

Doing business in the Czech Republic



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Preface

This document has been prepared for clients and employees of member companies of the association LEADING EDGE ALLIANCE. Its purpose is to provide basic information to those entities who are considering doing business in the Czech Republic. Given the limited scope of this document, it is not possible that the document provided the comprehensive information that would be continuously updated after completion of this document. For these reasons, please do not hesitate to contact us if you are interested in the Czech Republic.

Therefore, the company AUDIT ÚČETNICTVÍ, s.r.o. or association LEADING EDGE ALLIANCE shall not be responsible for any actions and business decisions that will be made on the basis of this document. ■

1. OVERVIEW

The Czech Republic which joined the European Union in 2004, is recognized as the optimal business environment from which to better serve international customers. This is a consequence of several factors the most notable being the sustained **enhancements to the business environment** by the Czech Government and the ability of the country's pre-eminent natural resource, **intellectual capital**, to respond to the needs of knowledge-based and innovation-driven businesses.

Moving forward, the **record flows of foreign direct investment**, the European dominance in **computer production**, the **complete automotive supply chain**, the track record in **supporting global ICT operations**, the **burgeoning growth of Czech suppliers** and the shift away from labour-cost-sensitive investments to **high value added activities** and **extensive R&D** as integral parts of global networks, are all pillars sustaining the Czech Republic's growth and underpinning international competitiveness. ■

2. THE COUNTRY

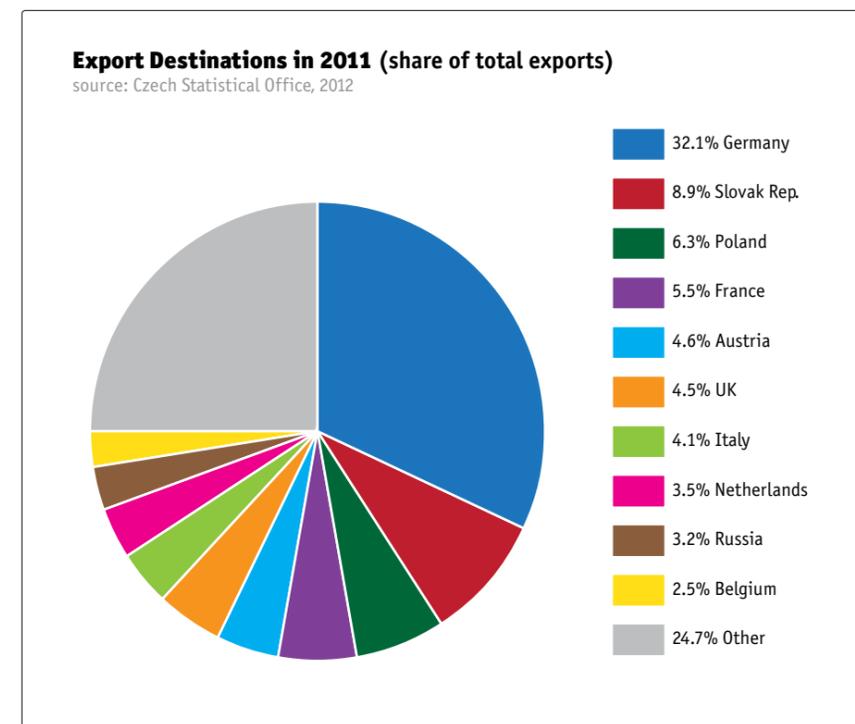
a) Basic data on the Czech Republic

| | |
|---------------|------------------------|
| Area: | 78,864 km ² |
| Population: | 10.5 million |
| Labour force: | 5.3 million |
| Capital: | Prague |
| Language: | Czech |
| Currency: | Czech Koruna (CZK) |

source: Czech Statistical Office, 2012

b) The Czech Economy in 2012 and Forecast for 2013

The Czech economy continues to be stuck in stagnation. Given the unresolved euro zone debt crisis, it can be assumed that economic stagnation will more or less linger up to 2013. Ministry of Finance expect that a 0.5% decrease in GDP will be reported this year. In 2013, how-



ever, the economy should grow by ca 1.0%. From an expenditure perspective, the economy should continue to be driven by significant foreign trade surpluses, while all components of gross domestic expenditures will be either decreasing or stable.

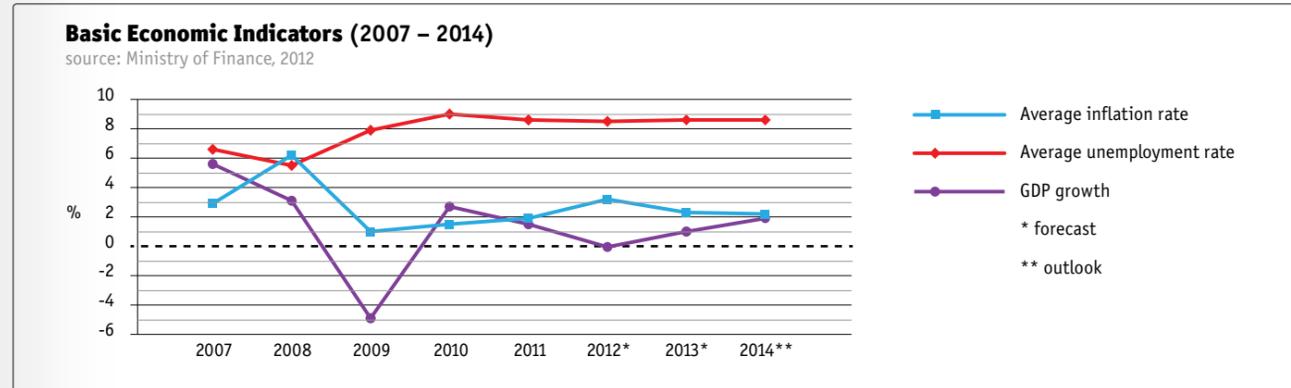
Consumer prices are predicted to rise by around 3.2% in 2012, while in 2013 the average inflation rate should reach 2.2%. Inflation is and will be determined predominantly by the increases in VAT and in energy prices, while growth in market prices should remain very moderate.

The labour market will likely be influenced negatively by the unfavourable economic situation and heightened uncertainty over future development. Employment should decrease by 0.3% this year and by 0.2% in 2013. Unemployment should move around 8.5% in 2012, another slight

increase in the unemployment rate may occur in 2013. The wage bill could grow by 1.9% this year and by 2.5% in 2013.

The economic level of GDP per capita as adjusted to current purchasing power parity was approximately 20,000 PPS in 2011, corresponding to 73% of economic output in the EA12. The average exchange rate should reach 25.3 CZK/EUR in 2012.

The current account deficit as a percentage of DP should remain at a sustainable level. The crisis in the euro zone has intensified once again especially due to speculation concerning Greece's remaining in the currency union and the state of the Spanish banking sector. Its further escalation cannot be entirely ruled out, nor can be the possibility that the contagion will spread to other countries of the EU, including the Czech Republic. ■



3. FOREIGN INVESTMENTS

a) Political and economical stability

The Czech Republic is a fully-fledged parliamentary democracy, and is one of the faster growing economies as well as one of the ten countries that entered the European Union on 1 May 2004. The country's economic policy is consistent and predictable. A strong and independent central bank (the Czech National Bank) has maintained an extraordinary degree of currency stability since 1991. The Czech Republic was the first CEE country to be admitted into the OECD. The country is a member of NATO and is fully integrated into other international organisations such as the WTO, IMF and EBRD.

EU legislation was adopted in preparation for EU accession. Czech commercial, accounting and bankruptcy laws are compatible with Western standards. 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.

b) Non-discrimination

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 with the exception of those in the defence and banking sectors.

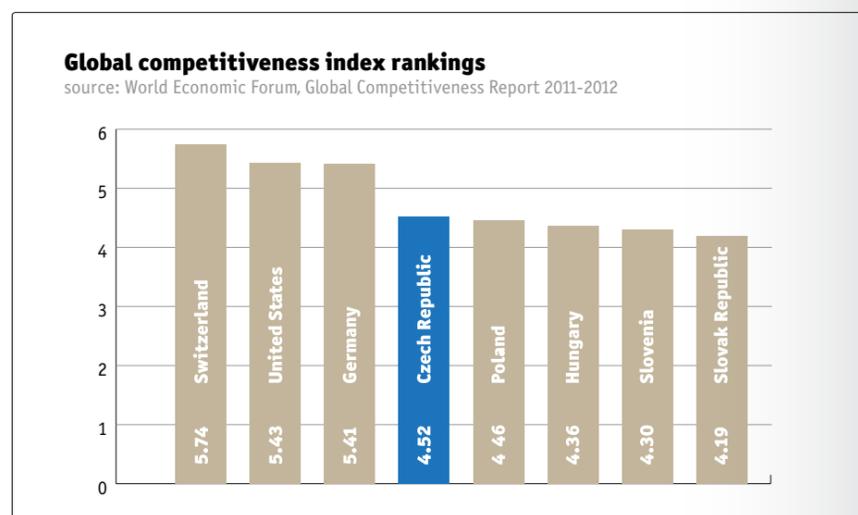
As an OECD member the Czech Republic is committed not to discriminate against foreign investors in privatisation sales, with the same exception as that mentioned above.

c) Investment protection

The Czech Republic is a member of the Multilateral Investment Guarantee Agency (MIGA), an international organization for protection of investments, which is part of the World Bank-IMF group. The country has signed a number of bilateral treaties which support and protect foreign investments, for example with the United States, Germany, the UK, France, Austria, Switzerland, Italy, Belgium, Luxembourg, the Netherlands, Finland, Norway, Denmark and China.

The treaties provide that each party shall permit and treat investments and associated activities of the other party's residents on a non-discriminatory basis, and guarantee full protection and security by law. The full text of the respective treaty is available in Czech and the official language of the other country only. The Czech version can be found in the Collection of Laws of the Czech Republic. The other language version is available from the authorities of the other country, e.g. that country's embassy.

The Czech Republic has also concluded agreements for the avoidance of double taxation.



d) Protection of property rights

The Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions. Existing legislation guarantees protection of all forms of property including patents, copyrights, trademarks, and semiconductor chip layout design. 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 other means, which would then have to be through an Act of Parliament and with full compensation at market value. No expropriation of the property of a foreign investor has taken place since the Velvet Revolution in 1989.

e) 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 generate a mandatory reserve fund and pay withholding taxes.

Investment Risk Ratings

source: Czech National Bank, March 2012

| COUNTRY | STANDARD AND POOR'S | MOODY'S | FITCH |
|----------------|---------------------|---------|-------|
| Czech Republic | AA- | A1 | A+ |
| Slovakia | A | A2 | A+ |
| Estonia | AA | A1 | A+ |
| Poland | A- | A2 | A- |
| Russia | BBB | Baa1 | BBB |
| Hungary | BB+ | Ba1 | BB+ |
| Romania | BB+ | Baa3 | BBB- |

The Czech Republic has treaties to prevent double taxation with many countries, including all EU countries, Switzerland, the United States, Canada, Japan, and Australia. A full list of countries is available from the Ministry of Finance.

Double-taxation treaties cover taxes on dividends, interest and royalties. Actual rates of withholding tax are determined by the respective treaty and range from 0 to 15 per cent. The exact method of double-taxation prevention must be determined by reference to the actual treaty between the Czech Republic and the other country.

f) Investment risk

An open investment climate has been a key element of the Czech Republic's economic transition. The country's investment grade ratings from international credit-rating agencies and its early membership in the OECD testify to its positive economic fundamentals.

g) Global competitiveness index rankings

Czech Republic (38th place) is at the top of the CEE countries in the competitiveness of the world economies. ■

4. SETTING UP A BUSINESS

Foreign legal entities are allowed to conduct trade activities, including acquisition of real estate, under the same conditions and to the same extent as Czech entrepreneurs. They may become founders or cofounders of a company, or may join an existing Czech company.

Foreign companies may operate in the Czech Republic, either by establishing a branch office registered in the Czech Republic or by establishing a Czech company. There are four different legal forms of companies; the most common are limited liability companies (s.r.o.) and joint-stock companies (a.s.). The business name of the company shall be unique. Furthermore, a legal entity established for business purposes under foreign law seated outside of the Czech Republic may relocate its registered seat to the Czech Republic under certain conditions.

a) Branch offices

A branch office of a foreign company is not a Czech legal entity, but functions as the representative of a foreign company and incurs obligations on the foreign company's behalf. Branch offices must fully list their business activities on their application for registration in the Commercial Register, as they are only allowed to engage in the business activities listed. The branch office must have an appointed director who is entitled to act on behalf of the foreign company as regards the branch office. He/she must be registered in the Commercial Register.

The law under which the branch's parent entity was founded also applies to the branch's internal dealings. As of January 2002, there are no restrictions on acquisition of real estate by branch offices of foreign companies in the Czech Republic.

b) Limited liability company

A limited liability company is commonly used only for small and medium-sized businesses. It may be established either by (i) a founder's deed by one entity (whether an individual or a legal entity) or (ii) by a memorandum of association concluded by a group of entities or individuals up to 50. However, a limited liability company with one shareholder cannot establish or become the sole shareholder of another limited liability company. One individual may be a sole shareholder of not more than three limited liability companies. Both the founder's deed and the memorandum of association must be executed in the form of a notarial deed. The incorporation document also determines whether or not a limited liability company will issue its articles of association.

A limited liability company does not issue shares. The ownership interest represents the shareholder's participation in the company and the rights and duties derived from such participation. The

size of the ownership interest is basically determined by the ratio of a particular shareholder's investment contribution to the company's registered capital.

The minimum registered capital is CZK 200,000. Non-monetary contributions must be fully settled before the company's registration in the Commercial Register. The founder's deed or memorandum of association must specify the non-monetary contribution and its value which is determined by an expert appointed by the court. At least 30 % of subscribed monetary contributions must be paid up before registration of the company in the Commercial Register; the total of paid-up investment contributions and the value of nonmonetary investment contributions must amount to at least CZK 100,000. If a company is formed by one person only, its registered capital must be fully paid up before registration in the Commercial Register.

Corporate governance is much simpler than that of a joint stock company. A limited liability company does not have a board of directors. Its statutory body is made up of one or more executive officers. The law does not restrict their number. The executive officer is appointed by the general meeting, the supreme body of the company, or by the sole shareholder exercising powers of the general meeting. Each executive officer acts on behalf of the company independently unless the founder's deed or the articles of association (if adopted) stipulate otherwise. The law does not require the limited liability company to establish a supervisory board; however, a supervisory board can be established provided that the founder's deed or memorandum of association so stipulates. The supervisory board consists of at least three members elected by the general meeting.

Ownership interest in a limited liability company is not as easily transferable as the shares in a joint stock company. It requires a written agreement. With the approval of the general meeting a shareholder may transfer his ownership interest to another shareholder, unless the memorandum of association provides otherwise. If the memorandum of association so admits, a shareholder may transfer his ownership interest to another third party. The memorandum of association may make transfer of the ownership interest dependent on the general meeting's approval. Should the company have sole shareholder, an ownership interest is always transferable to third parties.

c) Joint-stock company

A joint-stock company is used for large companies. It is established by a founder's deed by one shareholder, being a legal entity, or by a memorandum of association by more than one shareholder (whether individuals or legal entities). Both the founder's deed and the memo-

randum of association must be executed in the form of a notarial deed. A joint-stock company is obliged to issue its articles of association. Bearer shares are freely transferable, while transferability of registered shares may be restricted but not excluded by articles of association. If the registered shares are bookentered shares, they are transferred by registering the new owner with the Central Securities Depository.

Minimum registered capital is CZK 2,000,000 or CZK 20,000,000 if the company is founded through a public offer of shares. A subscriber is obliged to pay the issue price of the subscribed shares within the time-limit fixed in the articles of association, but no later than one year after the company's incorporation. The statutory body of a joint-stock company is the board of directors. The board of directors must have no fewer than three members, this shall not apply in the case of a company with sole shareholder. Its members are generally elected and recalled by the general meeting or by the supervisory board if the articles of association so stipulate. The board of directors decides on all matters that are not reserved to the general meeting or the supervisory board.

Each joint-stock company must establish a supervisory board, which monitors the activities of the board of directors and the operations of the joint-stock company. The supervisory board consists of at least three members and the number of its members must be divisible by three. If the company has more than 50 fulltime employees, the latter elect one-third of the supervisory board's members. The resolution of the company's general meeting regarding the increase of the registered capital or the articles of association may determine that employees can receive company shares under better conditions than other shareholders. However, the total of portions of the issue price or the purchase prices of all shares, which are not subject to full payment by employees, may not exceed 5 % of the company's registered capital at the time when the decision on such employees' subscription is made.

d) Trade licences and representation

Before registering in the Commercial Register (see below), all companies must obtain a trade licence, or – for some types of business – a concession, corresponding to the activities they intend to perform or some other business authorisation. For this purpose, they must appoint an authorised representative ("odpovědný zástupce" in Czech) who is responsible for the company's compliance with the conditions of the trade licences. The appointment of a responsible representative is not required for some types of the general business activities ("volná živnost" in Czech). An authorised representative must be designated for each activity performed by the company; however, one authorised representative may be responsible for more than one trade licence of the company. One

authorised representative may not perform this function for more than four entrepreneurs. Effective 1 August 2006, the company has the option to apply for registration with the tax office (for almost all types of taxes) along with the application for a trade licence.

e) Liability

Shareholders of a joint-stock company are not liable for the company's obligations. Shareholders of a limited liability company are jointly and severally liable for company's obligations only up to the unpaid aggregate of their investment contributions according to the entry in the Commercial Register.

f) Registration of a company in the commercial register

A company comes into existence by registering in the Commercial Register (www.justice.cz) maintained by the respective Registry Court. The statutory body of the company must apply to the Commercial Register to register the company within 90 days from the date (i) the company was founded or (ii) the company's trade licences or similar business authorisation were issued

and delivered. As of 1 July 2005, obligatory but standardized forms for applications to the Commercial Register are available. The Registry Court is obliged to register the company or to deliver another decision within the period of 5 working days, otherwise it is considered that the registration was performed on the following day after this period has expired.

The following documents must be attached to the application in particular:

- documents, not older than three months, showing the valid incorporation of the founder and the power of its representatives to act on its behalf;
- incorporation documentation, i.e. founder's deed or memorandum of association;
- specimen signatures of directors (members of the company's statutory body);
- evidence that the company's registered capital was paid up in the minimum required amount (usually shown by a bank statement);
- a statement of credibility signed by each member of the statutory and supervisory body

and the consent with the entry into the Commercial Register;

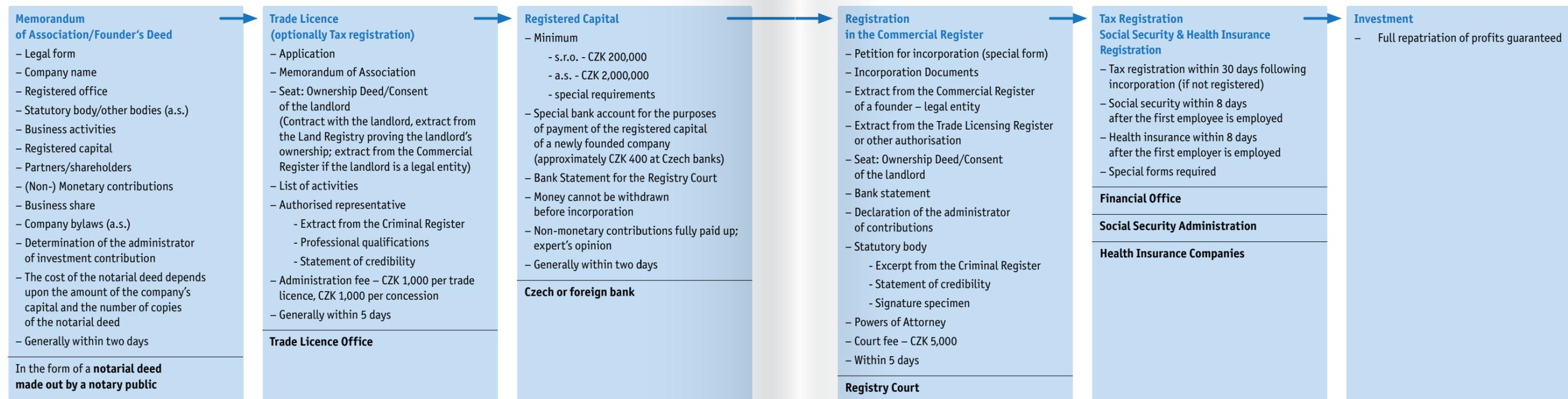
- extracts from the criminal registry for each proposed representative and supervisory board member (extract from the Czech Criminal Register and, if the representative is a foreigner of an EU country, an extract from the Criminal Register from country of his/her origin or from the Criminal Register of an EU country of his/her last stay and, if he/she is not a citizen of an EU country, an extract from the Criminal Registers of the country of his/her origin; all of these documents/extracts must not be older than three months);
- extract from the Trade Licences Register or other authorisation relating to its business activity;
- evidence of title (ownership right or the consent of the owner) to the premises where the registered office of the company will be situated;
- powers of attorney for any person (obligatory for foreigners without a delivery address in the CR) to be registered in the Commercial Register in relation to the incorporation of the company (e.g. executive officers).

g) Acquisition of real estate

Since 1 May 2009 citizens from EU and other countries are not limited in the nature and scope of acquiring real estate (except for land that is part of an agricultural land fund or forest) in the Czech Republic. The original "legal obstacles" requiring that foreigners hold a Czech Residence Permit or Visa were lifted. Thus, they may acquire real estate under the same conditions as Czech citizens.

Since 1 May 2009 foreign legal entities from EU and other states may acquire real estate (except for land that is part of an agricultural land fund or forest) in the Czech Republic without any restrictions and under the same conditions as Czech legal entities. Hence, the original legal requirements as to the location of the company or an establishment of a branch in the Czech Republic and entitlement to conduct business in the Czech Republic were lifted. Please note that the Czech Foreign Exchange Act still provides for formal regulation of the above-mentioned matter which is, however, in fact ineffective. The real estate transfer tax is 3 % of the selling price or the officially assessed value, whichever is greater, and is paid by the seller. The buyer is the guaran-

tor and pledges for payment of the transfer tax. The transfer-tax return must be delivered to the Tax Administration Office and the transfer tax paid within three months following the registration of the transfer in the Land Registry. ■



Note: The court fee of 5.000 CZK does not apply from 1st September 2011. The court fee for the registration in the Commercial Register is newly set at 6.000 CZK with one exception: in respect of joint stock companies, the fee is 12.000 CZK. The fee for the concession is newly set at 2.000 CZK.

5. AUDIT REQUIREMENTS AND PRACTICES

a) Accounting principles and practices

The Czech accounting system is based on the double-entry bookkeeping and is largely consistent with the International Financial Reporting Standards with certain minor difference regarding, for example, financial leasing and depreciation of fixed assets.

Companies that have issued securities traded on regulated stock exchanges in EU member states (e.g., shares, bonds) should apply the International Financial Reporting Standards when preparing their annual financial statements and consolidated financial statements. However, for calculation of corporate income tax, the accounting result must be calculated based on the Czech Accounting Standards and unaffected by the International Financial Reporting Standards.

b) Auditing

Joint-stock companies, limited liability companies and other companies which, as of the end of the current and immediately preceding accounting periods, fulfil or exceed two (for joint-stock companies only one) of the following conditions are subject to statutory audit:

- gross balance sheet total of over CZK 40 million;
- annual net turnover higher than CZK 80 million;
- average number of employees, according to the Statistics Act, exceeding 50. ■

6. LABOUR REGULATION

a) Employment contract

Employment contracts must be concluded in writing with the following minimum mandatory content: place of work, starting date of employment and nature of the work. Employees have to be informed in writing about their duties and rights, such as holiday allowance, wage and payment dates, working hours, job description, termination period, information about collective agreements, etc., within one month after concluding an employment contract if such information is not stated in the contract.

b) Termination of employment contract

Employment contracts can be terminated by:

- mutual agreement – the employment contract is terminated on an agreed date;
- expiration of the employment contract – in the case that the employment, contract is concluded for a limited period;
- termination during the probation period;
- notice of termination;
- immediate termination.

An employer may serve a notice only from the reasons stipulated in the Labour Code. An employee whose employment relationship is terminated by notice given by his employer for one of the reasons given by law – section 52 a) to c) or by agreement is entitled to receive the severance payment depending on the length of employment (one, two or three average monthly earnings depending on whether employment has lasted less than 1 year, from 1 to 2 years or more than 2 years, in the case of a special working time account, it is increased by three-fold average monthly earnings). An employee whose employment relationship is terminated by notice given by his employer for the reasons stated in section 52 d) is entitled to receive severance pay in the amount of at least twelve times his average earnings.

c) Working hours

- The maximum weekly working time is 40 hours.
- The maximum weekly working time of employees who work underground or in a three-shift or non-stop operation is 37.5 hours.
- The maximum weekly working time of employees who work in a two-shift operation is 38.75 hours.
- The maximum weekly working time of employees under age 18 is 40 hours within all labour law relationships (max. 8 hours per day).
- The employer decides on work schedules after consulting the competent trade-union organisation. As a rule, working time shall be scheduled over five working days per week.
- Regardless whether the working time is evenly or unevenly scheduled, the length of one shift should not exceed 12 hours. The same applies to a flexible schedule of working time.
- The employer may, for instance, introduce an account of working hours which enables the allocation of working hours according to seasonal variations and number of contracts. After an employee has performed a maximum of six hours of continuous work, his/her employer is obliged to give him/her a work break for food and rest lasting at least 30 minutes (which can be divided into several parts whereas one part shall last at least 15 minutes). For employees under the age of 18, the maximum time of continuous work is 4.5 hours. Work breaks that are provided for food and rest are not considered working time.
- An employer is obliged to schedule working time so that from the end of one shift until the beginning of the next one, employees will have an uninterrupted period of rest of at least 12 consecutive hours in 24 successive hours. For employees over 18 years of age, their rest period may be reduced to a minimum of eight consecutive hours in a 24-hour period, provided that they work in non-stop or unevenly scheduled operations or overtime work and that their next rest period is extended by the amount of time by which their preceding rest period was shortened.
- The employer shall schedule working time in such a manner that the employee has one uninterrupted rest period of a minimum of 35 hours during each week (employees under 18 have a minimum of 48 hours). For employees over 18 years of age, the rest period may be reduced to a minimum of 24 hours; however, their next rest period must be extended by the amount of time deducted from the preceding rest period.
- If operations so allow, the employer shall schedule a weekly uninterrupted rest period for all employees that includes the

same day and in such a manner that it shall include Sunday.

- In practice, employers tend to allow their employees greater flexibility for organizing their own working time by introducing forms of flexible working hours, which could prove to be a significant motivating factor. Flexible working hours may be set up as a flexible working day, week or maximum twenty six week balancing period.

d) Overtime work

- In extraordinary cases an employer may only require overtime work when there are serious operational reasons for it. A total scope of overtime work may not exceed on average 8 hours per week calculated over a period of no more than 26 consecutive weeks (maximum 150 hours in the calendar year). Only the relevant collective agreement may extend such period to a maximum period of 52 consecutive weeks. In excess of this scope, the employer may require further overtime work only with the consent of an employee.

e) Remuneration

- An employee is entitled to his/her wages and a premium (bonus) payment of at least 25% of average earnings for overtime work (or time off in lieu of such premium payment). The Labour Code allows to take into account, when negotiating salary, an agreed scope of overtime for all employees. Such agreed salary may reflect overtime work in a maximum scope of 150 hours of overtime per calendar year for ordinary employees and for managerial staff within the total scope of overtime work (roughly 416 hours a year).
- An employee is entitled to his/her wages and (paid) time off (one hour of work on a holiday = one hour of time off) for his/her work on a public holiday. If an employee and his/her employer so agree, instead of time off such employee may receive (in addition to his/her wages) an extra (bonus) payment for work on a public holiday in the amount of at least his/her average earnings (100%). There are currently 13 public holidays in the Czech Republic (when a public holiday falls on a working day, an employee is entitled to compensation in the amount of average earnings for the lost salary).
- The premium (bonus) payment for work on Saturdays and Sundays and for work at night is 10% of average earnings unless agreed otherwise.
- The premium (bonus) payment for work in arduous and hazardous conditions is 10% of minimum earnings. The wage rate may not be lower than the appropriate minimum rates stipulated by a government decree: currently CZK 8,000 (EUR 320) per month for a 40-hour week or CZK 48.10 (approximately EUR 2.00) per hour (average exchange rate CZK/EUR = 25) for the easiest work. Otherwise the minimal guaranteed wage depends on the type of work and ranges from CZK 8,000 to 16,000. For the purpose of calculating the wage rate, the wage shall not include any premium (bonus) payment for overtime, work on holidays, etc.

f) Trade unions

- The Czech Republic operates on the principle of free establishment and competition of trade unions. Establishment of a trade union is not mandatory in companies. The minimum number of employees needed to establish a trade union is three.
- The role of trade unions in the Czech Republic is still largely perceived as social – there is no history of large-scale strikes or lock-outs. Trade union membership as of 2010 was 435,939 employees, i.e. approximately 10% of all employees. The number of registered union members is steadily decreasing. ■

7. TAX SYSTEM

The system of taxation described below is derived from the Czech tax legislation and may be modified by a particular Double Taxation Treaty. The current tax system was introduced in January 1993. The legislation is subject to frequent amendments and changes due to rapid developments in the economy.

however, it is a taxable presence of the foreign entity and therefore its existence triggers registration duty for tax purposes of the foreign entity with the Czech Tax Office.

A permanent establishment of a foreign company can be created when the company's employee(s) is (are) assigned to the Czech Republic to render services here for more than six months (183 days)

Taxpayers in the Czech Republic are subject to the following taxes:

| TAX | TAX RATE |
|------------------------------|---|
| Corporate income tax | 19% for tax periods starting in 2010 and afterwards; 5% corporate tax rate applies for certain types of taxpayers (pension funds, investments funds) |
| Personal income tax | Flat tax rate of 15% for calendar year 2012 |
| Value added tax (VAT) | 14% (food, books, special healthcare products) and 20% (most goods and services) starting in 2012 |
| Excise tax | Levied on petrol and petrol derivatives, alcohol (beer, wine and spirits) and tobacco |
| Road tax | CZK 1,200 – 4,200 (cars), CZK 1,800 – 50,400 (trucks) when used for business purposes |
| Real estate tax | According to type, location and purpose of use of the real estate |
| Real estate transfer tax | Flat tax rate of 3% |
| Inheritance tax and gift tax | Progressive tax rate ranging from 1% (0.5% for inheritance tax) up to 40% (up to 20% for inheritance tax) |
| Energy tax | Levied on supplies of electricity, natural and other gases, and solid fuels with effect from 1 January 2008 |

a) Corporate income tax and personal income tax

All Czech tax residents are subject to these taxes on their worldwide income, while Czech tax non-residents are taxed only on their income from Czech sources.

An individual is a Czech tax resident if he/she has his/her permanent address in the Czech Republic (i.e., a place where an individual has his/her home and circumstances indicate his/her intention to dwell there permanently) or has "a usual residence" in the Czech Republic (i.e., the individual's total number of days spent in the Czech Republic is equal to or greater than 183 days per calendar year).

The tax residency of a legal entity is its registered office or place of effective management in the Czech Republic.

a) Corporate income tax

Rendering of services in the Czech Republic

A permanent establishment is the taxable presence of a foreign entity through which it carries out its business activities in the Czech Republic. A permanent establishment is not a legal entity;

in any 12 consecutive calendar months. If a company sends a group of employees that are present in the Czech Republic on the same days, the 183-day limit covers all employees, i.e., the presence of more than one employee on any given day is counted as one day of presence. Particular Double Taxation Treaties can modify the conditions for creation of a permanent establishment.

Facility located in the Czech Republic

A permanent establishment can also be created when a foreign entity sets up a fixed place of business (e.g., an office, workshop, production facility, sales outlet or other business facility) in the Czech Republic. In such a case, a permanent establishment is created regardless of the 183-day condition.

Relevant Double Taxation Treaty can modify the conditions for creation of a permanent establishment of a foreign entity in the Czech Republic. It especially may eliminate the creation of permanent establishment when the activities performed through the fixed place of business located in the Czech Republic have preparatory or auxiliary nature.

Dependent agent

A permanent establishment can also be created in the case that the foreign entity operates its business in the Czech Republic via a dependent agent.

Corporate Tax and Depreciation

Corporate income tax is levied on income from the worldwide operations of Czech tax residents and on Czech-source income of Czech tax non-residents. Czech tax residents are considered to be entities with their registered office or place of effective management in the Czech Republic. The tax base is calculated from the accounting profit/loss shown on the relevant financial statements prepared according to the Czech Accounting Act and Czech accounting standards and is further adjusted by non-deductible costs and nontaxable revenues and other non-accounting adjustments. Czech legislation allows taxpayers to change their accounting period from calendar year to fiscal year and vice versa by notifying the Tax Office about such a change. When changing the accounting period, taxpayers are required to enter into a transition period that could be shorter or longer than 12 months.

The standard rate of corporate income tax is 19% for tax periods starting in 2010 and afterwards. For certain types of legal entities (pension funds, investment funds) special 5% corporate income tax rate applies.

Tax-deductible costs

The list of tax-deductible costs is similar to those common in other countries. Generally, costs are tax deductible if incurred in order to generate, assure and maintain the taxable income (for instance, tax

depreciation of assets, purchased material and services, wages and salaries including social security and health insurance contributions paid by the employer, etc.).

The law defines certain types of costs which are deemed tax deductible regardless of whether the above test is met. On the other hand, in the case of some other costs, there are further conditions stipulated by the Czech Income Tax Act limiting their deductibility; for example, some costs are deductible only when paid by the end of the relevant tax period (e.g. contractual penalties). Some other costs are tax deductible only up to the related revenues (e.g., sale of share in a limited liability company).

All costs considered in the relevant tax period as tax-deductible should be supported by accounting documentation proving their relation to the relevant tax period as well as providing information about the goods/services for which the costs were incurred.

Calculation of tax base:

| | |
|---|--|
| +/- | Accounting profit/loss before tax (as shown in the taxpayer's financial statements prepared in accordance with the Czech Accounting Standards) |
| + | Non-deductible costs |
| +/- | Difference between accounting and tax depreciation |
| - | Non-accounting adjustments in the form of tax-deductible costs recorded in the subsequent accounting period but related to the accounting period for which the corporate income tax return is prepared |
| - | Non-taxable income or income not subject to corporate income tax |
| + | Non-accounting adjustments in the form of taxable income recorded in the subsequent accounting period but related to the accounting period for which the corporate income tax return is prepared |
| Adjusted tax base | |
| - | Non-utilised investment allowance (the 10% investment allowance was abolished with effect from the 2005 tax period but non-utilised allowance may still be applied) |
| - | Accumulated tax losses carried forward from previous years (tax losses from previous 5 years may be utilised) |
| - | Gifts to charities (up to 5% of the tax base) |
| - | R&D allowance of up to 100% of certain expenses incurred in connection with research and development projects |
| Tax base adjusted for gifts, investment allowance and tax losses | |
| x | Tax rate/100 |
| | Tax before tax relief |
| - | Tax relief (e.g. based on granted investment incentives) |
| Final Tax | |

EU directives

Four EU directives have been implemented in Czech income-tax law. Most took effect on 1st May 2004. The directives are the parent/subsidiary directive, merger directive, royalties/interest directive and savings directive. (The royalties/interest directive applies to royalty and interest payments starting from 2011.)

Withholding tax

Certain types of payments such as dividends and profit shares are subject to withholding tax. Withholding tax rate ranges from 5% to 15% depending on the type of income. The payer of withholding tax is the person/entity that pays the income which is subject to the withholding tax. The list below summarises income that is subject to the withholding tax.

The withholding tax rate is eliminated by Czech local law if requirements according to the applicable EU directive are met. The tax exemption on dividends (and capital gain from the disposal of share) applies automatically when the conditions are met (exemption applies only to limited liability company and joint stock company where the parent company holds at least 10% share for at least 12 months) while the exemption on royalties and interest applies based on the decision of the Czech tax authorities.

Furthermore, the withholding-tax rate is also reduced under a double taxation treaty concluded between the Czech Republic and the country where the recipient of the payment is a tax resident. As of 1 January 2012, the Czech Republic has concluded double-taxation treaties with 77 countries. The exemption under the treaty applies automatically and it is not subject to notification or approval of tax authorities. ■

Income that is subject to the withholding tax:

| | |
|-----|---|
| 15% | license fees, royalties, rents and operating lease payments, copyright fees, etc. paid to a non-resident of the Czech Republic without a Czech permanent establishment |
| 15% | dividends*, profit shares and other related distributions paid to a non-resident of the Czech Republic without a Czech permanent establishment |
| 15% | dividends, profit shares and other related distributions, lottery prizes, public competition prizes, interest from deposit accounts and other personal deposits, etc. paid from a Czech source to a Czech resident or non-resident |
| 5% | financial lease payments paid to a non-resident of the Czech Republic without a Czech permanent establishment |

* Dividends paid within the EU, Norway, Iceland and Switzerland may be exempt from withholding tax under certain conditions.

8. TAX-DEDUCTIBLE ALLOWANCES

Research and development cost allowance

Up to 100% of the costs associated with the projects of research and development and incurred in a given tax year or period for which a tax return is filed can be deducted from the tax base as a special tax allowance (this means that these costs are in fact deducted twice for tax purposes – once as a normal tax deductible cost and then as a special tax allowance).

The following costs can be included in the tax allowance:

- Direct costs (e.g. personnel costs of research and development engineers, consumed material, etc.).
- Tax depreciation of fixed assets used for R&D activities.
- Other operating costs directly related to realisation of R&D activities (telecommunications fees, electricity, water, gas, etc.).

Eligible costs must be incurred in the course of generating, assuring and maintaining the taxable income (i.e. tax-deductible costs), and must be recorded separately from the taxpayer's other costs. This allowance does not apply to the costs of purchased services and intangible results of research and development acquired from other entities (e.g. licenses), except for costs incurred in connection with certification of the results of research and development projects. The costs supported from public sources cannot also be deemed eligible for this tax allowance.

The eligible costs must be incurred during implementation of research and development projects in the form of experimental or theoretical works, design or construction works, calculations, technology proposals, preparation of a functioning sample or product prototype or part thereof; and costs associated with certification of results achieved through research and development projects qualify for a deduction.

The non-utilised allowance (e.g., due to tax loss in current year) can be carried forward for three subsequent years.

The taxpayer can apply the local competent Tax Office for a binding ruling in respect of research and development costs in the event that the taxpayer is not sure if particular research and development costs can be regarded as costs eligible for the allowance.

Accumulated tax losses carried forward from previous years

Losses incurred in the tax period can be carried forward for five subsequent tax periods and it is up to the taxpayer when such losses are actually utilised against taxable profits within this five-

year period. This does not apply to companies that have received investment incentives in the form of tax relief. Such companies must utilize all previous losses against declared profits before they may claim the tax relief. There are additional restrictions for utilisation of accumulated tax losses if the company's ownership structure changes by more than 25% or the company is merged or subject to another type of restructuring. In such case, the "same business" test applies which compares the activities causing the tax loss before the change of control or the merger and the activities generating the tax profit (which should be reduced by the tax losses) after the change of control or the merger. In case of doubts, the taxpayer may apply the Tax Office for a binding ruling whether the tax loss may be utilised in given year.

Charitable donations

The tax base may be decreased by gifts donated for specific reasons set forth by the Income Tax Act (social, health, education, etc.). The minimum value of a tax-deductible donation is CZK 2,000; the maximum reduction is 5% of the tax base reduced by deductible allowances, the R&D allowance and utilised tax losses. Again, a company that has received investment incentives in the form of tax relief must reduce its tax base by tax-deductible donations before it may claim the tax relief. In the case of donations to secondary schools and higher vocational schools for the purpose of acquiring materials or equipment or repairs or improvements of equipment used for practical training, donations to universities and public research institutions, the tax base can be further reduced by up to an additional 5%.

Investment incentive tax-relief

Companies that have received a Decision to Grant Investment Incentives can claim tax relief up to the maximum amount of state aid (i.e., the specific percentage of state aid is applied to the total amount of eligible costs specified in the Act on Investment Incentives and previously in the Decision to Grant Investment Incentives). Under the Czech Investment Incentives Scheme, investors may receive either partial (for investors who expand their existing business activities in the Czech Republic) or full tax relief (for investors who are newly commencing their business activities in the Czech Republic). Both kinds of tax relief can be utilised during five consecutive tax periods.

Full tax relief is almost equal to the value of the tax liability for the relevant tax period (tax relief does not cover tax derived from interest income). The aim of partial tax relief (i.e., for expansion projects) is to offset the tax above the "base tax". Partial tax relief in the relevant tax period is equal to the difference between the tax liability for the period for which tax relief will be

claimed (adjusted by certain items and interest income) and the "base tax" liability ("base tax" is adjusted by the sector price-inflation index). The "base tax" liability is the higher tax liability shown in one of two tax periods immediately preceding the tax period for which tax relief may be claimed for the first time, i.e., in which general and special conditions were fulfilled. The "base tax" liability is calculated using the tax rate valid in the taxable period of the tax-relief calculation.

Depreciation of fixed assets

Tax depreciation is different for tangible and intangible assets. The Czech Income Tax Act sets forth the definition of tangible assets and intangible assets. Tangible assets are assets with an input price above CZK 40,000 and whose expected operational and technical life exceeds one year (moveable assets). For buildings and structures the limit is CZK 1. Land is not depreciated for tax purposes. Tangible assets are divided into six depreciation categories with different depreciation periods.

The classification of tangible assets by depreciation category:

| DEPRECIATION CATEGORY | MINIMUM DEPRECIATION PERIOD (IN YEARS) |
|--|--|
| 1. computers and office equipment, measuring and control devices, etc. | 3 |
| 2. cars, buses, machinery and equipment, lorries and tractors | 5 |
| 3. metal structures, motors, metal products, machinery and equipment for the metals industry, ships, lifts, cranes, electric motors, ventilation and cooling units, etc. | 10 |
| 4. electric mains, gas and oil pipelines, water mains, pillars, chimneys | 20 |
| 5. buildings (factories), bridges, roads, tunnels, water works, cableways | 30 |
| 6. buildings (hotels, administration/business/shopping centres) | 50 |

A company can use either straight-line or accelerated tax depreciation for tangible assets. However, once a method of tax depreciation is selected for a particular asset, this method may

not be changed later. If a tangible asset is sold/liquidated during a tax period, half of the annual tax-depreciation charge can be claimed in such tax period (together with the tax residual value of the disposed asset). In case of partial liquidation of asset, special regulations apply.

Below is a table with a comparison of the straight-line and accelerated methods of depreciation. In 2009 a new tax depreciation method for tangible assets acquired between 1 January 2009 and 30 June 2010 was introduced as a part of anti-crisis measures. This method can be applied only for new tangible assets in the first and second depreciation categories. Under this method, tangible assets in the first depreciation category can be depreciated for 12 months and tangible assets in the second depreciation category for 24 months.

Comparison of the straight-line and accelerated methods of depreciation:

| STRAIGHT-LINE DEPRECIATION | | | | ACCELERATED DEPRECIATION | | |
|-------------------------------|------------|------------------|---------------------------|---|------------------|---------------------------|
| Annual depreciation rates (%) | | | | Coefficients for accelerated depreciation | | |
| Depreciation category | first year | subsequent years | for increased input price | first year | subsequent years | for increased input price |
| 1 | 20 | 40 | 33.3 | 3 | 4 | 3 |
| 2 | 11 | 22.25 | 20 | 5 | 6 | 5 |
| 3 | 5.5 | 10.5 | 10 | 10 | 11 | 10 |
| 4 | 2.15 | 5.15 | 5.0 | 20 | 21 | 20 |
| 5 | 1.4 | 3.4 | 3.4 | 20 | 31 | 30 |
| 6 | 1.02 | 2.02 | 2 | 50 | 51 | 50 |

For the purposes of tax depreciation, intangible assets are divided into three groups:

- 1) Intangible assets acquired before 1 January 2001 (tax depreciation differs from accounting depreciation).
- 2) Intangible assets acquired between 1 January 2001 and 31 December 2003 (tax depreciation equals accounting depreciation).
- 3) Intangible assets acquired after 1 January 2004 (tax depreciation differs from accounting depreciation).

If the purchase agreement stipulates a period during which the intangible assets can be utilised, the annual tax depreciation is calculated as the input price divided by the period agreed in the contract. In other cases, straight-line monthly depreciation is applied for the following periods:

- Audio-visual works are depreciated over 18 months.
- Software and results of research and development are depreciated over 36 months.

- Incorporation expenses are depreciated over 60 months.
- Other intangible fixed assets are depreciated over 72 months.

As for intangible assets acquired between 1 January 2001 and 31 December 2003, their minimum price ceiling must be defined in the company's internal directives. Intangible assets acquired after 1 January 2004 are considered to be intangible assets with an acquisition price above CZK 60,000 and with an expected useful life longer than one year.

Transfer pricing rules

Prices charged between related entities (i.e., one company directly or indirectly participates in another company/companies through at least 25% of the capital or voting rights of such company/

transfer pricing policies which may be used by the Czech taxpayers. The Ministry's guidelines follow the OECD Transfer Pricing Guidelines. The Czech tax legislation does not prescribe any obligation to maintain any transfer pricing documentation. Nevertheless, as such documentation is very likely to be required by the Czech Tax Authorities during a potential tax audit, it is highly recommended that such documentation is prepared in advance, as the deadline is usually very short.

Tax administration

Generally, taxpayers must file tax returns within three months following the end of the tax period. Czech legal entities that are required to prepare audited financial statements or whose tax return is prepared by a registered tax advisor must file their tax returns within six months following the end of the tax period. In certain cases (e.g., a merger), the statutory period for submission of the tax return is reduced.

Corporate income-tax liability (i.e., the difference between the sum of the advance tax payments paid during the relevant tax period and the total tax liability) is payable by the deadline for submission of the tax return.

If the reported tax liability exceeds the statutory threshold, the taxpayer is obliged to pay advance tax payments on a quarterly (if the last known corporate income tax liability exceeded CZK 150,000) or half-yearly basis (if the last known corporate income tax liability was between CZK 30,000 and CZK 150,000). If the last known corporate income tax liability is less than CZK 30,000, no advance payments are required. If the tax return is not filed or not filed on time, the tax authorities levy against the taxpayer a penalty of 0.05% of due tax per each day of such delay, up to 5% of the tax liability. In case of tax loss, the tax authorities levy a penalty of 0.01% per each day of such delay, up to 5% of the tax loss. The penalty cannot exceed CZK 300,000. The penalty does not apply in the first 5 days following the deadline.

If the tax is not reported and paid correctly and the Tax Office discloses such incorrectness then the Tax Office assesses additional due tax (or lower tax loss) and levy a penalty (fine) and a late-payment interest on the taxpayer. The penalty is calculated as 20% of the additionally assessed tax or 1% of a reduced tax loss, and the late-payment interest is calculated as the repo rate of the Czech National Bank effective as of the first day of each half year increased by 14%.

a) Personal income tax

Generally, income from dependent activities paid by a foreign employer to a Czech tax non-resident is tax-exempt if the time spent on such activities performed in the Czech Republic does not exceed

companies, or where the same persons participate in management or control of the respective companies, etc.) may not differ from prices that would be agreed between unrelated entities under comparable circumstances. If the prices differ, the relevant Tax Office may adjust the tax base of the relevant entity by this difference.

If the prices differ and the relevant company is entitled to claim investment incentives in the form of tax relief (i.e., in any five-year incentives period), the right to claim tax relief ceases to apply and the company will have to submit additional tax returns for all taxable periods in which tax relief was claimed.

As of 1 January 2006 the taxpayer can apply the respective Tax Office for a binding advance pricing agreement (APA). The Tax Office issues a binding decision based on the submitted documentation if the prices in a business relationship are at arm's length.

Czech Ministry of Finance has issued non-binding guidelines regulating the eligible transfer pricing policies and documentation of the applied

183 days in any 12 consecutive calendar months. This tax exemption shall not apply to income from an activity performed via a permanent establishment located in the Czech Republic.

b) Taxation of expatriates

Taxable income includes earnings from dependent activities including benefits in-kind (e.g., housing allowances, use of a company car for private purposes, etc.), income from business activities, and income from capital, rent and other sources. In general, taxable income consists of all income regardless of whether it is monetary or non-monetary.

Generally, income is declared and taxed through a personal income-tax return that should be filed with the relevant Tax Office within three months after the end of the tax period (or within six months if a power of attorney for filing the tax return is submitted by a certified tax advisor).

An expatriate who is employed directly by a local (Czech) company or by a branch of a foreign company is subject to tax on his/her income from the dependent activity from the first day of his/her employment. The local company or branch of a foreign company withholds monthly tax prepayments from his/her salary towards his/her annual tax liability. Generally, if the expatriate only has income derived from such an employment contract, the employer can prepare a year-end tax settlement that is a substitute for the expatriate's tax return.

If a foreign company transfers an expatriate to a Czech company under a service agreement, he/she should be registered as an individual taxpayer with the relevant Tax Office. His/her income is taxed via the annual personal income tax return. Additionally, an expatriate makes semi-annual or quarterly advance payments for his/her personal tax liability in the course of the year. These advance payments are based on the previous year's tax liability.

There is a flat personal income-tax rate of 15% in 2012. The gross employment income must be increased by Czech actual or hypothetical social security and health insurance contributions (paid by the employer) and the tax liability is calculated from such increased employment tax base (i.e. super-gross tax base). Therefore the effective tax rate is higher than the nominal 15%.

c) Social security and health insurance contributions

An employee's social security and health insurance contributions are calculated as 11% of gross salary. Employers must pay an additional 34% of all employees gross salaries to the Czech social security and health insurance authorities in 2012.

Major changes came into effect on 1 January 2004 which generally also require any foreign national working in the Czech Republic directly for a Czech company or an employer with its registered office in a country with which the Czech Republic has concluded a social security agreement to pay into the Czech mandatory health insurance and social security schemes. In these cases, employer contributions are also required. Upon the accession of the Czech Republic to the European Union in May 2004, any EU national working in the Czech Republic and his/her employer are also generally required to pay Czech social security and health insurance contributions unless otherwise exempt according to EU regulations or bilateral social security treaties (e.g. granting of an A1 certificate/certificate of coverage).

Social security and health insurance contributions:

| CONTRIBUTIONS | EMPLOYER (%) | EMPLOYEE (%) |
|-----------------------------|--------------|--------------|
| Health care insurance | 9.0 | 4.5 |
| Pensions | 21.5 | 6.5 |
| Unemployment | 1.2 | 0.0 |
| Sickness and other benefits | 2.3 | 0.0 |
| Total | 34.0 | 11.0 |

The annual base for employees' social security and health insurance contributions has been capped since 2008. For 2012 the cap for social security amounts to 48 times the average monthly salary (i.e. CZK 1,206,576) and the cap for health insurance amounts to 72 times the average monthly salary (i.e. CZK 1,809,864).

d) Value added tax

The Czech VAT Act complies with the EU Directives relating to VAT. VAT is generally imposed on:

- all taxable supplies within the Czech Republic;
- goods imported to the Czech Republic or acquired in the Czech Republic from other EU member states.

Taxable supplies within the Czech Republic include provision of services; delivery of goods; transfer and use of rights and transfer of real estate, buildings and structures; acquisition of goods from other EU member states, etc.

Businesses are obliged to account for VAT on the import of goods from third countries. However, there is an entitlement to reclaim such input VAT connected with the import of goods. Businesses are also obliged to account for VAT upon acquisition of goods from other EU member states. At the

same time there is also an entitlement to reclaim such input VAT on acquisition of goods. Certain domestic services are VAT exempt without entitlement to reclaim input VAT (e.g., financial services, insurance services, rent paid to entities not registered for VAT purposes, etc.).

Export of goods is VAT exempt. Generally, services provided to an entity subject to tax with its place of establishment in another EU member state or third country are not taxable in the Czech Republic. The recipient of the services is obliged to account for VAT in the country of its establishment and there is also an entitlement to reclaim such input VAT connected with such services. On the other hand, businesses are obliged to account for VAT in terms of the reverse-charge principle once they acquire a service from a provider in another EU member state or third country.

There are two VAT rates:

- 20% for most goods and services;
- 14% for some selected goods and services (including essential food products, books, special healthcare products).

All entities (individuals and legal entities) that have a registered office, place of business or establishment for VAT purposes in the Czech Republic and whose turnover exceeds CZK 1,000,000 (approx. USD 54,500) in any consecutive 12-month period must register as a VAT payer with the financial authorities/Tax Office. The obligation to register arises, for example, also upon receipt of services from other EU member state with place of supply in the Czech Republic or upon acquisition of goods from other EU member states worth over CZK 326,000 (approx. USD 17,800) within the calendar year. Individuals and legal entities that do not have a registered office, place of business or establishment for VAT purposes in the Czech Republic but provide a taxable supply on Czech territory for VAT purposes have to register as Czech VAT payers as of the date of provision of the first taxable supply. The tax period for entities registered only for the purpose of VAT is a calendar quarter; otherwise, it is a calendar month or a calendar quarter.

e) Excise tax

This tax applies to hydrocarbon fuels and lubricants, spirits and distilled liquors, beer, wine and tobacco products (hereinafter referred to collectively as "excise products") that are produced in or imported to the Czech Republic. The tax is calculated as a fixed amount per unit of the product concerned and is levied on the producer (importer). Tax levied on tobacco products is calculated as a combination of a fixed amount and a percentage of the selling price.

Excise products can be produced, transported or stored under duty suspension arrangement, i.e. tax liability is deferred until these products are released for free tax circulation.

f) Energy tax

The tax reform that came into effect on 1 January 2008 introduced a new type of indirect taxes implementing the relevant EU directives in the area of energy taxes. These taxes are levied on supplies of electricity, natural and other gases, and solid fuels (hereinafter referred to collectively as "energy"). The payers of energy tax are either suppliers of energy in the Czech Republic selling energy to end-users or operators of distribution or transmission systems. Those subject to energy tax are also entities that use taxexempt energy for purposes other than those that are exempt or that use untaxed energy.

The tax on electricity is levied at the rate of CZK 28.30 per MWh. The tax on gas is levied at rates varying from CZK 0 per MWh to CZK 264.80 per MWh, depending on the type of gas, the purpose of its use and the date when the tax liability arises. The tax on solid fuels is levied at the rate of CZK 8.50 per GJ. End-users can utilise a tax exemption when the energy is used for specific purposes.

g) Road tax

Road tax is payable on vehicles registered and operated for business purposes in the Czech Republic. The tax is calculated according to engine size for passenger cars or weight and number of axles for other commercial vehicles. The rates range from CZK 1,200 (on vehicles with engines up to 800 cm³) up to CZK 4,200 (on vehicles with engines over 3000 cm³) and from CZK 1,800 up to CZK 50,400 (on heavy-duty vehicles over 36 tonnes) and the tax period is the calendar year. In 2008 a new system of reducing the tax rate depending on the date of initial registration of a vehicle was introduced.

Freight vehicles weighing up to 12 tonnes with an electric or hybrid engine, or which use LPG or CNG as fuel are exempt from the road tax. Taxpayers are required to submit their tax return for the previous tax period (calendar year) by 31 January of the following year.

h) Real estate tax

Real estate tax comprises a tax on land (land tax) and a tax on structures (building tax) based on the situation as of 1 January of relevant tax year. Real estate tax is generally payable on an annual basis by the owner of the land or building(s), although in very specific cases the user or the lessee is the payer. All property owners must file tax returns with the relevant Tax Office by 31 January of the relevant tax period only for the first tax period (calendar year), and later only when the conditions relevant to tax assessment have changed.

Land tax is imposed on plots of land entered in the Land Registry and is payable by the owner

or, in special cases, by the lessee or user. On 1 January 2010 the tax rate on land was doubled, i.e., the rate is CZK 2 per square meter for the building plots (subject to adjustments in relation to the size of the municipality where the land is located) and CZK 0.2 per square meter for the other types of land.

From 1 January 2012 the land that is paved by a special surface is subject to a "Paved area" tax rate of CZK 1 per square meter (agriculture) or CZK 5 per square meter (other business activities). This applies to e.g. parking lots, platforms, ramps, certain roads, etc.

Building tax is calculated according to the registered built area. The tax ranges from CZK 2 to CZK 10 per square meter in the case of business premises and from CZK 2 to CZK 8 per square meter for residential buildings. This amount may be increased by CZK 0.75 per square meter for each additional floor.

Both land tax and building tax are multiplied by a coefficient that varies according to the location, ranging from 1 to 4.5 (the highest coefficient applies to Prague). Municipalities can further determine a local coefficient to increase the taxpayer's tax liability for certain types of real estate. A new local coefficient was introduced in 2009. This maximum coefficient can vary from 2 up to 5 based on the decision of the respective municipality.

i) Real estate transfer tax

Unless a tax exemption applies, real estate transfer tax is charged at a flat rate of 3% of the sale price of a property or of the usual market price determined by a statutory expert, whichever is higher. The tax is payable by the seller (the buyer is the guarantor). In certain cases, the taxpayer can ask the Financial Directory for a remission of real estate transfer tax.

j) Inheritance and gift taxes

Inheritance tax is payable in the case of receipt of property by an inheritor due to the death of a testator. Property includes immovable assets (land, buildings), movable assets, securities, etc. The receipt of immovable assets located in the Czech Republic is subject to inheritance tax, regardless of the residence of the testator/inheritor. The taxation of inheritance of movable assets depends on the residency status of the testator, i.e., if the testator was a Czech resident with permanent residence in the Czech Republic, all movable assets transferred to the inheritor are subject to inheritance tax in the Czech Republic. It does not matter whether the movable assets are located in the Czech Republic or in a foreign country. There are three categories of inheritors based on their relation to the testator. Only the inheritors in Group III (individuals

with the weakest relation to the testators and all legal persons) are subject to the inheritance tax.

The receipt of assets for no consideration based on a legal act or in connection with such legal act is subject to gift tax. If property is donated to a Czech individual or legal entity, then the recipient must pay the gift tax. The donor is the guarantor of the gift tax. If property is gifted to a foreigner, the Czech donor must pay the gift tax. There is a possibility of tax exemption on gifts and inheritance when these transactions occurred between persons in Group I and Group II. Group I comprises immediate family members (parents, children) and spouses; Group II comprises siblings, nephews, nieces, aunts, uncles, etc.

Starting from 2011, the gift tax also applies for carbon emission permissions provided for free to the producers of electricity. In this case, special tax rate of 32% applies.

k) Local taxes

No local taxes have been introduced in the Czech Republic to date. Some local fees are levied on the waste produced by companies and also with respect to certain business activities such as those related to spas, accommodation, and use of televisions and radios. ■

9. LABOUR AVAILABILITY

a) Labour market

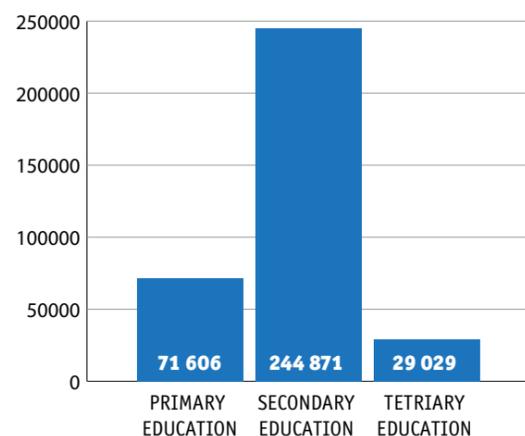
The labour market in the Czech Republic is showing signs of a slowdown in the global crisis. Industry is still strongly export-oriented and this also affects the economic situation and development. On the other hand, the differences of the regions support a wide spectrum of industrial and economic sectors and the inhabitants are well informed thanks to support programmes for unoccupied professions. A global problem most apparent directly in the human resources sector is talent shortage. However, a recent research carried out by the Manpower Employment Agency shows that the situation in the Czech Republic is relatively favourable for employers – in comparison with other countries, with only 19% of employers finding it difficult to fill a vacancy.

The Labour market in the Czech Republic, as well as the economy and industry, have a very regional character. The lowest unemployment rate, the highest number of job opportunities, and the highest average salaries are traditionally found in the capital of Prague and in the Central Bohemia Region. On the other hand, these rates are the worst in the Ústí nad Labem and Moravia-Silesia Regions. As regards industrial sectors, the Czech Republic has mainly traditional heavy industry and the car industry, but also rubber and power industries. Traditional fields are, for example, also glass-making and viticulture.

Export is mainly to Germany, whose current situation due to the economic crisis and recession is also influencing the Czech industry and economy.

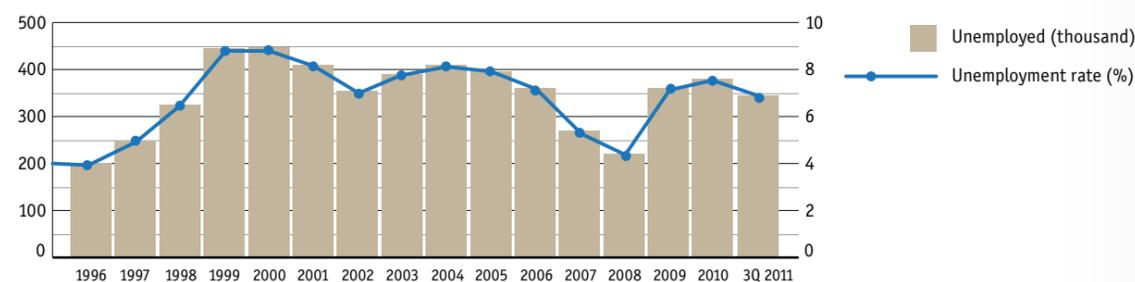
Number of unemployed in the Czech Republic (divided according to attained education – Q3 2011)

source: Czech Statistical Office, 2012



Number of unemployed and unemployment rate in the Czech Republic

source: Czech Statistical Office, 2012

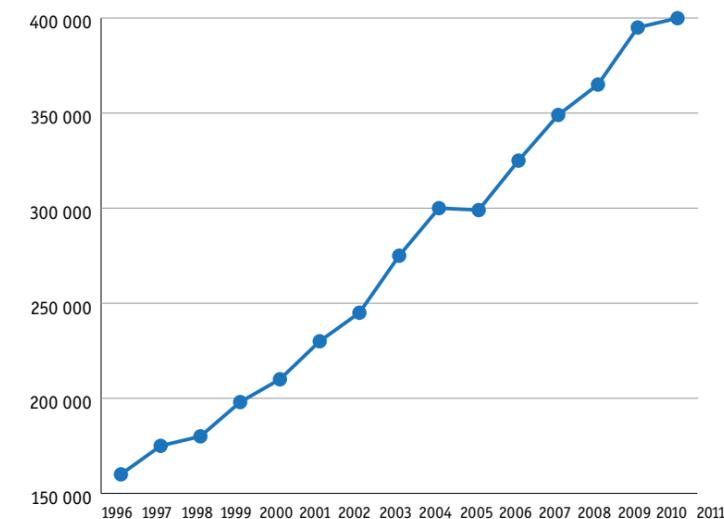


10. HIGHLY SKILLED LABOUR FORCE

One of the main attractions of the Czech economy is its skilled and well-educated workers available at a fraction of the cost of those in western economies. According to the OECD, the Czech Republic is among the countries with the highest percentage of science and engineering students. The number of university students increased from 118 000 in 1990/91 to 396 307 in 2010/2011, due not only to changes in the education system but also to a demographic bulge of 18-26-year-olds that represent a promising group of potential employees for foreign investors. ■

University students

source: Institute for Information in Education, 2012



11. USEFUL CONTACTS

Office of the Government of the Czech Republic

Nabreží Eduarda Benese 4 | 118 01 Praha 1
Phone: (+420) 224 002 111
Fax: (+420) 296 153 257
www.vlada.cz

Ministry of Foreign Affairs of the Czech Republic

Loretanske náměstí 101/5 | 118 00 Praha 1
Phone: (+420) 224 181 111
Fax: (+420) 224 182 068
www.mzv.cz, www.czech.cz

Ministry of Industry and Trade

Na Frantisku 32 | 110 15 Praha 1
Phone: (+420) 224 851 111
Fax: (+420) 224 811 089
www.mpo.cz

Ministry of Finance

Letenská 15 | 118 10 Praha 1
Phone: (+420) 257 041 111
Fax: (+420) 257 042 889
www.mfcr.cz

CzechTrade (Trade Promotion Agency)

Dittrichova 21 | 128 01 Praha 1
Phone: (+420) 224 907 523
Fax: (+420) 224 913 440
www.czechtrade.cz

General Customs Office

Budejovická 7 | 140 96 Praha 4
Phone: (+420) 261 331 111
Fax: (+420) 261 332 000
www.cs.mfcr.cz

Czech Statistical Office

Na Padesátem 81 | 100 82 Praha 10
Phone: (+420) 274 051 111
Fax: (+420) 274 054 177
www.czso.cz

Czech National Bank

Na Příkopě 28 | 115 03 Praha 1
Phone: (+420) 224 411 111
Fax: (+420) 224 412 404
www.cnb.cz

Prague Stock Exchange

Rybna 14 | 110 05 Praha 1
Phone: (+420) 221 831 111
www.pse.cz

Czech Venture Capital Association

Ovocný trh 8 | 110 00 Praha 1
Phone: (+420) 224 235 399
Fax: (+420) 224 239 424
www.cvca.cz

Economic Chamber of the Czech Republic

Freyova 27 | 190 00 Praha 9
Phone: (+420) 296 646 112
Fax: (+420) 296 646 221
www.komora.cz

Confederation of Industry of the Czech Republic

Jankovcova 1569/2c | 170 04 Praha 7
Phone: (+420) 234 379 500
Fax: (+420) 234 379 463
www.spcr.cz

Association of Czech Entrepreneurs

Na Strži 1837/9 | 140 00 Praha 4 - Krč
Phone: (+420) 261 104 242
Fax: (+420) 261 104 262
www.sdruzenispcr.cz

Association for Foreign Investment

Stepánská 11 | 120 00 Praha 2
Phone: (+420) 224 911 751
Fax: (+420) 224 911 779
www.afi.cz

American Chamber of Commerce

Dusní 10 | 110 00 Praha 1
Phone: (+420) 222 329 430
Fax: (+420) 222 329 433
www.amcham.cz

British Chamber of Commerce

Male náměstí 11 | 110 00 Praha 1
Phone: (+420) 224 835 161
Fax: (+420) 224 835 162
www.britishchamber.cz

Austrian Trade Commission

Krakovská 7 | 111 21 Praha 1
Phone: (+420) 222 210 255
Fax: (+420) 222 211 286
www.advantageaustria.org

Canadian Chamber of Commerce

Klimentská 46 | 110 02 Praha 1
Phone: (+420) 225 000 345
Fax: (+420) 225 000 345
www.gocanada.cz

German-Czech Chamber of Industry and Commerce

Vačlavské náměstí 40 | 110 00 Praha 1
Phone: (+420) 221 490 303
Fax: (+420) 224 222 200
www.dtihk.cz

French-Czech Chamber of Commerce

IBC, Pobřežní 3 | 186 00 Praha 8
Phone: (+420) 224 833 090
Fax: (+420) 224 833 093
www.ccft-fcok.cz

Japanese Chamber of Commerce and Industry

Hradčanská Office Center
Milady Horákové 109/116 | 160 00 Praha 6
Phone: (+420) 233 350 444
Fax: (+420) 233 359 221

JETRO

Parizská 11/67 | 110 00 Praha 1
Phone: (+420) 224 814 971
Fax: (+420) 224 813 998
www.jetro.go.jp

Italian-Czech Chamber of Commerce and Industry

Cermakova 1314/7 | 120 00 Praha 2
Phone: (+420) 222 015 300
Fax: (+420) 222 015 301
www.camic.cz

International Chamber of Commerce

Thunovská 179/12 | 118 00 Praha 1
Phone: (+420) 257 217 744
Fax: (+420) 257 217 744
www.icc-cr.cz

Korea Business Centre

Skřetova 12 | 120 00 Praha 2
Phone: (+420) 245 005 650
Fax: (+420) 245 005 651
www.kotra.cz

Netherlands Chamber of Commerce

Zlatý Anděl, Nadrazní 25 | 150 00 Praha 5
Phone: (+420) 224 222 336
Fax: (+420) 257 473 744
www.nlchamber.cz

Nordic Chamber of Commerce

Vačlavské náměstí 51 | 110 00 Praha 1
Phone: (+420) 774 123 370
Fax: (+420) 226 015 885
www.nordicchamber.cz

Swiss-Czech Chamber of Commerce

Jankovcova 1569/2c | 170 00 Praha 7
Phone: +420 222 516 614
Fax: +420 222 513 685
www.hst.cz ■

12. AUDIT ÚČETNICTVÍ, s.r.o.

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AUDIT ÚČETNICTVÍ, s.r.o.

and AÚ – účetnictví a daně, spol. s r.o.

The **AUDIT ÚČETNICTVÍ, s.r.o.** has been established in 1993 and its main activities from the beginning were audits of closing of books and advisory services in the accounting-tax field. Since 1998, the company provides the accounting services, i.e.: accounting management, salary administration management, compilation of year end closing, tax consultancy, through the sister company **AÚ – účetnictví a daně, spol. s r.o.** In the case of interest the company also performs incorporation of companies and related competent services.

Both Companies employ 25 employees – 4 auditors, 8 tax advisers, 1 authorized expert in the branch of economy, a specialist with a certificate of education in the statements of US GAAP and IFRS and our 10 other employees have degree with an economic specialization and long-time practice in our company. We are prepared to perform all our services in Czech, English and German.

Clients of **AUDIT ÚČETNICTVÍ, s. r. o.** and **AÚ – účetnictví a daně, spol. s r.o.**

include approximately 80 companies with various lines of business, these are primarily subsidiaries of foreign companies.

If you have any comments, questions or business possibilities do not hesitate to contact us. ■



13. The source

CZECHINVEST [online]. Vystaveno 1994-2013 [cit. 2012-08-15].

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