supplies), the identified persons are considered taxable persons not registered for VAT.

Unlike the VAT payers, the identified persons do not have the right to VAT deduction.

2.4.4 VAT rates

A standard rate of 21% is levied on most goods and services. As of 1 January 2024, there is only one reduced VAT rate of 12% in the Czech Republic. The reduced rate of 12% is levied on certain goods such as food, drinking water, certain medical goods (e.g., thermometers, contact lenses) and certain services such as social care services (if they are not VAT-exempt), accommodation services, restaurant services and certain residential construction services.

From 1 January 2024, books (including e-books) are VAT-exempt supplies with a right for an input VAT deduction.

2.4.5 VAT period, returns and payment

Primarily, the taxable period is a calendar month.

The taxpayer can decide to apply for a quarterly taxable period provided that they meet the following conditions:

- (i) Their turnover for the previous calendar year did not exceed CZK 10 million.
- (ii) They are not a member of a VAT group.
- (iii) They are not considered an unreliable taxpayer.
- (iv) They apply for the change of taxable period within January of the respective calendar year.

The taxpayer cannot apply for the quarterly taxable period during the year of VAT registration and only in exceptional cases in the continuous year after VAT registration.

VAT returns must be submitted electronically within 25 days following the end of the applicable VAT period. Payment of VAT is due at the same time that the VAT return is due.

The identified persons only submit the VAT returns for the months during which they realized a cross-border supply.

2.4.6 Invoice matching report

As of 1 January 2016, the obligation to submit an invoice matching report was introduced for VAT payers in the Czech Republic.

In the invoice matching report, the VAT payers disclose certain realized transactions (e.g., local supplies of goods/services, local purchases, acquisition of goods from other EU member states). It should contain information such as the customer's VAT identification number, the invoice number, the date of taxable supply, the taxable amount and the VAT amount.

Legal entities should submit the invoice matching report electronically on a monthly basis, within 25 days following the end of respective calendar month.

Private persons should submit the invoice matching report electronically within 25 days following the end of their taxable period, i.e., on a monthly or quarterly basis.

2.4.7 Unreliable taxpayer

If the taxpayer significantly breaches its tax obligations, the tax authorities can decide that this taxpayer is considered unreliable.

Information on whether a taxpayer is considered reliable or unreliable is publicly accessible on the internet.

2.4.8 Input VAT deduction

The VAT payer is entitled to exercise, through their VAT return, the right to deduct input VAT with respect to taxable supplies received (including imported goods) and used for their own economic activities, if they have a valid VAT invoice.

If the amount of input VAT recoverable in the relevant VAT period exceeds the output VAT payable in that period, VAT in excess is refundable to the VAT payer within 30 days following the deadline for submitting a VAT return for the relevant VAT period.

Input VAT is not recoverable for supplies received regarding the provision of VAT-exempt supplies without the right for an input VAT deduction. If a VAT payer performs taxable and exempt supplies, it is entitled to claim partial recovery of the input VAT related to the inputs used for both types of supplies. This is calculated by multiplying the aggregate input VAT for the relevant tax period with the pro rata coefficient. The following taxable supplies are VAT-exempt without a right for input VAT deduction:

- Postal services
- Sound and TV broadcasting
- Financial services
- Insurance services
- Transfer and lease of certain real estate
- Education and training services
- Medical services and goods
- Social services
- Lotteries and similar games and their operations
- Supply of goods used for VAT-exempt supplies where input VAT was not deductible upon their acquisition

2.4.9 Input VAT refunding

Non-Czech business entities may require refunding of input VAT paid as part of the purchase price for supplies subject to Czech VAT and used for their taxable activities. Rules for VAT refunds are, in principle, based on the EU refund directives.

Refunds are made upon the foreign entity's request. In the case of EU entities, the request is filed with the relevant authority in the member state of its establishment. Non-EU entities file the refund applications on a prescribed form with the Financial Office for Prague 1.

2.4.10 INTRASTAT Reporting

The INTRASTAT reporting system has applied in the Czech Republic since 1 May 2004. Under this system, a Czech VAT payer performing intra-community transactions regarding supply/acquisition of goods must report these transactions to the Czech customs authorities using special forms, provided that the value of the intra-community transactions exceeds the stipulated threshold. The same threshold applies for intra-community acquisitions and intra-community supplies of goods, i.e., CZK 15 million.

Data required should be reported electronically, for the period of a calendar month. Entities with minimum intra-community transactions are exempt from the INTRASTAT reporting duty.

2.5 Other taxes

2.5.1 Real estate transfer tax

Real estate transfer tax was abolished with effect from 26 September 2020. The abolition has retroactive effect and applies to acquisitions of real estate whose transfer was registered in the Real Estate Cadastre on or after 1 December 2019.

2.5.2 Real estate tax

Real estate tax is imposed on buildings and plots of land registered in the Real Estate Cadastre, depending on their size and location. The owner generally pays real estate tax. The tax period is a calendar year, and tax is assessed based on the situation as of 1 January. Any transfer of real estate is irrelevant. The tax return must be filed by 1 February of the actual calendar year. The due date for settling the tax depends on the amount of tax assessed and the type of real estate.

2.5.3 Road tax

Road tax is payable for motor vehicles (trucks) and their trailers with a weight of more than 12 tons, provided they are registered in the Czech Republic. The tax period is a calendar year. The tax return must be filed by 1 February of the following year. The tax base calculation is specific for each kind of vehicle.

2.5.4 Customs duties

As a member of the EU, the Czech Republic follows EU customs' legislation, including the unified EU Customs Nomenclature and Tariff. Goods imported into the Czech Republic from third countries outside of the EU are subject to import customs duties and import VAT (unless those goods are specifically exempted from customs duty and import VAT). Customs duty may also be fully or partially reduced based on either a bilateral (based on agreements on customs preferences concluded by the EU) or unilateral basis (based on the EU customs preferences addressed to developing countries).

Imported and exported goods can also be subject to other nontariff measurements restricting import/export, such as import/export licenses and quotas and veterinary inspections.

2.6 Accounting, auditing and publication requirements

2.6.1 Accounting standards

All Czech business entities, as well as any Czech branches of foreign entities, individuals registered in the commercial register and individuals with an annual turnover exceeding CZK 25 million, are required to keep accounting records in accordance with Czech statutory accounting provisions. Furthermore, when an individual enters into an association with an individual or a legal entity that keeps accounting, such new associated person(s) must also keep accounting records.

Special accounting regulations apply for banks, insurance companies and other financial institutions, as well as for municipalities and other non-entrepreneurs. Small entrepreneurs/individuals are only required to keep records for tax purposes.

Accounts, as well as financial statements, should be kept in Czech local currency and in the Czech language. From 1 January 2024, it is also possible to keep accounting records in EUR, USD or GBP, if this currency is also the "functional currency" of the accounting entity. Assets and liabilities denominated in foreign currencies must also be recorded in those foreign currencies.

Czech companies issuing securities admitted for trading on regulated markets in the EU are also required to keep their books according to International Financial Reporting Standards (IFRS). Czech accounting standards currently differ from the IFRS in a number of aspects, including the following:

- Spare parts are treated as stock. They are not depreciated and the reduction in value is reflected in provisions on reduced value.
- Capitalization of interest relating to investments in assets is not obligatory (interest incurred until the asset is put into use may be treated as an operation expense).
- All leases are treated as operating leases and are recognized on the balance sheet.
- The effect of a change in accounting policy must be reflected in the accounting period when the change occurred and not as a prior-year adjustment.

2.6.2 Financial statements, annual report and report of control

Czech financial statements comprise the balance sheet, profit and loss account, explanatory notes, cash-flow statement, and statement on changes in equity. Explanatory notes must include the following information, relevant for the particular accounting period:

- Information regarding assets, liabilities, financial position and economic results
- Accounting policies, valuation methods and depreciation rates
- Explanation of changes in accounting policies and estimation methods, reasons for changes and effect of the financial position

Individuals and legal entities subject to a statutory audit of financial statements also need to prepare their annual report. The annual report must include the following:

- Financial statements
- Consolidated financial statements (if applicable)
- Auditor's report
- Commentary on the post-balance-sheet-date events, on the projected future performance, on R&D activities, on acquisition of own shares, on employment and environmental matters, and on foreign branches
- Sustainability report (if applicable)

If a control agreement is not concluded between controlling and controlled entities, the controlled company must prepare a report on relationships between the controlling and controlled entities and on relationships between the controlled entity and other entities controlled by the same controlling entity. This report must be attached to the company's annual report.

Entities that meet the statutory criteria must prepare an income tax report for the tax periods beginning on or after 22 June 2024.

2.6.3 Consolidated accounts

Consolidated financial statements must be prepared by the controlling company or a company exercising substantial influence on the control or operation of another controlled company. Consolidated companies must adopt uniform and consistent accounting policies for the purpose of consolidation.

Consolidated financial statements must be prepared under the IFRS if the controlling company issued securities admitted for trading on a regulated market in the EU. Other entities may opt to use the IFRS as a basis for preparing the consolidated financial statements.

Since the consolidated tax base has not been introduced, consolidated financial statements are only used for accounting purposes and not for tax purposes or for calculating distributable profit.

2.6.4 Publication and archiving of records

An annual report must be published through a submission to the collection of records within 30 days of its authentication by the auditor and approval by the statutory body, but no later than the end of the following accounting period. If the annual report has not been audited by the end of the following accounting period, it must be noted in the filed annual report.

Accounting documents must be archived for the following minimum periods:

Type of record	Period
Payroll data for pensions and sick payments	45 years
Financial statements and annual reports	10 years
Payroll registers	10 years
Tax documents for VAT purposes	10 years
Other	Five years

Nonetheless, since accounting documents are also normally relevant for tax purposes, the period for which documents are retained must also reflect whether a tax audit could be performed.

2.6.5 Audit requirements

With some simplification, a statutory audit of the financial statements and annual report is required for companies and individuals keeping accounting where at least two of the following conditions are met for both the current and previous accounting period (for joint-stock companies, one of the following conditions must be met):

- Turnover exceeding CZK 80 million
- Total gross value of assets exceeding CZK 40 million
- Average number of employees exceeding 50 persons

For detailed information on Czech Republic taxation matters, please contact:



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3 Labor/employment issues

In particular, the following considerations should be kept in mind when employing personnel in the Czech Republic:

3.1 Legal framework

The Czech Labor Code, Act No. 262/2006 Coll. ("**Code**"), effective as of 1 January 2007, is the principal legislative act governing employment relations in the Czech Republic. The Code reflects the achieved level of social and economic relationships in the Czech Republic and corresponds to international trends of employment law developments, including various concepts existing under directives related to EU labor law. Other relevant legislative acts include, in particular, the Act on Employment (Act No. 435/2004 Coll. as amended), the Act on Collective Bargaining (Act No. 2/1991 Coll. as amended) and a number of decrees relating to the Code. The Czech Civil Code, Act No. 89/2012 Coll. ("**Civil Code**"), effective as of 1 January 2014, is also generally applicable to labor law relationships.

Most of the provisions in the labor legislation are mandatory and safeguard employers' observance of the most important principles, such as the principle of equal treatment and the prohibition of discrimination. On the other hand, the Code respects the principle of the parties' contractual freedom and thus employment relations may be varied by the provisions of the relevant employment agreement, provided that the above principles, as well as the employees' basic rights and working conditions as set forth in the Code, are observed. For example, termination provisions that differ from those specified in the Code, and that are less favorable to the employee, would generally not be enforceable.

3.2 Basic relationships

The Code defines the subject of labor relationships as "fulfillment of dependent (subordinated) work." Under the Code, such labor relationships generally arise between employees and employers in the private sector as follows:

- Within an employment relationship, based on an employment agreement (in Czech, "pracovní smlouva")
- Outside an employment relationship, based on (i) an agreement for performance of a specific work assignment (in Czech, "dohoda o provedení práce") or (ii) an agreement on work activity (in Czech, "dohoda o pracovní činnosti")

A labor relationship may only be created with the consent of an individual and an employer.

3.3 Key employment conditions in an employment relationship

Written form: An employment agreement must be in writing.

Probationary period: The employment agreement may include a probationary period of up to three consecutive months following the date that the employment relationship commenced or, in the case of management employees, up to six consecutive months following the date that the employment relationship commenced. The probationary period may not be more than one-half of the length of the employment relationship if the employment relationship has been agreed for a definite period of time.

Working hours: Normal weekly working hours may not exceed 40 hours per week. However, there are exceptions to normal weekly working hours. These are as follows:

- (a) Employees who work underground on the extraction of coal, ores or nonmetallic raw materials, or on the construction of mine-works, or who are engaged in geological prospecting on mining sites, may not exceed 37.5 hours per week.
- (b) Employees who are on a three-shift or continuous work schedule may not exceed 37.5 hours per week.
- (c) Employees who are on a two-shift work schedule may not exceed 38.75 hours per week.
- (d) Employees who are under the age of 18 years may not exceed eight hours per shift and, in total from all employment relationships, may not exceed 40 hours per week.

Vacation: The basic vacation period is at least four weeks per calendar year. During the vacation period, the employee is entitled to receive compensation in the amount of their average earnings.

Remuneration: Since 1 January 2024, the minimum salary in the Czech Republic has been CZK 18,900 per month or CZK 112.50 per hour, and this amount may be amended by the government. The amount of the minimum salary can be proportionally decreased for part-time employees. In addition to the minimum salary, the Czech Labor Code recognizes the "guaranteed salary." There are eight levels of guaranteed salary, depending on the complexity, responsibility and difficulty of the work performed. The lowest level of the guaranteed salary corresponds to the minimum salary.

3.4 Employment of Czech or EU nationals

Czech law and, in particular, the Code, shall generally apply to employment relationships between Czech legal entities or foreign legal entities that have a Czech branch and their employees in the Czech Republic. An employment relationship between a Czech branch office of a foreign legal entity and its Czech employees in the Czech Republic may be governed by a law other than Czech law, if so agreed between the employer and the employee. There are, however, some provisions of labor and public laws that are always applied by Czech courts or other authorities, regardless of the choice of law clause, to protect public order and good morale, e.g., the prohibition of discrimination, safety and protection of health at work, safety regulations, etc. Provisions of the Code are generally less flexible and more protective of the employee than is commonly the case outside EU countries (e.g., the US).

For example, under the Code, an employer is very limited in its ability to terminate its employees' employment relationships without cause. An employee's employment relationship may be terminated for cause with immediate effect if the employee intentionally commits a certain crime or breaches their obligations related to their employment relationship in an especially gross manner (e.g., is heavily intoxicated on the job, steals company property, etc.). An employee's employment relationship may be terminated for cause, generally with a two-month notice period, if, for example, they meet one of the following conditions:

- The employee, after an official written warning, fails within a certain period of time to satisfactorily carry out their work obligations or assignments, or fulfill other employment obligations.
- The employee materially breaches their obligations related to their employment relationship, or the employee repeatedly breaches their obligations related to their employment relationship in a less significant manner, provided that the employee received a written warning.
- The employee loses qualifications that are necessary for carrying out their work.
- The employee's health condition does not permit them to carry out their work.

- The employee breaches the legal terms of their sick leave in an especially gross manner.

An employment relationship may also be terminated by the employer as follows:

- (a) For redundancy reasons
- (b) Due to relocation or cancellation of the employer or its part
- (c) During the probationary period, without stating a reason

The employee's trade union, if any has been established, would have to be consulted about an employee's termination by termination notice or immediate cancellation of employment (but not in the case of agreement, with some exceptions). In specific situations, consent for the termination by notice or immediate cancellation of employment may be required.

A severance payment applies if the employment relationship is terminated due to redundancy, relocation or cancellation of the employer or its part. This severance payment is equal to at least the following:

- One of the employee's average monthly earnings if the employment relationship with the employer lasted less than one year
- Two of the employee's average monthly earnings if the employment relationship with the employer lasted at least one year, but less than two years
- Three of the employee's average monthly earnings if the employment relationship with the employer lasted two or more years

This is unless a higher severance payment has been agreed on in the collective agreement, or if so set forth by the employer's internal regulations or otherwise agreed on between the parties.

A substantially higher severance payment applies if the employment relationship is terminated due to work-related injury or sickness, or threat of work-related sickness, and this is equal to at least 12 of the employee's average monthly earnings.

3.4.1 Employee representatives

Employees have the right to information and consultation. The employer is required to consult with an employee (or the employee representatives, if established) on certain specified topics and to provide the employee with certain types of information. Special consultation and information duties are stipulated by the Code.

There are three types of employee representatives.

- (a) Trade union
- (b) Works council
- (c) Representative of employees for safety and the protection of health at work

3.4.2 Collective agreements

The process of collective bargaining is governed by the Act on Collective Bargaining. Collective agreements regulate the relationship between the employer and trade unions and rights of employees; in particular, wages and other labor entitlements. Rights that individual employees acquire through collective agreements are treated the same as other employee rights arising from the employee's employment relationship. The trade union shall also conclude a collective agreement on behalf of employees who are not trade union members.

3.5 Expatriate personnel working in the Czech Republic

3.5.1 Work permits and visas/residence permits

(a) Foreign employee — a citizen of any EU member state

A work permit is not required; however, a notification duty applies for the employer or the recipient person. Any employer who employs a foreign employee (a citizen of any EU member state) within the territory of the Czech Republic, or any person (recipient) who accepts assignment of a foreign employee (a citizen of any EU member state) within the territory of the Czech Republic, is obligated to notify the respective regional branch of the Labor Authority in writing of the following:

- Employment/assignment of the foreign employee: The notification duty must be fulfilled on the day that the foreign employee commences work, at the latest.
- Termination of the employment/assignment of the foreign employee: The notification duty must be fulfilled within 10 calendar days from the termination of the employment/assignment, at the latest.

Such foreigners also have to register their stay with the police (with some exceptions). A visa/residence permit is not required for performing employment activities within the territory of the Czech Republic.

(b) Foreign employee — a citizen of any country other than an EU member state

In general, the employee is required to obtain a single residence permit for the purpose of employment (so-called "**Employee Card**") before commencing employment within the territory of the Czech Republic (certain exemptions are available, e.g., in the case of relatives of citizens of EU member countries). For positions requiring high qualifications, a Blue Card, which serves as both a residence and work permit, may be issued to foreign employees.

A special type of permit — an Intra-Company Employee Transfer Card (so-called "**ICT Card**") — applies in the case of an intragroup secondment of managers, specialists and interns.

A work/residency permit is not required if the employee is a student who follows a regular study program duly accredited in the Czech Republic to prepare for their future employment, or if the employee is not to be performing work within the territory of the Czech Republic for more than any seven consecutive calendar days or, in total, 30 days in a calendar year, provided that the employee is, at the same time, one of the following:

- Performer (performing artist), pedagogical worker or academic worker of a university
- Scientific, research or development worker, who is a participant of a scientific meeting
- Pupil or student up to 26 years old
- Sportsperson
- Person providing goods delivery or services within the territory of the Czech Republic or delivering such goods or providing installation, guarantee or repair services under a business agreement

In addition, certain exceptions or special treatment may apply based on international treaties concluded between the Czech Republic and a respective country.

Non-EU citizens have to register their stay with the police (with some exceptions). It is necessary to point out that the procedure to obtain the relevant immigration permit is very administratively

demanding and time-consuming. In addition, quotas were introduced in 2019 for applications for Employee Cards filed with certain Czech embassies.

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4 Real estate

4.1 Changes resulting from the new legal regulation

Czech real property law has been affected by a significant change — namely as a result of Act No. 89/2012 Coll., the Civil Code, ("**Civil Code**") which entered into legal effect on 1 January 2014. Consequently, a number of previously applicable acts were repealed, including, but not limited to, the former Civil Code, the Act on Lease and Sublease of Nonresidential Premises, the Act on the Cadastral Register and the Act on Registration of Ownership and Other Rights In Rem. Legal regulations are currently contained, among other things, in the Civil Code and the new Act No. 256/2013 Coll. on the Cadastral Register.

Czech real property development is regulated primarily by Act No. 186/2006 Coll., the Planning and Building Act ("**Building Act**"). Act No. 283/2021 Coll., the Building Act ("**New Building Act**"), is also legally valid and is expected to effectively replace the Building Act over the course of 2024. The New Building Act aspires to speed up and simplify permitting and promote digitalization. However, the New Building Act was significantly amended in 2023, which had a major impact on the final text.

We present the most significant features of the present legal regulation below.

4.2 Definition of real property under Czech law

Czech law defines real property as including both tangible and intangible things (i.e., rights) as follows:

- Land plots
- Underground structures (if designated for a specific purpose)
- Rights in rem to the above
- Other rights stipulated by law

The Civil Code also specifically designates apartments (as things in a legal sense) as being part of real property. All other assets, unless explicitly provided for otherwise by a special legal regulation, are not considered real property under Czech law.

Under Czech law, the principle of "superficies solo cedit," which treats each plot of land and anything built on it as a single object of real property, has not applied since 1964. As a result, a construction located on a plot of land did not form part of such a plot of land. Therefore, it was possible that an owner of a plot of land was not the same legal or physical person as the owner of a construction built on that same plot of land.

However, the aforementioned principle "superficies solo cedit" has been reintroduced into Czech law by the Civil Code. It explicitly sets forth that the following items shall be understood as part of a land plot:

- The space below and above the surface of the land plot
- Constructions built on it and other equipment (excluding temporary constructions)
- Plants growing on it

Connections to utilities and related pipes (e.g., sewerage or water) are not part of a land plot.

The principle also has important implications for real property development. It is essential to diligently verify the title to the land plot on which a construction is set to take place. Construction on a land plot whose owner is different from the constructor may lead to the transfer of ownership, by operation of law, to the owner of the land plot or to their right to sue for the removal of the construction.

To apply the above principle in practice, the Civil Code provides temporarily applicable provisions.

Where the owner of a land plot and the owner of a construction built on the land plot were the same as of 1 January 2014, the construction ceased to exist as a separate thing (i.e., became part of the land plot) and the owner of the land plot now owns solely the land plot, comprising also the construction as a part of such land plot.

In all other instances, both the land plot and the construction continue to be separate things (i.e., the construction has not become a part of the land plot). Both the landowner and the construction owner have a mutual statutory preemption right with regard to the transfer of ownership, that is, until the ownership is unified in the hands of the same person and the two things merge.

4.3 Cadastral register

Real property in the Czech Republic is subject to registration in the cadastral register. This register comprises, among other things, the following items:

- Land plots
- Construction rights
- Constructions, unless they are already forming part of the land plot, or of the construction right (see below)
- Apartments

The cadastral register is a public record of certain rights to real property and other information including, among other things, the following:

- Ownership right or co-ownership
- Mortgages
- Easements
- Preemption rights
- Construction right (see below)
- Leases
- Information on special protection status of the item (e.g., soil protection status, or natural and cultural heritage protection)

Since 2014, leases may be recorded in the cadastral register, provided the owner of the real property in question asks for such registration or gives their consent to it.

The cadastral register is publicly accessible online via an integrated information system. Consultations of the register are free of charge and provide basic data about the entered items, which may be

consulted for information purposes with no legal bearing. For remote access to the register, limited fees are payable.

The remote access allows registered users to obtain entries in the register (most often in the form of ownership deeds) and the collection of documents, which includes decisions of public authorities, agreements and other deeds, based on which the record in the cadastral register was made. Anyone is entitled to access it to make extracts, copies and notes.

The records in the cadastral register are presumed to be correct, but, should they not be correct, the person claiming their incorrectness may require the respective record to be remedied. Although, at the same time, such a person generally has to claim their right in court.

4.4 Owners of real property

Under Czech law, every individual and legal entity enjoys the same right of ownership of real property. The same applies to foreign citizens and foreign legal entities, both from within the EU and outside the EU. All formerly applicable restrictions on acquisition of real property by such persons have been removed.

4.5 Transfers of real property

To transfer ownership title to real property, the following formal requirements and procedures must be met and followed:

- An agreement on the transfer of real property must be made in writing. Signatures of the transferor and the transferee must be affixed in the same document and must be officially verified for the purpose of the registration.
- The transfer agreement must contain a description of the real property to be transferred. For real property that is subject to registration, this will be the information recorded in the cadastral register. For other real property not subject to registration, as detailed a description as possible is required.
- The transfer of real property that is subject to registration becomes completed by registering the new owner in the cadastral register. However, the transfer is effective retroactively, thus the new owner gains ownership as of the date that the application is filed for registration with the respective cadastral office. A transfer of real property that is not subject to registration becomes effective on the effective date of the relevant transfer agreement.
- Since 1 January 2012, a new formal procedure has applied with respect to applications for registration with the cadastral register and standardized forms (available on the State Administration of Land Surveying and Cadastre's website) are used. The applicants may use an interactive online platform to complete the forms.

The newly introduced concepts of real property law include the possibility of acquiring ownership of real property from a putative owner under the following circumstances.

In the case of real property registered in the cadastral register, if an entry in the cadastral register is not in accordance with the factual situation, such an entry shall be construed in favor of the person acquiring ownership from a transferor entitled to transfer ownership to the real property in question, based on an entry in the cadastral register. With regard to the previously existing entries in the cadastral register, the above rule of material publicity of the cadastral register, i.e., the good faith in the entries made in it, applies as of 1 January 2015. This rule, however, only applies in the case of acquiring real property against monetary consideration and only if the acquirer is in good faith concerning the transferor's entitlement to transfer the real property. The acquirer's good faith is

relevant at the time of filing the application to enter the acquirer as the new owner into the cadastral register.

In the case of real property not registered in the cadastral register, the acquirer may only acquire the ownership right to it from the putative owner if the acquirer is in good faith concerning the transferor's entitlement to transfer the real property based on a perfect legal title and provided that the real property is acquired (i) in a public auction; (ii) from an entrepreneur within their entrepreneurial activity within common business relations; (iii) for consideration from a person to whom the real property had been entrusted; or (iv) from an unauthorized heir to whom the inheritance had been confirmed.

4.6 Rights to real property owned by a third party (*iura in re aliena*)

Czech law recognizes the following third-party real property rights:

- Construction right
- Easements
- Mortgages
- Preemptive rights

Construction right entitles its owner to have a construction on a plot of land that belongs to another person and may only be established for a limited period of time, not exceeding 99 years. This right may relate to a construction that is yet to be built or to an already existing one. Such a construction becomes a part of the construction right itself and the owner of the right has, with regard to the construction, the same rights as an owner. It may be established by means of an agreement, *usucapio* (the acquisition of ownership by long-term undisputed possession), or by a decision of a competent authority based on a legal provision, and it has to be entered into the cadastral register. The construction right is transferable, may be encumbered and passes onto the legal successor of its owner.

Easements include easements (in the strict sense), which impose restrictions on owners of real property in favor of another person (i.e., owners are obligated to refrain from and/or bear any activity), and servitudes, which are connected to the duty of owners of real property to act (i.e., owners are obligated to perform something for the benefit of the beneficiary, or to provide something to the beneficiary). The beneficiary of an easement is either every owner of a particular real property asset (an easement *in rem*), or a specific individual/legal entity (an easement *in personam*). Obligations arising under an easement *in rem* pass to the new owners of an encumbered real property asset.

Czech law recognizes several ways to establish an easement, including by written agreement of the parties, or as a result of *usucapio*. An easement right encumbering registered real property as a result of an agreement only comes into existence, however, through its registration in the cadastral register.

Easements may be terminated in the following ways:

- By agreement of the parties

The parties may agree to terminate an easement. A record in the cadastral register is required for the easement to cease to exist. Parties may also agree to limit the easement *in personam* in such a way that it ceases to exist upon the beneficiary having reached a certain age.

- By operation of law

An easement is terminated by operation of law if the burdened real property can no longer serve the beneficiary or the real property of the beneficiary.

- By a decision of a state authority

A court may terminate (or limit) an easement if, due to a change in circumstances, there is a material discrepancy between the restrictions imposed on the owner of the burdened real property and the benefit afforded to the benefiting real property or individual beneficiary.

- By death or dissolution of the beneficiary

If the beneficiary is defined as a specific individual or entity (easement in personam), the easement is terminated upon the individual's death (however, upon its establishment, the easement may also be extended to the heirs) or the entity's dissolution. These easements generally do not pass to the beneficiary's legal successors. If the easement serves for the benefit of a certain enterprise, it does not cease to exist upon the transfer of the enterprise or its part that will be run as an independent enterprise.

Apart from easements, as such, the law contains a large number of restrictions imposed on an owner of land. These restrictions include, by way of example, an owner's duty to allow the owner of neighboring land and buildings to enter its property to carry out maintenance and repairs and also to the extent necessary to farm on the land. Similar duties to allow entry are set forth, for instance, in mining regulations, laws for protecting landscape and environment, and telecommunications and energy regulations. Save for some exceptions, such restrictions are not, however, subject to registration in the cadastral register.

Mortgages are used to secure a debt obligation. If a debtor fails to perform such obligation, the secured creditor (mortgagee) is entitled to satisfy its claim by foreclosing on the mortgaged asset. A mortgage secures the relevant claim and its appurtenances. If specifically agreed by the parties, it also secures the claim for a contractual penalty related to these.

Both monetary and nonmonetary claims may be secured by a mortgage. The mortgage encompasses the asset and any appurtenances to it. A mortgage may, among other things, be created for a specific period, to secure a claim up to a particular amount and for a particular type of claim that will arise in the specified future. A mortgage may further secure future or conditional claims.

Mortgages may be created by a mortgage agreement, by means of testament or an agreement of heirs, by a court or administrative order, or by operation of law. Mortgages established based on an agreement come into existence upon their registration in the cadastral register (provided that the real property is subject to registration).

To create a mortgage by agreement, the creditor and mortgagor must enter into a written agreement. A mortgage relating to real property registered in the cadastral register only originates upon its entry into the cadastral register. With regard to real property not subject to registration in the cadastral register, the mortgage agreement must be drawn up in the form of a public deed with the mortgage subsequently originating upon its entry into the lien register, which is performed by a notary. The object of the mortgage agreement and the claim being secured must be sufficiently identified, including the identity of the debtor (if it is a different entity from the mortgagor).

The Civil Code does not specify any other information that must be included in the mortgage agreement with respect to the identity and nature of a claim. However, the claim must be identified clearly and sufficiently. Therefore, a fixed amount and a fixed period (although clearly helpful and desirable) are not necessary if there exists another method that can sufficiently identify a particular claim (e.g., by reference to a contract).

If a single asset is subject to several mortgages, the mortgage that was first made must, on foreclosure, be first satisfied, unless the law specifies otherwise. The time that a mortgage was created is decisive for determining priority, even if the mortgage was created to secure a future or conditional debt. In the case of a mortgage over real property registered in the cadastral register, the decisive date is the date of filing the respective application for entering the mortgage into the cadastral register. In addition, it is possible for multiple creditors to agree in writing on a different priority of individual mortgages encumbering one real property, but such agreement only becomes effective toward third parties upon its registration in the cadastral register or the lien register. If such agreement limits the rights of a secured creditor who is not a party to it, such agreement does not have any effect with regard to such creditor. Under certain circumstances, upon a mortgagor's request, an already existing mortgage may be replaced in its ranking by a new one, provided that the existing one will be deleted within one year from the registration of the new one.

It is also possible to create a mortgage encumbering real property that is not yet owned by the mortgagor. In this case, it is created upon the mortgagor obtaining the ownership right to it. If such real property is registered in the cadastral register or the lien register, the mortgage may only be entered into such register with the current owner's consent.

The Civil Code enables the prohibition of creating a mortgage encumbering a specific property; however, such an arrangement only becomes effective toward a third party upon its registration in the cadastral register or the lien register, or provided that such an arrangement had been known to the relevant third party.

A mortgagee may only make use of mortgaged real property with the mortgagor's express consent. A mortgagee who has an encumbered real property asset in their custody must take due care of the asset and, if they incur expenses as a consequence of it, they are entitled to compensation from the mortgagor for such expenses. The mortgagee may not take any action that would impair the value of the encumbered asset to the detriment of the mortgagor. In the event of damage, loss or destruction, the mortgagee is liable for damages to the mortgagor.

If the market value of the encumbered asset decreases to such an extent that security for the debt becomes insufficient, the mortgagee may require the debtor promptly to provide additional adequate collateral. If the mortgagor fails to deliver such additional security, that portion of the debt that is not secured immediately matures.

If a secured claim is not duly and timely satisfied, the mortgagee may foreclose against the encumbered real property asset. If several different assets are encumbered to secure one claim, the mortgagee is entitled to seek satisfaction of its claim, or a part of it, by foreclosure against any of the encumbered real property assets or all of them.

Two basic methods of foreclosure against a mortgaged real property asset exist: (i) a public auction, or (ii) a forced sale organized in accordance with other legal regulations. The parties may also agree on an alternative way of satisfying the secured creditor in writing.

4.7 Leases

Provisions regulating leasing property in the Czech Republic are largely concentrated in the Civil Code, as opposed to the framework effective until 2014, which included several separate statutes. However, special provisions for certain property classes can be found in multiple other statutes (e.g., for leases concluded with municipalities).

By concluding a lease agreement, the landlord (note that, in the Czech Republic, the landlord may be a different person from the owner of the property) allows the tenant to temporarily use property in exchange for paying rent. Real property leases must clearly and comprehensively determine the subject of the lease (the leased premises). A written form is only prescribed for residential leases.

Even written agreements for nonresidential leases can be modified verbally, unless expressly ruled out.

Leases can be concluded for a determined term or an indeterminate period. Should the parties conclude an agreement for a determined period longer than 50 years, it shall be considered as concluded for an indeterminate period. However, during the first 50 years, it may only be terminated for the reasons and subject to the notification periods set forth by the Civil Code or determined by the parties in the agreement.

Determining the amount of rent is not mandatory for a lease to be valid. If the parties do not determine the above, it is determined by the criteria provided in the Civil Code. Indexation of rent is admissible on the condition that the method is settled in the agreement. The parties must at least agree on an index that shall be used and the date on which the increase of rent takes effect.

If a lease is concluded for a determined term, it can be terminated prior to the expiration of the term by serving a termination notice to the other party. The Civil Code gives statutory termination grounds and notice periods. It also prescribes that the parties may agree on other grounds or on the possibility to terminate without stating any grounds. For the termination clauses to be valid, notice periods must be determined for all contractual termination grounds. Upon termination, the tenant is required to hand the premises back to the landlord. The premises shall be handed over in the condition in which they were received, subject to normal wear and tear.

Subleasing is possible and common; however, caution is essential when entering a sublease agreement. Since the legal title for use is derived from the lease agreement with the landlord, subtenants should always verify that the tenant has a good and valid title covering the entire sublease term. By provision of law, the landlord's prior consent is required, and it is market practice that such consent is required.

If the owner of the real property changes, lease agreements entered into between the original property owner and the tenants are generally transferred to the new owner by operation of law.

Leasing modalities are determined by the purpose of the lease. They are (i) residential leases to secure housing needs; and (ii) commercial leases for entrepreneurial purposes. It follows that expressing the purpose of any particular lease should be explicitly stated in all lease agreements. The residential lease framework focuses on granting tenants protection and promoting housing security. Thus, specific provisions of mandatory law apply that cannot be excluded by the parties. Contractual provisions that limit the tenant's statutory rights are voided by operation of law. On the other hand, the statutory framework for commercial leases is limited in scope and favors contractual freedom.

The Civil Code does not make further distinctions between commercial lease types. However, market standardly works with the following types:

- Office leases, including lease of standard offices and co-working spaces
- Retail leases, including lease of high-street shops and units in commercial centers
- Industrial leases, including leases of production and warehousing facilities

While there is no widely recognized industry standard contract, the main key actors in the Czech market use their specific template agreements, which rule out the application of most provisions of statutory law to the extent allowed. Significant negotiations and alterations of the terms and conditions of leases are standard, especially for larger deals and build-to-suit projects.

4.8 Real property development

From 1 January to 30 June 2024, the legal framework relating to real estate development is going through a transitional period, during which the old rules are largely applicable. The full activation of the New Building Code on 1 July 2024 will represent a significant change in the legal framework relating to the permitting procedure. The permitting procedure is generally split into two stages: (i) permitting of a **development project** (*záměr* in Czech), and (ii) approval of its use upon completion. The notion of **development project** is new and central to the logic of the new act and encompasses a wide variety of intended construction activities, from maintenance works to redrawing land plots and constructing new buildings. The first phase integrates the previously separate zoning and building phases into a single permitting procedure. It is also in this phase that the integrated environmental permit (*jednotný environmentální stanovisko*, in Czech) will be obtained, which newly integrates up to 26 permitting instruments relating to the environment into a single decision. Any use of the development, when completed, must then be additionally approved by a building-use permit. Any and all permits under the preceding sentence are issued by the competent building office (mostly in cooperation with other public authorities — see below).

The approval process for a development project permit can be extremely complex and protracted, as a number of private persons and non-governmental organizations (NGOs) may be involved as participants to the proceedings and many public authorities may be involved as concerned bodies (*dotčené orgány* in Czech). These include the Fire Department, the Department of Public Health, the Heritage Protection Office, the Chief Architect's Office, the Transport Department, the Environmental Office and others. First, a development project must comply with an approved urban study or zoning plan. If an urban study/zoning plan is not consistent with the intended development project, a change to the urban study/zoning plan is possible. Second, the development project must comply with applicable building requirements prescribed in the New Building Act and related regulations. Binding locally specific regulations relating to zoning and building requirements may also be issued by the three major Czech cities — Prague, Brno and Ostrava. Historically, Prague used this mandate to issue a set of regulations known as Prague Building Regulations (*Pražské stavební předpisy* in Czech).

After the construction works are completed, a building-use permit (or a building-use approval) must be obtained, which is regularly issued by the same building authority as the building permit. For the entire duration of the development, its owner shall keep a set of certified project documents consistent with the actual implementation of the construction and issued permits. In cases where the project documentation has not been procured, the owner of the development shall procure "as-built" record drawings. Upon transfer of ownership of the development, the documentation shall be handed over to the new owner.

As with any major change in the regulatory framework, we expect that the transformation will bring about a higher level of unpredictability and delays, particularly during the second half of 2024. As the first-degree building authorities remain decentralized, the ministries will play a key role in issuing quality regulations and guidance and subsequently coordinating their implementation. The respective building authorities will have to adapt by establishing new decision-making procedures and practice. It thus remains unclear whether the New Building Code will deliver on its ambition to remedy the major issues of protracted and overly complex proceedings and lack of unity and predictability in decision-making.

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5 Environmental protection

5.1 General regulations

Czech regulations governing the protection of the environment are analogous to those prevailing in other EU countries. The Czech legislation consists of directly applicable EU rules contained in regulations, and acts implementing the EU directives and containing specific regulations. Some of the rules are further elaborated in sub-legal regulations such as government regulations and/or decrees.

As a result, any person exploiting natural resources; developing projects; building or removing structures, including residential projects, logistic centers, offices and retail parks; or introducing production and manufacturing processes, products or materials into the Czech Republic is required to carry out such activities in compliance with applicable environmental protection legislation. This means, in the first instance, obtaining the respective permits related, for example, to establishing and operating air pollution sources, water treatment facilities, and waste and chemical substances treatment, as well as complying with the conditions set out in the permits.

The basic principles and duties relating to protecting the environment, such as permanently sustainable development, the prevention principle and the principle of acceptable levels of environmental pollution, are included in Act No. 17/1992 Coll. on the Environment.

The Environmental Impact Assessment (EIA) and the Strategic Environmental Assessment (SEA) directives that require environmental impact assessment of certain constructions, activities and technologies as well as concepts have been implemented into Czech law by Act No. 100/2001 Coll. on **Environmental Impact Assessment**. Czech legislation also requires that projects of a certain type and size, or projects that may have a significant impact on the environment, only be carried out after an environmental impact study has been completed and the requisite licenses under the **Integrated Pollution Prevention and Control** rules (Act No. 76/2002 Coll.) have been obtained (if applicable).

5.2 Pollution control and protection of air, climate, water and soil

In relation to **pollution control**, subject to certain special conditions regulated in applicable laws, the principle of "**the polluter pays**" is generally applied to cases of water, groundwater and soil contamination, as well as to other impairments of different elements of the environment (air, forests, fauna and flora). This reflects the fact that, under Czech law, environmental liability generally has the same features and is generally based on the same principles as liability for damages regulated in the Civil Code. Given this, the implementation of EU Environmental Liability Directive 2004/35/EC, which was implemented into Czech legislation by Act No. 167/2008 Coll. on the Prevention and Remedying of Environmental Damage, did not bring major changes to the regulation of environmental liability in the Czech Republic. In fact, the said directive is based on the same "polluter pays" principle, which has been further enhanced after implementation into Czech legislation. Nowadays, strict liability is imposed on certain industrial operators for environmental damage caused by their operations, and they have to provide a financial guarantee for costs that may be incurred in the case of environmental damage in a worst-case scenario.

The rules relating to air protection are included in Act No. 201/2012 Coll. on **Air Protection**, which implemented the Industrial Emissions Directive (2010/75/EU) and sets the emission limits and fees for specified emissions. The Act on Air Protection limits the polluting substances and also includes certain rules concerning the required decrease in greenhouse gas emissions from motor gasoline and diesel fuel in correspondence with respective EU legal instruments. Moreover, the Act on Air Protection outlines the fees paid by the polluter (in particular, the operator of a stationary source listed within the act). If the sum of the fees in a year amounts to less than CZK 50,000, the emissions are exempt from the payment of the fee. In addition to that, the municipalities are granted the authority to establish "low-emission areas" under certain circumstances. These areas fall under a stricter pollution

regime, for example, entry can only be permitted to vehicles complying with specified pollution limits.

The EU Emissions Trading Scheme (ETS) foreseen by Directive 2003/87/EC, which establishes a system for greenhouse gas emission allowance trading within the union intended to protect the climate, is implemented by Act No. 383/2012 Coll. on **Conditions of Greenhouse Gas Emissions Allowances Trading**. As a default rule, the allowances are auctioned. Earnings from the auction of these allowances represent income of the state budget and, unless provided otherwise by law, they shall be used for the financing of activities leading to a decrease in greenhouse gas emissions, support of industrial innovations and measures aimed at increasing the energy efficiency of buildings, etc. Act No. 73/2012 Coll. on **Substances that Deplete the Ozone Layer and Fluorinated Greenhouse Gases** provides for specific obligations relating to such substances, including specific requirements on the labeling of products containing these substances.

Act No. 254/2001 Coll. on **Waters** covers water protection, water use and water rights and also implements the Water Framework Directive (2000/60/EC). Soil is protected by the rules included in Act No. 334/1992 Coll. on **Protection of Agricultural Land Fund**. The act provides for a definition of the agricultural land fund as well as exceptions from the protection thereof.

5.3 Waste management

The **treatment, transport and disposal of waste** has recently been subject to a major recodification. Since 2021, the Czech law on waste is contained primarily in Act No. 541/2020 Coll. on **Waste**, which also governs the treatment of dangerous waste, oils, PCB, asbestos, etc. The act on waste incorporates several EU regulations, including EU Directive 2008/98/EC on Waste. Several new obligations have been introduced and other obligations have been amended, such as the obligation to keep continuous records of waste, or to have a contract for the transfer of municipal, construction or demolition waste prior to its production. Limits to storing waste without additional permission (e.g., during one-time collection relating to an establishment up to 20 tons) were also enacted.

Regulation of waste electrical and electronic equipment, batteries, accumulators, tires and vehicles is contained in Act No. 542/2020 Coll. on **End-of-Life Products**, which transposes EU Directive No. 2012/19/EU on Waste Electrical and Electronic Equipment (WEEE). The WEEE rules relating to the obligations of manufacturers and importers with respect to labeling, collection and recycling of electrical and electronic waste, including providing for financial guarantee and registration with the Ministry of the Environment, first came into effect in the Czech Republic in 2005. An amendment to the previous Czech Act on Waste that became effective in October 2014 established the duty of certain foreign entities introducing electrical and electronic equipment into the Czech market to nominate a designated representative with regard to WEEE. This representative may only be a corporation or an entrepreneur-natural person seated in the Czech Republic. These obligations remain in the Czech waste legislation as they have been included in the new Act on End-of-Life Products.

On 17 August 2023, EU Regulation 2023/1542 on **batteries and waste batteries**, which replaces Battery Directive 2006/66/EC, entered into force and will be directly applicable in all member states progressively from 18 February 2024. The adaptation of this regulation to the Czech legal system is expected to start during 2024.

Rules relating to reducing waste from packaging are further contained in Act No. 477/2001 Coll. on **Packaging**.

Act No. 243/2022 Coll. on **Limiting the Impact of Selected Plastic Products on the Environment** was adopted on 10 August 2022. This act implements the rules contained in Directive (EU) 2019/904 on reducing the impact of certain plastic products on the environment, and regulates, among others, prevention of waste from selected plastic products as well as management of waste of such products and the rights and obligations of producers when placing selected plastic products on the market.

5.4 Chemical substances

EU Regulation (EC) 1907/2006, on Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), affecting around 1,000 chemical substances and requiring their registration, evaluation and authorization with the European Chemical Agency, applies directly in the Czech Republic. It is, in terms of sanctions, complemented by Act No. 350/2011 Coll., the **Chemical Act**.

In 2015, a substantial part of the Chemical Act related to classification, packaging and labeling of chemicals was repealed and, generally, only the rules under EU Regulation (EC) 1272/2008 on Classification, Labeling and Packaging of Substances and Mixtures (CLP) apply.

Act on Biocides No. 324/2016 Coll. in line with respective EU legislation was adopted in 2016.

5.5 Selection of other laws

There are various other acts that regulate the activities affecting the environment and aim to ensure proper environmental protection.

Nuclear Act No. 263/2016 Coll. is legally effective as of 1 January 2017. The former Act No. 18/1997 Coll. remains formally in force, but its major part has been repealed.

Act No. 85/2012 Coll. on **Carbon Capture and Storage (CCS)** provides for opportunities within the Central European area for CCS projects. The storage sites being considered the most are aquifers and depleted oil fields and flammable natural gas fields.

Act No. 165/2012 Coll. on **Supported Energy Resources** promotes electricity and heat production from renewable and secondary energy sources and also supports the usage of biogas in cogeneration of electricity and heat. According to the Act on Supported Energy Resources, certain bonuses may be granted to decentralized electricity producers (such as solar panels on roofs or small wind turbines). Producers that started in 2022 are only granted bonuses if they use certain energy sources specified in the act. From 1 January 2024, producers of biogas energy may be eligible for support for electricity from renewable sources if they fulfill certain conditions.

Act No. 114/1992 Coll. on **Nature and Landscape Protection** includes rules to protect the landscape, species diversity, natural values and aesthetic values of nature and conserve natural resources. The Czech Republic is also a party to international conventions aimed at protecting biodiversity, such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

Act No. 289/1995 Coll. on **Forests** lays down the preconditions for the conservation, care and renewal of forests, for the fulfillment of all its functions and for the support of sustainable forest management. Forests are divided into categories based on their prevailing function, which implies a different legal status for each.

A special category of environmental harm is also recognized under Czech law in relation to privatization projects and acquisition of state property by private investors, according to Act No. 92/1991 Coll., the **Privatization Act**. In some privatization projects, the government may decide that an indemnity agreement must be concluded by the Ministry of Finance (before 1 January 2006, known as the National Property Fund) with the private acquirer of privatized assets. As a result, the acquirer is indemnified by the Ministry of Finance for costs (up to the limit contained in the relevant indemnity agreement) sensibly expended in connection with the settlement of environmental liabilities occurring prior to privatization. The scope of remediation works is stipulated by the Czech Environmental Inspectorate on the basis of a special audit carried out with respect to the affected site.

Eco-design requirements for energy-related products are set by Directive 2009/125/ES establishing a framework for the setting of **eco-design requirements** for energy-related products on the EU level

and implemented into Czech law mainly by Act No. 406/2000 Coll. on Energy Management. Legislation incorporating the so-called right to repair in relation to various types of products has already been adopted (such as in relation to washing machines, fridges and displays) and further legislation is currently being discussed or finalized (such as the regulation laying down eco-design requirements for mobile phones, cordless phones and slate tablets, which includes the obligation of manufacturers, importers and other persons to make available to professional repairers and end users spare parts contained in the proposed regulation). A proposal for a new regulation establishing a framework for the setting of eco-design requirements for sustainable products and repealing Directive 2009/125/EC is currently under discussion to replace the aforementioned directive. In particular, the draft regulation extends the scope of the framework for the eco-design of products placed on the market or put into service, for example by establishing harmonized eco-design requirements for products across the EU internal market.

As part of the transposition of the Corporate Sustainability Reporting Directive (CSRD), a new obligation has also been introduced from 1 January 2024, which is transposed into Czech law by Act No. 563/1991 Coll., on Accounting. It stipulates the obligation to include the so-called sustainability report as a separate part of the company's annual report, in connection with information on the company's sustainability impacts related to environmental issues (e.g., energy sources and consumption, greenhouse gas emissions, waste management, etc.). The obligation to report in accordance with the CSRD first applies to the accounting period from 1 January 2024 for companies that previously had this obligation under the Non-Financial Reporting Directive (NFRD). However, the scope of applicability will be gradually expanded in several phases over the next two years.

5.6 Other expected developments

As a part of the European Green Deal, the EU evaluates various legislation and will propose amendments to the current framework. For example, the European Commission, among others, evaluates possible changes to the CLP regulation as well as the Ambient Air Quality Directive. A draft of the directive amending the Industrial Emissions Directive aiming, in particular, to address pollution from large industrial installations is currently in the legislative procedure. Other proposed measures aim at reducing carbon emissions. A proposal for a regulation establishing a union certification framework for carbon removals was introduced by the European Commission on 30 November 2022 and is currently going through the legislative process (first reading in the European Parliament was conducted at the end of November 2023).

Furthermore, new legislation concerning the circular economy (relating to the above-mentioned right to repair and to packaging) is expected.

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6 Competition rules

The purpose of Czech competition legislation is to protect economic competition from restriction and other distortion. Competition laws apply to any activity or conduct that has, or may have, an effect on the Czech market, including transactions that take place outside of the Czech Republic, if such activity materially affects the domestic Czech market.

The Act on the Protection of Economic Competition ("**Competition Act**") further applies to investigations and proceedings of the Czech authorities under Article 101 and Article 102 of the Treaty on the Functioning of the EU and to some aspects of cooperation with the European Commission and other EU authorities. Competition laws apply both to individuals and legal entities (or associations of these) provided that they, whether or not entrepreneurs, take part in competition by engaging in economic activity or may influence competition by their activities.

In general, anti-monopoly legislation prohibits each of the following activities:

- (i) **Agreements that restrict economic competition:** Such agreements include horizontal agreements (agreements between competitors on the same level of the supply chain) as well as vertical agreements (agreements between undertakings on upstream/downstream markets). Anti-competitive horizontal agreements typically include agreements on price fixing, production limitation agreements, agreements to restrict market access of other competitors, divisions of the market as regards territory and/or customer groups and tying agreements.

Agreements that result or may result in the distortion of competition are prohibited unless exempted by the Competition Act (such as (i) agreements falling within the scope of the EU block exemption regulations, such as certain vertical agreements, R&D agreements, agreements on the transfer of technologies, insurance contracts, consultation of passenger tariffs and slot allocation at airports, and contracts on the distribution and service of motor vehicles, and (iii) agreements fulfilling the conditions of an individual exemption where the pro-competitive effects outweigh the negative effects on competition).

Certain agreements are considered not to appreciably restrict competition, such as agreements where the combined share on the relevant market does not exceed 10% for horizontal and 15% for vertical agreements. Such de minimis agreements, unless they include hard-core restrictions, therefore do not infringe competition.

- (ii) **Abuse of dominant position:** An undertaking is considered to have a dominant position in a relevant market if its market power enables it to behave, to a significant extent, independently of other undertakings or consumers. In this regard, an undertaking whose market share on any given relevant market is below 40% is deemed not to have a dominant position on that market. However, a market share above 50% implies a general presumption of dominance. If the Office for Protection of Economic Competition (OEC) discovers that an abuse of dominant position has occurred, it declares such fact by a decision, prohibits such action in the future and fines the dominant undertaking.

Common examples of abuse of dominant market position include enforcing unfair conditions, conditioning the conclusion of contracts on acceptance of supplementary performance, enforcing dissimilar conditions to equivalent transactions, limiting production to the detriment of consumers, offering and selling goods for unfairly low prices, and refusing to grant access to distribution networks or other infrastructures where competitors are unable to compete without such access.

- (iii) **Concentration of undertakings not approved by the OEC:** The OEC's approval is required for any merger or acquisition where either of the following conditions are met:

- (a) The aggregate domestic turnover of the concerned undertakings in the Czech Republic in the last accounting period exceeded CZK 1.5 billion **and** at least two of the concerned undertakings reached an individual domestic turnover in the Czech Republic exceeding CZK 250 million
- (b) The domestic turnover reached by (i) at least one of the merging undertakings, (ii) the acquired undertaking or its part, (iii) the acquired business or (iv) at least one entity forming the joint venture in the last accounting period in Czech Republic exceeded CZK 1.5 billion **and** the worldwide turnover reached by another concerned undertaking exceeded CZK 1.5 billion

In this regard, the OEC has the authority to approve a concentration if the applicants are able to prove that the transaction does not create a significant impediment to effective competition, especially through creating or strengthening the dominant position of a concerned undertaking. The transaction may not be implemented before the OEC's approval is obtained. In share acquisition transactions, for example, unless specifically approved by the OEC, the acquirer may not exercise control over the acquired entity.

6.1 Sanctions

The OEC may impose fines on competitors of up to 10% of the worldwide turnover in the preceding calendar year where the Competition Act has been breached. If no mandatory notification was made, the OEC will also impose remedial measures, such as divesting the acquired shares or business to the original owner.

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7 Product safety and consumer protection

7.1 General regulations

General product safety rules are regulated in the Czech Republic by Act No. 102/2001 Coll., on General Product Safety ("**GPS Act**"), which came into effect on 1 July 2001. The GPS Act effectively incorporated into Czech legislation the substance of regulations contained in the EU General Product Safety Directive 2001/95/EC ("**General Product Safety Directive**").

The GPS Act applies to all products intended for consumer use or if it is reasonably foreseeable that those products will be used by consumers. The GPS Act imposes a general duty on producers to only market safe products. A product is considered "safe" under the GPS Act if its qualities meet the requirements set forth in applicable EU or national technical norms. In addition to the manufacturer's obligations, the GPS Act stipulates that distributors may not market a product if they are aware, or may expect on the basis of their information and professional knowledge, that a particular product does not meet the relevant product safety requirements.

A new key instrument in the EU product safety legal framework, the Regulation (EU) 2023/988 on general product safety ("**General Product Safety Regulation**"), came into force on 12 June 2023 and will apply from 13 December 2024. The General Product Safety Regulation will replace the current General Product Safety Directive and the EU Food Imitating Product Directive 87/357/EEC. In 2024, Czech law will have to be adapted to the new rules. The General Product Safety Regulation builds on the current General Product Safety Directive and will continue to provide a minimal standard for nonfood products to protect consumers. This legislation is often described as a safety net for products or risks not caught by other EU legislation. Consumer safety manifesting itself both in terms of safety related to the placing of products on the market and traceability of products, as well as in obligations relating to the recalls of products and market surveillance, remains the focus of the rules. The regulation applies to nonfood products and to all sales channels, and the rules relating to product safety obligations are prescribed not only for the economic operators such as manufacturers, importers and distributors, but also for the providers of online marketplaces.

On 6 April 2023, a new Act No. 87/2023 Coll., on Market Surveillance of Products, implementing Regulation (EU) 2019/1020 on Market Surveillance and Compliance of Products became effective. This act defines the single liaison office as the Ministry of Industry and Trade and its tasks, sets out the institutional setup of market surveillance of products covered by EU legislation listed in Annex I of the implemented regulation, adds a list of supervisory powers of supervisory authorities, and sets out measures that supervisory authorities may impose and the procedure for their imposition.

7.2 Special categories of products

In addition to the general regulations in the GPS Act, which transpose the provisions of the General Product Safety Directive (which will be replaced by the General Product Safety Regulation as of 13 December 2024), there are a number of special product safety regulations in force in the Czech Republic relating to specific types of products (examples of such specific regulations are provided in the form of a list in the GPS Act), including, among others, the following:

Category of products	Relevant law	Supervising authority
Products that are likely to pose a danger to public health and/or safety, property, the environment or other public interests	Act No. 22/1997 Coll.	Czech Trade Inspection Authority or other authority as stipulated in a special law

Category of products	Relevant law	Supervising authority
Pharmaceuticals	Act No. 378/2007 Coll.	State Institute for Drug Control, Institute for State Control of Veterinary Bio Preparation and Pharmaceuticals
Medical devices	Regulation (EU) 2017/745 Regulation (EU) 2017/746 Act No. 375/2022 Coll.	State Institute for Drug Control, Ministry of Health
Food and tobacco products	Act No. 110/1997 Coll.	State Agriculture and Food Inspection Authority, State Veterinary Administration Authority, Regional Hygienic Stations, Ministry of Defense, Ministry of Interior
Fodders	Act No. 91/1996 Coll.	Central Institute for Supervising and Testing in Agriculture
Fertilizers	Regulation (EU) 2019/1009 Act No. 156/1998 Coll.	Central Institute for Supervising and Testing in Agriculture
Chemicals	Regulation (EC) No 1907/2006 Regulation (EC) No 1272/2008 Act No. 350/2011 Coll.	Czech Environmental Inspectorate, Ministry of Environment, Ministry of Health, Ministry of Industry and Trade, Ministry of Defense, Regional Hygienic Stations, Customs Authorities, State Labor Inspection Office, Central Institute for Supervising and Testing in Agriculture
Firearms and ammunition	Regulation (EU) No 258/2012 Act No. 119/2002 Coll. Act No. 156/2000 Coll.	Czech Proof House for Firearms and Ammunition, Police of the Czech Republic, Ministry of Defense, Ministry of Interior
Cosmetics	Regulation (EC) No 1223/2009 on cosmetic products Act No. 258/2000 Coll.	Regional Hygienic Stations, Ministry of Health
Toys	Act No. 258/2000 Coll. Regulation No. 86/2011 Coll.	Regional Hygienic Stations, Ministry of Health

However, the general product safety regulations in the GPS Act will still apply to special categories of products to the extent that the above-mentioned laws do not provide special regulations.

7.3 Consumer protection

The general obligations of importers, manufacturers and merchandisers regarding the sale of products and provision of services and related consumer protection in the Czech Republic are primarily regulated by Act No. 634/1992 Coll. On Consumer Protection ("**Consumer Protection Act**") and the

Czech Civil Code. With effect from 6 January 2023, this regulation has undergone significant changes as the EU directives on consumer protection¹ have been implemented into Czech law.

Legislation on consumer protection is mostly mandatory in nature; that is, it cannot be deviated from to the detriment of the consumer.

The seller is subject to numerous obligations, in particular a duty of honesty in the sale of products and services and the obligation to refrain from using unfair terms in contracts concluded with consumers. The seller also has **extended information obligations** toward consumers. The mandatory information specified in the Consumer Protection Act, when provided to the consumer in writing, **must be in the Czech language**. In addition, the Czech Civil Code provides for a set of **specific protective measures applicable to contracts concluded between entrepreneurs and consumers** incorporating, for example, the restriction of certain clauses detrimental to the consumer; the stipulation of further consumer's rights if a contract is concluded via the internet or outside of business premises, including the right to withdraw from the contract within 14 days (or, under certain circumstances, within a longer period); the obligation to deliver the product to the buyer without undue delay after the conclusion of the contract, but no later than within 30 days (unless another time for performance/delivery of the product was agreed); specific obligations relating to contracts for the supply of digital content and digital content services; etc.

Furthermore, as of 6 January 2023, new **rules relating to the conclusion of certain distance consumer contracts** are applicable. In the case of **orders placed by electronic means**, an entrepreneur has a duty to make sure that a consumer placing an order expressly acknowledges their obligation to pay the order. An order made by means of a button on a website is newly required to include legible text reading "Order with obligation to pay" or another corresponding unambiguous formulation to that effect. If an entrepreneur fails to meet this duty, the contract is invalid (and thus not binding), unless the consumer invokes its validity.

Stricter conditions have also been introduced in relation to **contracting over the telephone**. If an offer is made during a telephone call, a consumer contract will not be concluded merely by the consumer's acceptance of an offer during a telephone call. The entrepreneur must confirm its offer made during the telephone call to a consumer in writing, and the consumer contract will only be concluded after the consumer signs the offer confirmation or sends their consent in the electronic form.

The recent amendment also changed rules regarding **defective performance and warranty** for products sold to consumers. In particular, unless a seller provides product warranty, a consumer will newly only be able to raise a defect claim if the product was defective at the time of the product takeover (and not if a defect only occurred later after the product takeover) and to do so within 24 months after the product takeover. However, it is only presumed that the product was defective at the time of its takeover if the defect appears within one year after the takeover.² Thus, if the defect appears within one year after its takeover, a consumer can succeed with its defect claim relying on the above-referred presumption of defectiveness (unless the seller proves that the product did not have the claimed defect at the time of its takeover by the consumer). After the expiry of this one-year period, the consumer's defect claim can only be successful if the consumer raises it within 24 months after the product takeover and proves that the product had the claimed defect at the time of its takeover by the consumer. The seller's liability for defects of consumer products cannot be excluded or restricted by

¹ In particular, Directive (EU) 2019/770 on certain aspects concerning contracts for the supply of digital content and digital services, Directive (EU) 2019/771 on certain aspects concerning contracts for the sale of goods, and Directive (EU) 2019/2161 amending Council Directive 93/13/EEC and directives 98/6/EC, 2005/29/EC and 2011/83/EU as regards the better enforcement and modernization of EU consumer protection rules.

² As of 6 January 2023, the duration of the presumption of product defectiveness was extended from six months to one year.

mutual agreement between the seller and the consumer (unless it concerns specific cases, such as used goods, when the period for raising the defect claim can be reduced from 24 months to one year).

The defect claim must be handled (the defect removed) and the consumer must be informed about this within 30 days as of the date of the claim (unless a longer period is agreed with the consumer), otherwise the consumer may withdraw from the contract or request a discount.

As of 6 January 2023, the Civil Code newly contains the rules concerning the reconciliation of the costs incurred in connection with remedying a product defect based on a consumer's default claim between the respective entities within the contractual chain. In particular, if the defect was caused by actions or omissions of another entity in the same contractual chain, the final seller is entitled to compensation from the entity that sold the product to it in the course of business activity (with certain exceptions). The compensation shall cover the costs that the final seller has purposefully spent on remediation in connection with the defect claim. In a similar way, the other entity within the supply chain has a right to redress vis-à-vis the entity from which it bought the product. The right of redress may not be excluded or restricted in advance by the parties' agreement.

The seller must also comply with **product labeling obligations**. The products must be marked with identification of their manufacturer or importer and, depending on the circumstances, with certain other information (for example, the name of the product, the weight or quantity or size and others). However, it is generally not required to reflect the country in which the product was manufactured on the packages of products (nevertheless, certain product-specific regulations may require it, such as in the case of food that needs to include the country of origin information). Furthermore, the special legal regulations applicable in relation to specific types of products may stipulate comprehensive product-specific labeling requirements (such as in the case of medicinal products or medical devices).

Numerous other changes have been introduced under the Consumer Protection Act as of 6 January 2023, including, for example, new conditions for providing discounts (when providing discounts for products other than perishable products and products with a short shelf life, a seller must provide the information about the lowest price at which the seller offered and sold the product in the last 30 days prior to the discount) or new practices considered as unfair (e.g., publishing fake or distorted product reviews and recommendations aimed at promoting the product or presenting a product review as submitted by a consumer who used or purchased the product without verifying that the review came from such a consumer). In addition to claims and defenses available under the Civil Code, a consumer whose right was affected by an unfair commercial practice is newly provided under the Consumer Protection Act with the right to withdraw from the relevant consumer contract within 90 days as of its conclusion (unless the seller proves that such withdrawal would be disproportionate with respect to the subject matter of the contract and the nature and severity of the unfair commercial practice) or to request that the price is reduced adequately.

In 2021, an amendment to Act No. 110/1997 Coll. on Food and Tobacco Products became effective that addresses the issue of **dual food quality**. The act prohibits placing food on the Czech market that is seemingly identical to food placed on the market in other member states of the EU if the food placed on the market in the Czech Republic has a significantly different composition or properties, unless this is justified by legitimate and objective facts and the food is provided with easily accessible and sufficient information on this different composition or properties. In addition to this, as of 6 January 2023, the Consumer Protection Act explicitly states that any marketing of a **dual quality product** (i.e., marketing a product as identical to a product marketed in other member states of the EU if its composition or characteristics are substantially different without this being objectively justified) is considered a **misleading commercial practice**.

Consumers have the right to settle disputes arising from sales or services contracts through the **alternative dispute resolution procedure**. The alternative dispute resolution bodies in the Czech Republic are the Office of the Financial Arbitrator, Czech Telecommunication Office, Energy Regulatory Office, the Czech Trade Inspection Authority and the authorities that have submitted a

request, have fulfilled their legal obligations and received an authorization (such as Czech Bar Association and Sdružení českých spotřebitelů, z.ú.). The competent alternative dispute resolution body is determined based on the area of goods and/or services provided under the agreement. The trader is obligated to provide the consumer with specified information on the alternative dispute resolution, as well as on the online dispute resolution platform provided by the European Commission.

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An aerial photograph of a historic European town, likely in Austria or Germany, featuring a prominent tower with a green dome and a red roof. The town is built on a hillside overlooking a river, with a bridge crossing the water. The background shows lush green hills under a blue sky with scattered clouds.

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