

Czech Republic



1. Types of tax

The Czech Republic's tax system recognizes gift tax, inheritance tax and real estate transfer tax. Under certain circumstances, transition of property can be subject to personal income tax. However, this is not in the scope of this document.

1.1 Inheritance tax

Inheritance tax is imposed on any transfer of property by death.

1.2 Gift tax

Gift tax is imposed on any transfer of property with no consideration.

1.3 Real estate transfer tax

Generally, all real estate situated in the Czech Republic is subject to real estate tax. Currently, the tax rates depend on the type of property and its location.

The real estate transfer tax is generally imposed on any transfer of immovable property located in the Czech Republic for a consideration.

1.4 Selected personal income tax implications

Income from the sale of real estate is generally subject to personal income tax.

If the transferor used a house or a flat as a permanent residence for a period exceeding 2 years prior to the sale, the income from the sale is exempt from Czech personal income tax. Otherwise, the income is exempt if the period between the acquisition and the sale exceeded 5 years. Such exemption does not apply if the property was part of the business assets.

Income from the sale of securities is usually subject to Czech personal income tax. However, the income from the sale of shares can be exempt from tax if the period between the acquisition and the sale exceeds 6 months and if the total direct shareholding of the individual does not exceed 5% of the company's registered capital or voting rights in the period of 24 months before the sale of shares. Income from the sale of other securities (not fulfilling the previous test) shall be exempt if the period between the acquisition and the sale exceeds 5 years.

1.5 Endowment tax

There is no endowment tax in the Czech Republic.

1.6 Transfer duty

There is no transfer duty tax in the Czech Republic.

1.7 Net wealth tax

There is no net wealth tax in the Czech Republic.

2. Who is liable? What is taxable?

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

Any person who acquires an inheritance or part of an inheritance on the basis of law or testament is generally liable to inheritance tax in the Czech Republic.

Inheritance tax is imposed with respect to all real estate properties located in the Czech Republic regardless of the residence address of the decedent.

Movable property is subject to inheritance tax depending on the citizenship and permanent residence of the decedent.

If the decedent was a citizen of the Czech Republic and had a permanent residence in the Czech Republic, the inheritance tax is imposed on the entire movable property, regardless of its location.

If the decedent was a citizen of the Czech Republic, but did not have a permanent residence in the Czech Republic or was not a citizen of the Czech Republic, the inheritance tax is imposed on the movable property located in the Czech Republic only.

2.2 Gift tax

Generally any person who acquires movable or immovable property or any other property benefits without any consideration (by other means than by a transferor's death) is liable to gift tax.

Movable property and other property benefits acquired or donated without any consideration in the Czech Republic are subject to gift tax regardless of the nationality, citizenship or residency of the donor or the donee.

Generally, if the donor or the donee is a Czech citizen with a permanent residence in the Czech Republic or a company seated in the Czech Republic, the transfer of movable property or property rights should also be subject to the Czech gift tax regardless of its location.

2.3 Real estate transfer tax

Real estate transfer tax is generally payable on the transfer of ownership to real estate for consideration or on the establishment of an easement or similar fulfillment.

The real estate transfer tax is generally payable by the transferor and the acquirer is regarded as a guarantor. In certain cases, the person acquiring real estate can be primarily liable to the real estate transfer tax.

2.4 Residency

The tax residency of a person liable to inheritance, gift and real estate transfer taxes is generally not relevant. The important factors are citizenship, permanent residence and location of the property.

Special rules may apply if a particular double tax treaty includes different provisions on this subject.



3. Rates of inheritance tax, gift tax and real estate transfer tax

The rate of inheritance tax and gift tax is progressive. The applicable rate depends on the relationship between the decedent and the heir/the donor and the donee (see tax classes below) and the tax base.

The tax assessment base is generally determined as the taxable value of the assets decreased by debts and other related liabilities, exempt amounts based on the law and taxes paid in respect of the transfer of the property.

The taxable value of the property is generally determined based on the official valuation of the assets in accordance with the Czech valuation act.

The inheritance tax is calculated from the assessment base using the rates in the table below and multiplied by 0.5 (i.e., the inheritance tax generally amounts to one-half of the gift tax).

3.1 Tax classes

For the purposes of the gift and inheritance tax, donees and heirs are divided into three groups:

Tax class I

- Spouses and relatives in direct line.

Tax class II

- Relatives in the collateral line, namely siblings, nephews, nieces, uncles and aunts.
- Children's spouses (sons-in-law and daughters-in-law), spouse's children, spouse's parents, spouses of parents and individuals living with the donee, donor or decedent in a common household for at least one year prior to the transfer of the property or prior to the death of the decedent (while taking care of the common household or being dependent on the donee, donor or decedent).

Tax class III

- All other individuals and legal entities.



3.2 Gift tax and inheritance tax rates¹

Tax base CZK	Acquirer in		
	Tax Class I ² (all amounts in CZK)	Tax Class II ² (all amounts in CZK)	Tax Class III (all amounts in CZK)
CZK0 - CZK1 million	1%	3%	7%
CZK1 million - CZK2 million	CZK10,000 + 1.3% from the tax base exceeding CZK1 million	CZK30,000 + 3.5% from the tax base exceeding CZK1 million	CZK70,000 + 9% from the tax base exceeding CZK1 million
CZK2 million - CZK5 million	CZK23,000 + 1.5% from the tax base exceeding CZK2 million	CZK65,000 + 4% from the tax base exceeding CZK2 million	CZK160,000 + 12% from the tax base exceeding CZK2 million
CZK5 million - CZK7 million	CZK68,000 + 1.7% from the tax base exceeding CZK5 million	CZK185,000 + 5% from the tax base exceeding CZK5 million	CZK520,000 + 15% from the tax base exceeding CZK5 million
CZK7 million - CZK10 million	CZK102,000 + 2% from the tax base exceeding CZK7 million	CZK285,000 + 6% from the tax base exceeding CZK7 million	CZK820,000 + 18% from the tax base exceeding CZK7 million
CZK10 million - CZK20 million	CZK162,000 + 2.5% from the tax base exceeding CZK10 million	CZK465,000 + 7% from the tax base exceeding CZK10 million	CZK1,360,000 + 21% from the tax base exceeding CZK10 million
CZK20 million - CZK30 million	CZK412,000 + 3% from the tax base exceeding CZK20 million	CZK1,165,000 + 8% from the tax base exceeding CZK20 million	CZK3,460,000 + 25% from the tax base exceeding CZK20 million
CZK30 million - CZK40 million	CZK712,000 + 3.5% from the tax base exceeding CZK30 million	CZK1,965,000 + 9% from the tax base exceeding CZK30 million	CZK5,960,000 + 30% from the tax base exceeding CZK30 million
CZK40 million - CZK50 million	CZK1,062,000 + 4% from the tax base exceeding CZK40 million	CZK2,865,000 + 10.5% from the tax base exceeding CZK40 million	CZK8,960,000 + 35% from the tax base exceeding CZK40 million
CZK50 million +	CZK1,462,000 + 5% from the tax base exceeding CZK50 million	CZK3,915,000 + 12% from the tax base exceeding CZK50 million	CZK12,460,000 + 40% from the tax base exceeding CZK50 million

Real estate transfer tax rate

A flat tax rate of 4% is calculated from the value of the property determined based on an official valuation.

¹ Inheritance tax rate = tax calculated based on the above table x 0.5.

² Definition of particular tax classes is included in Section 3.1.



4. Exemptions and reliefs

As the number and extent of exemptions and reliefs is very vast, 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:

- ▶ Donees and heirs within tax classes I and II (see Section 3.1) are generally exempt from inheritance and gift tax.
- ▶ Exemption from inheritance and gift tax applies for acquisition of property by the following entities:
 1. Czech Republic or other Member States of the European Union, Norway or Iceland.
 2. Regional, district and local authorities and their budgetary and contributory organizations.
 3. Municipalities, public research institutions, public universities or nonprofit public medical facilities.
 4. State-registered churches and religious communities, political parties and movements.
 5. Legal entities 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.
- ▶ Transfers of movable property of day-to-day use and transfers of bank account deposits (both up to certain amounts) qualify for the exemption from gift tax/inheritance tax.
- ▶ Contributions made to the equity of business companies, partnerships and cooperatives seated in the Czech Republic or other Member States of the EU.³

5. Filing procedures and date for payment of tax

The filing deadline for the inheritance tax return and gift tax return is generally 30 days from the date of:

- ▶ Conclusion of inheritance proceedings in the case of inheritance tax
- ▶ Conclusion of a contract on donation of a movable property

The real estate transfer tax return is generally due by the end of the third month after the real estate ownership is entered into the Cadastral Land Registry (Editor Note: Cadastral Land Registry (i.e., the database) is operated under the Czech Office for Surveying, Mapping and Cadastre (COSM), which is the name of the central institution) or after a ruling of a court or an administrative body confirming that the ownership to the real estate is issued.

The inheritance tax return and gift tax return do not need to be filed by heirs or donees in tax classes I and II, as they can benefit from the inheritance tax and gift tax exemption.

Gift tax and inheritance tax are payable within 30 days from the receipt of the tax assessment issued by the tax authorities.

The real estate transfer tax is payable within the tax-return filing deadline. The tax authorities generally do not send the taxpayer any tax assessment.

³ Note that if the contribution to the equity is made in the form of real estate, there is a special tax regime for the period of 5 years. Only after the property is maintained by the company for 5 years is a full exemption achieved.



6. Assessments and valuations

This is not applicable in the Czech Republic.

7. Trusts, foundations and private purpose funds

This is not applicable in the Czech Republic.

8. Grants

This is not applicable in the Czech Republic.

9. Life insurance

This is not applicable in the Czech Republic.

10. Civil law on succession

This is not applicable in the Czech Republic.

11. Estate tax treaties

The Czech Republic has not concluded any tax treaties relating specifically to the taxation of real estate. However, most double taxation treaties concluded by the Czech Republic contain provisions relating to this subject.

Contacts

Prague

Ernst & Young
CSC, Karlovo náměstí 10
Prague
12000
Czech Republic

Jan Čapek
jan.capek@cz.ey.com
+420 225 335 625

Martina Kneiflová
martina.kneiflova@cz.ey.com
+420 225 335 295