



Czech Republic

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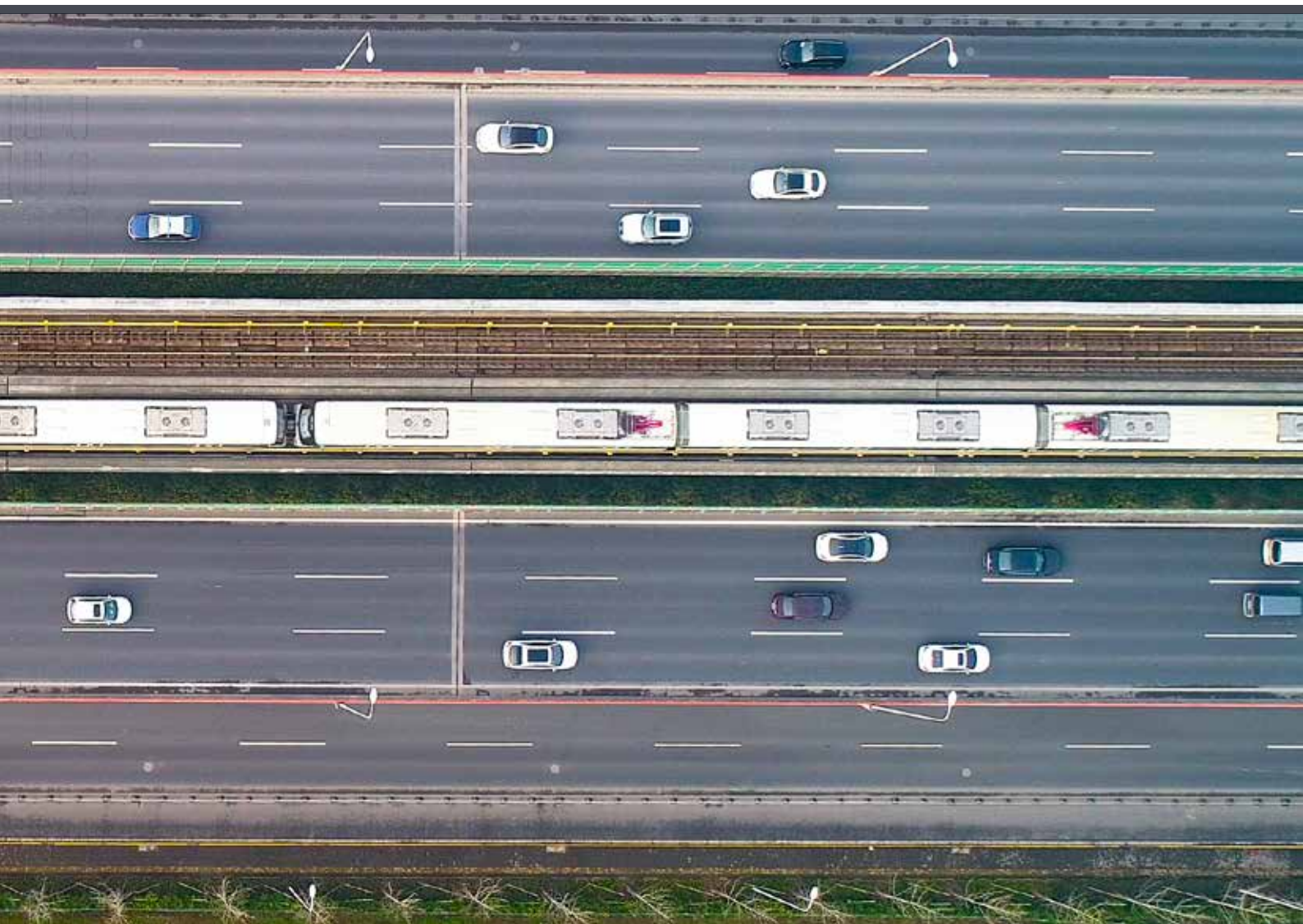
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1. Types of tax

The current relevant taxes in the Czech Republic's tax system include immovable property tax and income tax. Gift tax and inheritance tax have both been incorporated into the income tax as of 1 January 2014. The immovable property acquisition tax (former real estate transfer tax) has been abolished in September 2020 and the immovable property acquisition tax does not apply for the acquisitions where the deadline for filing the tax return expired on or after 31 March 2020 (i.e., the legal effect of the entry into the real estate cadastre took place in December 2019 or later). Under certain circumstances, transition of property can also be subject to personal income tax.



1.1 Inheritance tax

Inheritance tax as it appeared until December 2013 no longer exists in the Czech Republic. Instead, it has been incorporated into the income tax.

Income from inheritance is fully tax-exempt for both legal and private persons as of 1 January 2014.

1.2 Gift tax

Gift tax as it appeared until December 2013 no longer exists in the Czech Republic. Instead, it has been incorporated into the income tax.

Income tax is imposed on any transfer of property for no consideration. Gifts within a family may be exempt, but not reporting such income may result in massive penalties.

1.3 Real estate transfer tax

Real estate transfer tax as it appeared until December 2013 and subsequently immovable property acquisition tax no longer exist in the Czech Republic.

The immovable property acquisition tax was definitely abolished as of 26 September 2020, and the abolition applies retroactively to acquisitions for which the deadline for filing the tax return expired on or after 31 March 2020 (i.e., the legal effect of the entry into the real estate cadastre took place in December 2019 or later; in the case of real estate not entered in the real estate cadastre, the tax is retroactively abolished with respect to acquisitions made in December 2019 and later).

1.4 Immovable property tax

Generally, all immovable property situated in the Czech Republic is subject to immovable property tax. Currently, the tax rates depend on the type of property and its location. Therefore, this tax is commented on a limited basis only.

1.5 Selected personal income tax implications

Income from the sale of immovable property is subject to personal income tax.

The income from the sale is exempt from Czech personal income tax (PIT) if:

- The transferor used a house or a flat as a permanent residence for a period exceeding two years just prior to the sale
- The period between the acquisition and the sale of immovable property exceeds five years, in case of the immovable property acquired before 1 January 2021 or 10 years if the immovable property was acquired after 1 January 2021
- The income from the sale of property is used to acquire a new primary residence. Such exemption is subject to specific conditions and it is available only upon the reporting.

The above exemption does not apply if the property was part of business assets.

Income from the sale of securities is usually subject to Czech PIT. However, this income can be tax-exempt under the following conditions:

- Sale of securities acquired after 1 January 2014
 - Income from the sale of securities is tax-exempt if the total annual income of a taxpayer from the sale of securities (before deducting related expenses) does not exceed CZK100,000. Otherwise, the income from the sale of securities can be tax-exempt if the period between the acquisition and the sale exceeds three years. Income from the sale of other shares in a company shall be exempt if the period between the acquisition and the sale exceeds five years.
- Sale of securities acquired before 1 January 2014
 - For sales of securities acquired prior to 1 January 2014, exemption of annual income not exceeding CZK100,000 is applicable similarly as above. Otherwise, specific temporary provisions apply. Income from the sale of securities is tax-exempt if the period between the purchase and sale of securities exceeds six months, and the direct share of a party in the registered capital or voting rights of a company does not exceed 5% in the 24 months prior to sale. The tax treatment is not specified in the legislation regarding the sale of securities representing more than 5% in the registered capital or voting rights of a company. Nevertheless, based on current interpretation confirmed also by the General Finance Directorate, the income from the sale of such securities should be tax-exempt if the period between the acquisition and the sale exceeds three years. Income from the sale of other shares in a company is exempt provided the period between the acquisition and the sale exceeds five years.

1.6 Endowment tax

There is no endowment tax in the Czech Republic.

1.7 Transfer duty

There is no transfer duty tax in the Czech Republic.

1.8 Net wealth tax

There is no net wealth tax in the Czech Republic.

2. Who is liable?

Persons liable to tax, as well as the transactions subject to tax, are determined separately for each of the aforementioned taxes.

2.1 Inheritance tax

Inheritance tax as it appeared until December 2013 no longer exists in the Czech Republic. Instead, it has been incorporated into the income tax.

The income from inheritance is fully tax-exempt for both legal and private persons as of 1 January 2014.

2.2 Gift tax

Gift tax as it appeared until December 2013 no longer exists in the Czech Republic. Instead, it has been incorporated into the income tax.

Generally, any person (private or legal) who acquires income of any kind other than by a transferor's death is liable to income tax.

2.3 Real estate transfer tax

Real estate transfer tax as it appeared until December 2013 no longer exists in the Czech Republic. The immovable property acquisition tax that replaced the former real estate transfer tax was abolished in September 2020.

2.4 Immovable property tax

In general, the owner of the real estate property is liable to immovable property tax (special provisions may apply in some cases).

2.5 Residency

Czech tax residents must declare their worldwide income in the Czech Republic irrespective of its source. Potential double taxation can be avoided based on the Czech tax law and respective double tax treaty, if in place. Czech tax nonresidents are liable only for their Czech-source income.

The tax residency of a person liable to immovable property tax is generally not relevant. The important factors are mainly the type and location of the property.

Special rules would apply if a particular double tax treaty included different provisions on this subject, which is rather unlikely.

3. Rates

3.1 Tax classes

Not applicable in the Czech Republic.

3.2 Gift tax and inheritance tax rates

Gift tax and inheritance tax as of 1 January 2014 ceased to exist in the Czech Republic and have been combined with income tax.

The income from inheritance is fully tax-exempt for both legal and private persons as of 1 January 2014.

For gifts, the tax base is determined by the gift value that is decreased by expenses incurred to obtain this income. The PIT rate of 15% applies on tax base not exceeding CZK1,582,812 per year, and the tax rate of 23% applies on tax base above this threshold, while the corporate income tax (CIT) flat rate is 21%.

Gifts received in connection with employment or business activities are taxed within the framework of the tax base from employment and business activities. As such, the standard employment and self-employment income tax and social security and health insurance rates apply.

3.3 Real estate transfer tax rate

The immovable property acquisition tax (former real estate acquisition tax) no longer exists in the Czech Republic.

3.4 Immovable property tax rate

The tax rates for immovable property tax depend on the type of immovable property and its location.

4. Exemptions and reliefs

Because the number and extent of exemptions and reliefs is broad, we recommend that the possibility of exemption be checked individually for the purpose of each transaction. Significant tax savings may be achieved by proper planning of certain transactions.

We summarize below the most important types of exemptions:

- ▶ Income from inheritance or legacy is fully exempt from personal as well as corporate taxation.
- ▶ Income related to gifts and other income obtained for no consideration is exempt from personal income tax if:
 1. The income is obtained from a first-degree or second-degree relative (e.g., sibling, uncle, aunt, nephew or niece, spouse, child's spouse, spouse's child, spouse's parents or parents' spouse)
 2. The income is obtained from a person with whom the taxpayer lived for at least one year prior to receiving the income in common household and for that reason, looked after the household or was supported by this person
 3. Income of value not exceeding CZK50,000 in total per year obtained from one individual is acquired on a casual basis

As of 1 January 2015, a new administrative rule has been introduced in the Czech Republic under which the individual who receives any income exempt from the PIT higher than CZK5 million is required to report the respective income to the Czech tax authorities.

The limit of CZK5 million needs to be considered for each transaction individually.

The deadline for the announcement is the same as the deadline for filing of the individual's tax return.

High penalties apply if the reporting obligation is not met.

- ▶ Income related to gifts and other income obtained for no consideration is exempt from corporate income tax if it is acquired by the following entities:
 1. Czech Republic or other EU Member States, Norway or Iceland
 2. Public-beneficial taxpayers with registered seats in the Czech Republic or other EU Member States established for the purpose of support and development of, for example, culture, education, health care, social services and sports
- ▶ Acquisition of immovable property is exempt from immovable property acquisition tax if acquired by the state of the Czech Republic or other EU Member States.
- ▶ For immovable property tax there are various specific exemptions (mainly in connection with property owned by the state of the Czech Republic).

5. Filing procedures

5.1 Personal income tax return

The filing deadline for PIT return is 1 April of the following year. If a tax return is filed by the individual electronically via special tool (Czech informative data box or using a certified electronic signature), it can be submitted with the Czech tax authorities by 1 May of the following year (instead of 1 April) without any sanctions. The deadline can be extended to 1 July based on a power of attorney granted to a certified tax advisor (automatic extension) or based on a special written request filed with the tax authorities (extension at discretion of the tax authorities). For Czech tax residents receiving foreign-source income, the deadline can be additionally extended until 1 November based on a written request (the extension at discretion of the tax authorities).

5.2 Corporate income tax return

The deadline for filing of a corporate income tax return is 1 April of the following year. If a tax return is filed by the entity electronically via special tool (Czech informative data box), it can be submitted with the Czech tax authorities by 1 May of the following year (instead of 1 April) without any sanctions. The deadline is automatically extended to 1 July for entities subject to a statutory audit or based on a power of attorney granted to a certified tax advisor. The extension may also be granted at the discretion of the tax authorities based on a special written request.

The income tax is generally payable within the tax return filing deadline. The tax authorities do not issue any tax assessment.

5.3 Immovable property acquisition tax return

The immovable property acquisition tax no longer exists in the Czech Republic.

5.4 Immovable property tax return

The immovable property tax return is due until 31 January unless the tax return was filed by the taxpayer in any previous year and, simultaneously, the situation affecting the tax determination remained unchanged.

The tax authorities assess the immovable property tax based on the immovable property tax return (considering the changes of tax rates). The immovable property tax is generally payable by 31 May. Tax higher than CZK5,000 can be settled in two equal installments, one by 31 May, the second one by 30 November.

6. Assessments and valuations

Inheritance, as well as most family gifts, is fully tax exempt in the Czech Republic. Nonexempt gifts and other transfers are generally subject to income tax.

7. Trusts, foundations and private purpose funds

The New Civil Code has introduced a trust fund (*svěřenský fond*) as of 1 January 2014. A trust fund can now be created to manage the property of its founder(s).

Trust funds are considered to be corporate income taxpayers. Transfer of assets into the trust fund from its founder are not subject to CIT; the gain generated by the trust fund is subject to 21% CIT. The payment from the trust fund is generally subject to withholding tax (at 15%) unless exempt from taxation as mentioned in Section 4. above, where the exemptions for defined family relationships apply and also in the case that the founder of the trust can be qualified as a defined person.

8. Grants

Income from grants is generally subject to income tax. Tax exemptions may apply.

9. Life insurance

Inheritance, as well as most family gifts, is fully tax exempt in the Czech Republic. Other income from life insurance is generally subject to income tax, but tax exemptions may apply.

10. Civil law on succession

Inheritance, as well as most family gifts, is fully tax exempt in the Czech Republic.

11. Estate tax treaties

The Czech Republic concluded few estate tax treaties in the past (e.g., with Austria or Slovakia) covering the inheritance and gift tax. However, the inheritance and gift tax ceased to exist as of 1 January 2014 and the standard income tax applies unless the income is exempt from tax. Therefore, standard double-taxation treaties concluded by the Czech Republic should be applicable. In those specific cases, like Austria and Slovakia, the original treaties could be considered, even though the principles are similar to standard double-taxation treaties. As the local tax regimes of individual countries are often not compatible in this area, the application of a particular double-taxation treaty should be reviewed on individual bases.