12. Corporate Income Tax

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 Czechia. 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 non-taxable revenues and other non-accounting adjustments. The accounting period/tax period can be either calendar year or fiscal year.

The standard rate of corporate income tax is 21%. For basic investment funds special 5% corporate income tax rate applies; for pension funds 0% corporate income tax rate applies.

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 - tax-deductible costs not booked
-	Non-taxable income or income not subject to corporate income tax
+	Non-accounting adjustments - taxable income not booked
	Adjusted tax base
-	Accumulated tax losses carried forward from previous years (tax losses from previous 5 years may be utilised)/carried back (up to 2 years back)
-	Gifts to charities (up to 10% of the tax base)
-	R&D allowance of up to 100/110% of certain expenses incurred in connection with research and development projects
	Tax base adjusted for gifts, R&D allowance and tax losses
x	Tax rate/100
	Tax before tax relief
-	Tax relief (e.g., granted investment incentives)
	Final tax

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 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.).

In the case of some 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. assignment of receivables).

Depreciation of fixed assets

From 2021, the Czech Income Tax Act sets forth the definition of tangible assets and their tax depreciation only.

Tangible assets are any buildings/constructions and movable assets with an input price above CZK 80,000 whose useful life exceeds one year (moveable assets). For tangible assets acquired prior to 2021, the input price threshold for tangible assets was CZK 40,000. Land is not depreciated for tax purposes. Tangible assets are divided into six depreciation categories with different depreciation periods. Examples of the classification of tangible assets by depreciation category is shown in the following table.

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.

Intangible assets are no longer defined for tax purposes, their accounting amortisation, however, may be used as a tax deductible cost. Intangible assets acquired prior to 2021 with an acquisition price above CZK 60,000 and with an expected useful life longer than one year continue to be subject to tax amortisation per the pre-2021 rules.

The new regime for obligatorily applies to assets acquired from 2021. However, taxpayers have an option to apply it even for assets acquired in 2020.

EU directives

Following EU directives have been implemented in Czech income-tax law (parent/subsidiary directive, merger directive, royalties/interest directive and savings directive, anti-tax avoidance directives I and II, and directive on administrative cooperation (DAC6). Pillar 2 Directive is expected to be implemented with the effect from January 2024.

Participation exemption

Capital gains or dividends derived from qualifiying subsidiaries are tax exempt. 10% participation in capital and 12-month holding test applies. Other specific condidions set by the law also have to be met.

Withholding tax

Certain types of payments such as dividends, interest or royalties are subject to withholding tax. The payer of withholding tax is the person/entity that pays the income which is subject to the withholding tax. The list below gives examples of income that is subject to the withholding tax.

15%	royalties, operating lease payments, copyright fees, dividends, other related distributions, etc. **paid to a non-resident of Czechia without a Czech permanent establishment**
5%	financial lease payments **paid to a non-resident of Czechia without a Czech permanent establishment**
35%	royalties, operating lease payments, copyright fees, dividends, profit shares and other related distributions, etc. **paid to Non-EU/EEA residents from jurisdictions that do not have a Double Tax Treaty or Exchange of Information Treaty in force with Czechia**

Dividends, interest or royalties paid to qualifying EU/EEA/Swiss company are exempt from the withholding tax (specific rules apply). Due to the Brexit, this no longer applies to UK companies.

Furthermore, the withholding-tax rate can also be reduced under a double taxation treaty concluded between Czechia and the country where the recipient of the payment is a tax resident. As of February 24th, 2023, Czechia has concluded double-taxation treaties with 113 countries (plus similarly working legal arrangement with Taiwan).

Tax-deductible allowances

Research and development cost allowance

Up to 100% or 110% of costs associated with the projects of research and development and incurred in a given tax year 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.)

This allowance does not apply to the costs of purchased services. Costs already supported from other public sources are also not eligible for this tax allowance.

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

Accumulated tax losses carried forward from previous years

Losses incurred in the tax period can be carried forward for five subsequent tax periods.

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 of the company before the change of control or the merger and the activities generating revenues 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.

Accumulated tax losses carried back to previous years (tax loss carry-back)

Taxpayers can utilize their tax losses for two periods immediately preceding the period in which the tax loss was assessed. Up to CZK 30 million of the annual tax loss may be such carried back in total to the preceding 2 period. The tax loss carry back is claimed via a filing an additional income tax return for the past tax period(s).

Charitable donations

The tax base may be decreased by gifts donated for specific purposes set forth by the Income Tax Act (social, health, education, etc.). The standard level of maximum reduction is 10% of the tax base reduced by deductible allowances, the R&D allowance and utilised tax losses. However, due to COVID and the military conflict in Ukraine, the maximum deduction was temporarily increased to 30% of the tax base in the tax periods ending from March 2020 up to February 2023. Furthermore, the scope of the deduction was extended to donations made in tax periods ending between March 1, 2022, and February 28, 2023, to Ukraine, its territorial units, or legal or natural persons resident in the territory of Ukraine, for the above-mentioned specific purposes or for the purpose of supporting the defensive efforts of Ukraine.

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 investments. The maximum level of permissible state aid is 25% in all regions in Czechia except Prague (with permissible state aid 0%).

Investors may receive either partial (brownfield; ie. for investors who expand their existing business activities in Czechia) or full tax relief (greenfield; ie. for investors who are newly commencing their business activities in Czechia). Both kinds of tax relief can be utilised during ten subsequent 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 brownfields) is to offset the tax above the "fixed 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 "fixed tax" liability ("fixed tax" is adjusted by the sector price-inflation index). The "fixed tax" liability is calculated as the arithmetic average of the amount of tax for the three tax periods immediately preceding the tax period for which the relief can be applied initially, i.e., in which general and special conditions were fulfilled. The "fixed tax" liability is calculated using the tax rate valid in the tax period of the tax-relief calculation.

Strategic Investor (high-volume investment projects) can receive cash subsidy for acquisition of long-term tangible and intangible assets.

Transfer pricing rules

Czech tax legislation contains the general arm's length principle. It is compatible with the OECD Transfer Pricing Guidelines. A taxpayer can apply with the respective Tax Office for a binding advance pricing agreement (APA). The Czech tax legislation does not prescribe any obligation to maintain any transfer pricing documentation. Nevertheless, it is highly recommended that the documentation is prepared as it can be used as a valuable evidence during a tax audit.

The Czech legal entities which participate in transactions with related parties are obliged to file a separate disclosure form on "Overview of Transactions with Related Parties" together with the corporate income tax return.

Tax administration

Generally, taxpayers must file tax returns within three months following the end of the tax period. If the tax return is filed electronically, the deadline is postponed by one month, i.e. can be submitted to the tax administrator within four months following the end of the tax period. Czech legal entities that are required to prepare audited financial statements or whose tax return is filed 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 is not reported and paid correctly and the Tax Office discovers this during a tax audit, then the Tax Office assess additional due tax (or lower tax loss) and levy a penalty (fine) and a late-payment interest to the taxpayer. The penalty is calculated as 20% of the additionally assessed tax or 1% of a reduced tax loss. Since 1.1.2021, 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 8 percentage points, up to the end of 2020 the late payment interest rate was the repo rate of the Czech National Bank effective as of the first day of each half year increased by 14 percentage points.

Accounting

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.

Effective 1 January 2016, new classification of companies has been introduced:

Company	Net turnover (CZK)	Net assets (CZK)	Employees	Criteria
Micro	18 million	9 million	10	2 of 3
Small	200 million	100 million	50	2 of 3
Medium	1 000 million	500 million	250	2 of 3
Big	above 1 000 million	above 500 million	above 250	

A company is classified as a micro company assuming that at least two of three criteria as at the balance sheet day are not exceeded. Similarly a company is classified as a small company assuming the company is not a micro company and that at least two of three criteria as at the balance sheet day are not exceeded. A company is classified as a medium company assuming the company is not micro- and small- company and at least two of three criteria as at the balance sheet day are not exceeded.
A company is classified as big assuming at least two of three criteria as at the balance sheet day are exceeded.

Statutory audit is always required for big and medium companies. Small companies qualify for the statutory audit based on the following criteria: legal form of joint-stock company or other small companies and at least one of the below criteria is fullfilled as at the balance sheet day of the current and immediately preceding accounting period.

Criteria:

- net assets CZK 40 million
- net turnover CZK 80 million
- employees headcount 50

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.