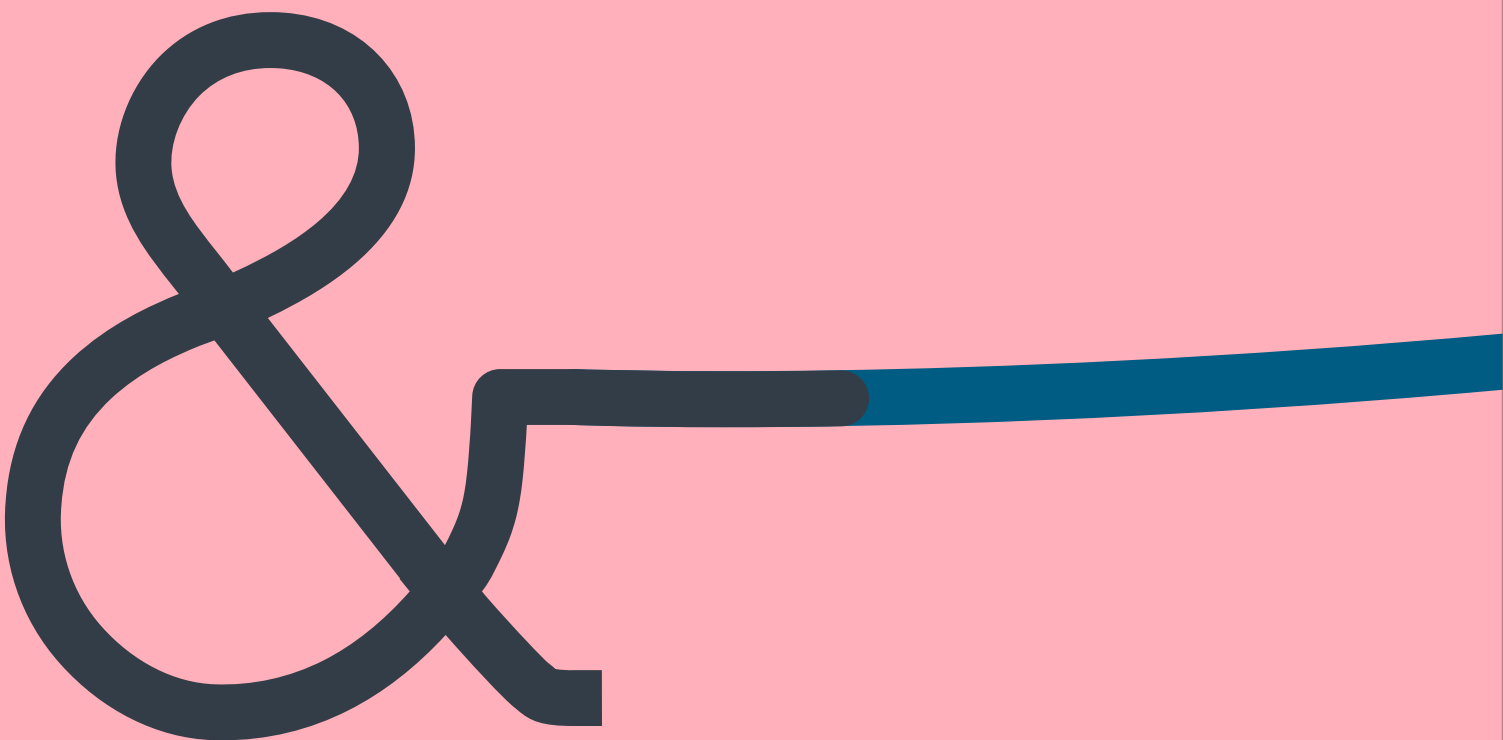


Bird & Bird

Setting up a business in Czech Republic

2022





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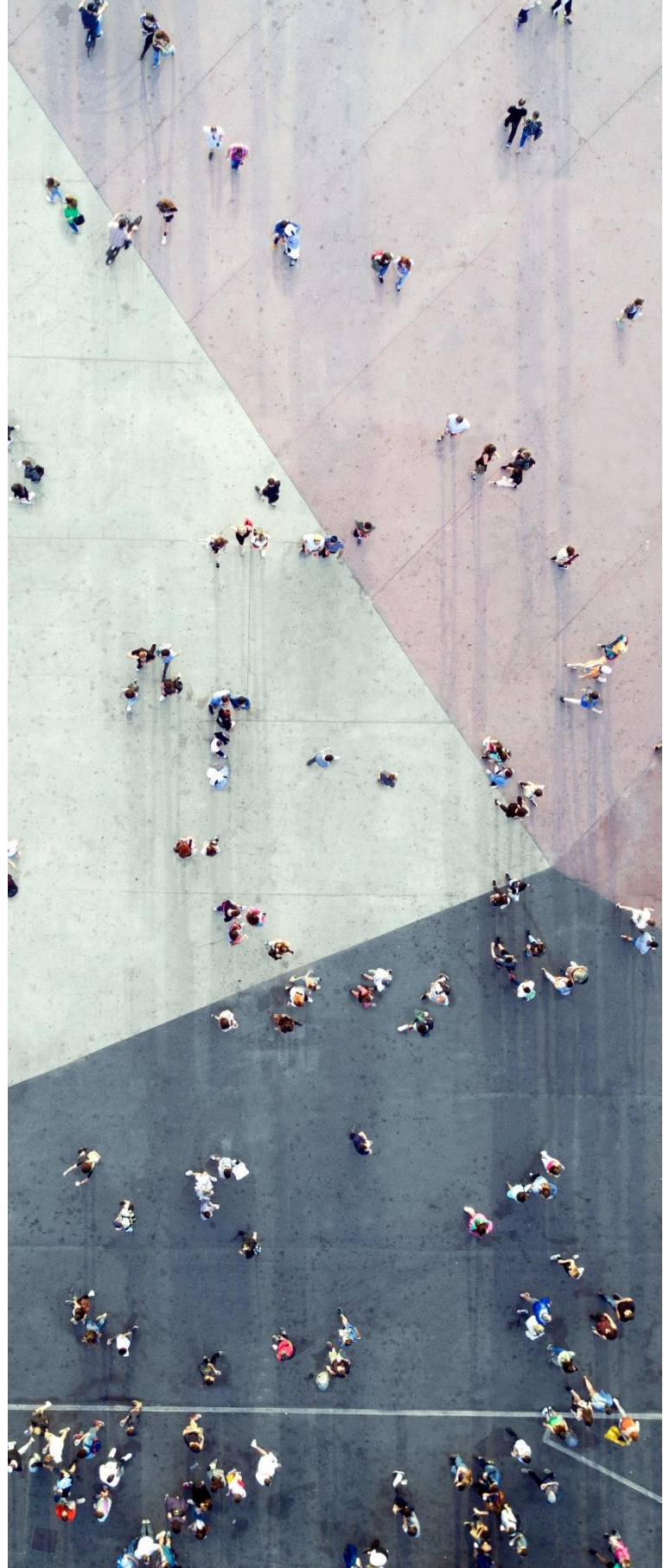
Legal 500 EMEA 2022, Czech Republic

Setting up a business in Czech Republic

Over the last decade, the Czech Republic (“CR”) has become an attractive country to foreign investors. This is due to several factors, including a modified flat tax rate, an educated workforce with relevant business and technological skills, a friendly business environment and the country’s favourable location between Western and Eastern Europe.

Current Czech private law provides fewer formal rules regarding the governance of companies, as well as some new measures which simplify the process of carrying on business in the CR.

Investors — both foreign and Czech — can obtain investment incentives whose purpose is to support the introduction or expansion of production in the manufacturing industry, technological research, and IT development. Businesses set up in the CR can also obtain financial support from the EU structural funds. The country is a member of EU, OECD, WTO, NATO, OBCE and the Schengen Area.



Setting up a business in Czech Republic

Choice of legal entity

A foreign company may carry on business in the CR either by establishing a registered subsidiary company or by registering an organisational unit ("Branch"), which is considered an extension of the foreign company.

The Business Corporations Act ("BCA") regulates six basic types of business companies: general partnership, limited partnership, limited liability company, joint-stock company, European company, and European economic interest grouping. The limited liability company and the joint-stock company are the most popular types of business companies.

Subsidiary	Branch
Minimum 1 founder (either a natural or legal person).	N/A
Foundation documents in the form of a notarial deed.	Established by foreign company decision in a written form (less formal process).
Limited liability at subsidiary level.	Foreign company retains direct liability for its branch.
Separate legal entity entitled to contract in its name and on its own behalf.	No legal capacity under Czech law, it only acts as a representative of the foreign entity.
Need to obtain relevant trade license certificate(s).	
Approximate cost for the court to register is £350. Approximate cost for the public notary to register is £250. If the foundation documents contain only mandatory legal requirements and the contribution to the registered capital is paid up in cash, the approximate cost to register is £170.	Approximate cost for the court to register £210. Approximate cost for the public notary to register £110.
Directors do not need to be CR nationals.	Head of branch does not need to be CR national.
Minimum registered capital CZK 1 (approximately £0.03).	N/A
30% of all monetary contributions and 100% of all non-monetary contributions to the registered capital must be paid up prior to incorporation. Registered capital must be paid up in full within 5 years from incorporation.	N/A
Annual financial statements must be prepared, and they must also be audited if one of the following applies: annual turnover of more than £2.72 million; total value of assets is more than £1.36 million; or the average annual number of employees exceeds 50.	Annual financial statements to be prepared.
Corporation tax on worldwide profits and gains (19%).	
Can benefit from double tax treaties.	Double tax treaties not applicable.
Intra-group transactions require arm's length terms.	N/A

Subsidiary

Trading losses can be off set against the profits for the accounting period.

Branch

Trading losses can appear in parents' accounts and are subject to domestic tax laws.

Setting up a business in Czech Republic

Income Tax

The tax system in the CR is like that operated in other OECD countries. Business entities are subject to a profit tax, while the distribution of profits to individuals is also included in the tax base of individual taxpayers together with the individual's income from other sources.

The main law regulating income taxation is the Income Taxes Act and it covers individuals as well as legal entities.

Personal income tax and corporate income tax apply to resident taxpayers on their worldwide income. The personal income tax system applies a rate of 15% and 23% to earned income and a rate of 15% to income from other sources.

The statutory corporate tax rate is 19% in 2022. Provided that certain statutory conditions are met, investment funds, unit trusts and pension funds are subject to a 5% corporate tax rate.

The fiscal year is the calendar year. Corporate taxpayers may decide to have a fiscal year different from the calendar year. Income tax returns need to be filed and tax liabilities need to be paid within three months of the fiscal year end; although this

can be extended for another three months if the return is prepared and submitted under a power of attorney by an authorised tax advisor.

Employment

Employment relations are regulated by the Labour Code and other legal regulations such as the Act on Collective Bargaining or the Act on Ensuring other Health and Safety Protection Conditions at Work.

Employees are protected against discrimination (e.g., age, race, sex, disability, religion, belief, or sexual orientation). Employees have minimum statutory rights (please see below for a basic overview of working conditions).

In general, a foreigner must obtain a work permit and a residence permit, an employee card, or a blue card before starting work. Certain exceptions apply. EU citizens and relatives of EU citizens do not need work permits.

The employer must deduct income tax advances and social security and health insurance contributions for its employees. The personal income tax system applies a rate of 15%, or in some cases a rate of 23% to earned income.

Basic overview of working conditions:

Weekday working hours	40
Maximum overtime hours	8 hours per week, 150 hours per year (or between 150 and 416 hours overtime if agreed with the employee)
Minimum paid leave	4 weeks per year (160 hours)
Sick days paid by the employer	60% of average earnings from the 1st to 14th day of sickness
Social security and health insurance	34% of the employees' gross salaries paid by the employer
Termination of the employment contract	Employers may terminate it only for reasons stated in the Labour Code (e.g., organisational changes). Employee may terminate it for any reason
Notice period	Two months (starts running as of the first day of the calendar month following the calendar month in which the notice was delivered to the other party)

Basic overview of working conditions:

Redundancies	Statutory severance payment amounting to up to three times the employee's average monthly earnings depending on the length of employment relationship (duration of employment up to 1 year – once the average monthly earnings; from 1 to 2 years – two times the average monthly earnings; more than 2 years – three times the average monthly earnings)
Employee's liability for damages	The maximum liability for damages amounts to 4.5 times the employee's average monthly earnings in the case of negligent conduct. In the event of damages caused intentionally or under the influence of alcohol or drugs, the employee's liability is unlimited



“They are well prepared in current case law, and they are flexible from the point of view of time pressure.”

Legal 500 EMEA 2022, Czech Republic

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Commercial Contracts

The CR has a civil law system. Contractual relations are regulated in the CR by the Civil Code, which covers the complex treatment of Commercial Contracts. EU legislation applies in the CR.

CR and EU competition law prohibit anti-competitive behaviour (e.g., price fixing) where there is an appreciable effect on trade in the CR and/or between EU Member States.

Overseas companies should be aware of any industry specific laws that apply to their businesses, e.g., WEEE Regulations (electrical goods), REACH and CLP Regulations (chemical products) and the Financial Services related directives (financial products). Often, these laws are based on EU legislation and are relatively consistent across the EU.

Real Estate

Most companies setting up in the CR prefer to rent either serviced offices or conventional office space rather than buy them.

The lease of serviced offices is generally more flexible.

They are ready-to-go (furnished, fully equipped, and entirely managed by a facility management company) and can be rented for very short periods. There is no initial capital outlay.

Leases of non-residential premises are usually for 5-10 years, often with break clauses after 5 years and upwards only rent reviews, based on the annual changes either in the Czech Consumer Price Index or the European Harmonised Index of Consumer Prices.

Tenants usually prefer to fit-out the leased premises themselves, which is done at their own cost, although typically the landlord will contribute by allowing a rent-free period

Or by bearing the tenant's fit out costs (fully or partially). The tenant will be responsible for reinstating the premises at the end of the lease, unless agreed otherwise. The landlord

usually requires collateral security, including a cash deposit of usually 3 months' rent and service charges and/or a bank or parent company guarantee.

Setting up a business in Czech Republic

Data Protection/Privacy

Organisations processing personal data (which includes employee data and business contact data) will need to comply with the General Data Protection Regulation (GDPR) and Czech Act on Personal Data Processing.

The organisations are obliged to process personal data only in accordance with the specific purpose of their processing and for no longer than is necessary to fulfil such purpose. They must also determine the legal basis for their processing and provide the data subjects with all required information regarding processing of their data.

Breach of the GDPR may be subject to administrative sanctions and an unauthorised disposal of personal data constitutes under some circumstances a criminal offence under the Czech Criminal Code.

Organisations must also ensure their processing and use of personal data complies with data protection principles. These impose, amongst other things, obligations of transparency, accountability principle, data minimization and accuracy, integrity and confidentiality or purpose limitation. The GDPR also restricts the transfer of data out of the EEA unless prescribed compliance measures are taken.

Intellectual Property

Czech law protects all traditional types of intellectual property, such as copyright, trademarks, designs, patents, or trade secrets, and is in this area largely harmonized with EU law.

Brand names, logos, and other signs, such as colours or shape of goods, may be registered as trademarks. This can also be done on an EU-wide basis through the EU trademark scheme.

Designs can also be protected through design registration in the CR or on an EU-wide basis.

Patent protection in the CR can be obtained based on national patent application filed with the Czech IP Office or based on European patent application filed with the European Patent Office.

Literary, artistic, or scientific works and rights related to them are protected by copyright law without registration. Copyright protection also covers software.

Business Model Design

Alongside legal challenges, whatever the nature of your international ambitions the planning process requires some key questions to be addressed:

- Is internationalisation a feasible option, and are you ready for it?
- What is your internationalisation strategy, and how will you prioritise which markets to target?
- What business model will be most effective for driving profitable growth?
- Will you require business partners, and how do you plan to find them?
- What will your penetration strategy be for your selected markets?
- How will you build the infrastructure and operating model required to support your move into the new markets?
- How will you execute the plan and implement the business model?

Wherever your starting point, our consultancy arm OXYGY can help you answer these questions and create a fit-for-purpose roadmap to guide your business through its internationalisation journey.

Contact us

If you would like further information on setting up business in the Czech Republic, please e-mail our Set up Desk at new.company@twobirds.com and we will contact you within 24 hours.

This summary gives general information only as of May 2022 and is not intended to give a comprehensive analysis. It should not be used as a substitute for legal or other professional advice, which should be obtained in specific circumstances.



“Bird & Bird LLP provides “very good advice, in particular with regard to understanding the nuances and political climate among the stakeholders to get transactions through.”

Chambers Global, 2022



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