Country Guide
Czech Republic

Prepared by

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DOING BUSINESS IN THE CZECH REPUBLIC

2023

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ARTICLE 1.

GENERAL INFORMATION

1.1. LOCATION AND AREA

The Czech Republic is a landlocked country situated in the heart of Europe. The country borders Poland to the northeast, Germany to the west and northwest, Austria to the south, and Slovakia to the east. With an area of 78,866 square kilometres, the Czech Republic, originally part of Czechoslovakia, is divided into 13 regions and the capital city of Prague.

1.2. POPULATION AND LANGUAGE

The Czech Republic has approximately 10.5 million inhabitants (2022). The majority of inhabitants are ethnically Czech; national minorities include Ukrainians, Slovaks, Vietnamese, Russians, Poles, and Germans among others. The official language is Czech.

Since 2004, the Czech Republic has been a member of the European Union (EU). The Czech Republic is also a member of the OECD, WTO, WIPO, NATO, and many other international organizations.

1.3. CURRENCY

The official currency of the Czech Republic is the Czech crown (CZK).

Exchange rates against other currencies (source – Czech National Bank, as at 7 February 2022):

EUR	CZK 23.860
USD	CZK 21.880
GBP	CZK 27.118
CHF	CZK 23.754
JPY	CZK 16.821

1.4. IMPORTANT CHANGES AND SOURCES OF BUSINESS INFORMATION

In 2012, a major recodification of private law was passed comprising a new Civil Code (effective as of 1 January 2014) and a new regulation of business corporations – the Act on Business Corporations (also effective as of 1 January 2014 – for more information see Sections 8.1 and 8.2).

Clients of PRK Partners have a unique advantage as they can seek professional advice from eminent academics who are part of our team: Mr. Karel Eliáš, the main author of the new Civil Code; Mr. Bohumil Havel, the main author of the Business Corporations Act and a co-author of the new Civil Code; and Mr. Petr Bezouška, a co-author of the new Civil Code.

Sources of Business Information: We have provided contacts to the most important sources of business information below:

(a) CzechInvest, the Investment and Business Development Agency, address: Štěpánská 15, Prague 2, Postal Code: 120 00, phone: +420 727 850 330, email: info@czechinvest.org, www.czechinvest.org;

(b) Agency for Business and Innovation (API), address: Žitná 18, Prague 2, Postal Code: 120 00, phone: +420 245 013 444, email: info@agentura-api.org, www.agentura-api.org;

(c) Ministry of Industry and Trade of the Czech Republic, address: Na Františku 32, Prague 1, Postal Code: 110 15, phone: +420 224 851 111, email: posta@mpo.cz, www.mpo.cz;

(d) Commercial Register, www.justice.cz;

(e) Trade Register, www.rzp.cz;

(f) Ministry of Finance of the Czech Republic, address: Letenská 15, Prague 1, Postal Code: 118 10, phone: +420 257 041 111, email: podatelna@mfcr.cz, www.mfcr.cz;

(g) Czech National Bank, postal address: Na Příkopě 864/28, Prague 1, Postal Code: 115 03, phone: +420 224 411 111, filing room address: Senovážná 864/3, Prague 1, Postal Code: 115 03, email: podatelna@cnb.cz, www.cnb.cz;

(h) National Centre for Industry 4.0, postal address: Jugoslávských partyzánů 1580/3, Prague 6, Postal Code: 160 00, phone: +420 224 354 255, email: ncp40@ciirc.cvut.cz, www.ncp40.eu.

1.5 SARS-COV-2 AND ITS EFFECTS

While the beginning of the coronavirus SARS-CoV-2 ("COVID-19") pandemic was marked with extensive disruptions of everyday life accompanied by unprecedented governmental programmes and subsidies, the focus later shifted mainly to testing, and quarantining and isolating individuals that may spread the virus. At this point, the vast majority of the anti-covid measures have been terminated in Europe. The Czech Republic currently has no station-wide anti-epidemiological measures in effect.

The government had provided financial aid through compensation programmes aimed at providing assistance in many ways. Some of these programmes were aimed at specific industries, with the vast majority of the aid being generally aimed at all affected businesses.

Please note that any information related to the COVID-19 pandemic included in this material (drafted in February 2023) may quickly become obsolete, especially with relation to new Kraken variant of COVID-19. Please do not hesitate to contact us for the latest and most reliable guidance concerning COVID-19.

1.6 FINANCIAL SERVICES

In the Czech Republic, financial services are provided by a number of institutions. Most important among these are banks, securities brokers, insurance and reinsurance companies, credit unions, pension companies, investment funds and investment companies, and their respective distributors and intermediators.

As far as the banking sector is concerned, there are 22 banks and 22 branches of foreign banks currently operating in the Czech Republic. (These do not include banks operating in the Czech Republic on the basis of the single-licence principle without establishing a branch.) Banking is governed by Act No. 21/1992 Coll., on banks, as amended, which regulates among other things the creation and dissolution of banks and branches of foreign banks, the granting and revocation of banking licences, the single-licence principle, management and control systems, operational and capital requirements, banking supervision, remedial measures and penalties, conservatorships, bank liquidation, and banking secrecy.

Other special laws regulate the activity of other financial services providers. In addition, there are special rules governing the provision of investment services set out by Act No. 256/2004 Coll., on capital market undertakings; provisions on insurance and reinsurance activities set out in Act No. 277/2009 Coll., on insurance; provisions of insurance and reinsurance intermediation set out in Act No. 170/2018 Coll., on insurance and reinsurance distribution; provision of credit to consumers set out by Act No. 257/2016 Coll., on consumer credit, as amended; and provision of payment services set out by Act no. 370/2017 Coll., on payment systems.

The Czech National Bank ("CNB") is the supervisory authority of the financial market in the Czech Republic. Its position and regulatory powers are regulated by Act No. 6/1993 Coll., on the Czech National Bank, as amended, and Act. No 15/1998 Coll. on capital market supervision. The CNB supervises the banking sector, the capital market, the insurance industry, pension funds, credit unions, currency exchange offices, payment system providers, e-money institutions, and providers and intermediaries of consumer credit. The CNB adopts rules safeguarding the stability of the banking sector, the capital market, the insurance industry, and the pension industry. It systematically regulates, supervises, and, where appropriate, issues penalties for non-compliance with these rules. In addition, the CNB has certain other responsibilities, including activities related to money laundering and compliance with the rules on takeovers.

As regards to the provision of financial services to consumers, the Financial Arbitrator is the competent authority entitled to resolve disputes between institutions and their clients (it is an alternative dispute resolution platform for disputes with banks, investment brokers and intermediaries, institutions issuing electronic payment instruments, consumer credit providers and brokers, insurance companies and distributors, currency exchange offices, etc.), regarding transfers of funds, settlement adjustments, forms of payment collection, use of electronic payment instruments, provisions of credit, collective investment products, life insurance, foreign exchange transactions, etc.

1.7 WORK AND RESIDENCE PERMITS

The principles of free movement of labour apply to all EU, EEA, and Swiss nationals working in the Czech Republic, as well as their family members. Employees from these countries do not require work or any other kinds of permits, provided they have a travel document or an identity card.

Nationals of all other countries must obtain an employee card (or under certain circumstances a work permit) or a visa for business purposes, depending on the specific activities they intend to carry out in the Czech Republic. Non-EU and non-EEA nationals with high qualifications may also choose to apply for a "blue card". However, there are no significant differences between an employee card and a blue card – both permits allow non-EU and non-EEA nationals to work and reside in the Czech Republic. Non-EU and non-EEA nationals may also apply, under certain circumstances, for an intra-company employee transfer card, or a special work visa.

1.7.1 Visa-waiver regime

The Czech Republic has been a signatory to the Schengen Agreement since 21 December 2007, which ensures cross-border movement of visitors without the need for additional visas or authorization once initial entry has been made.

All non-EU and non-EEA nationals are generally required to hold a visa prior to entering the country, unless the Czech Republic has entered into a bilateral visa-waiver agreement with the foreign national's country of citizenship. Furthermore, a list of third countries whose citizens are exempt from the visa requirement in Member States of the EU is stipulated by Regulation (EC) No. 539/2001, as amended by Regulation (EC) No. 2414/2001. A list of countries falling under the visa waiver regime is available at www.mzv.cz. However, non-EU and non-EEA nationals under the visa waiver regime are generally not allowed to perform any economic activity without first obtaining a work visa or visa for business purposes.

1.7.2 Permitted activities

Holders of employment (blue) cards may be employed, as long as the employee (blue) card is valid. In such case, the only permitted activity is work in an employment relationship based on a local employment contract (including an agreement to perform work – in Czech: dohoda o pracovní činnosti), or work in the course of a secondment to the Czech Republic by a foreign legal entity (an intra-company employee transfer card).

Holders of visas or resident permits for the purpose of business are allowed to perform their own business on the basis of a trade licence, or to stay in the Czech Republic to perform the tasks arising from the activity of a corporate body ensured by a partner or shareholder, statutory body, or member of a statutory body. Entrepreneurs or foreign nationals in the management of commercial corporations who intend to stay in the Czech Republic for longer than 90 days and plan to make a "significant investment" in the Czech Republic may apply for a long-term residence permit for investment purposes.

1.7.3 Employee card

An employee card is a permit for long-term residence in the Czech Republic where the purpose of the non-EU or non-EEA national's stay (longer than 3 months) is employment. A foreign national who has an employee card is entitled:

- to reside in the Czech Republic and, at the same time,
- to work in the job for which the employee card was issued, or
- to work in a job that the Ministry of the Interior was informed about 30 days in advance (in connection with changing employers, changing jobs, taking up employment with an additional employer, or in an additional job).

An employee card is most often issued for the duration of the employer-employee relationship, but not for more than 2 years with an option to repeatedly extend its validity.

The deadline for the Ministry of the Interior to make a decision on an employee card application is 60 days, or 90 days in especially complicated cases.

A non-EU or non-EEA national must submit an employee card application in person to the Embassy of the Czech Republic with the appropriate territorial jurisdiction. The application can only be submitted at the Embassy of the Czech Republic in the country of citizenship of the non-EU or non-EEA national, or if applicable, in the country that issued the non-EU or non-EEA national's travel document, or in the country where the non-EU or non-EEA national has long-term or permanent residence.

A non-EU or non-EEA national is also entitled to submit an employee card application within the Czech Republic to the Ministry of the Interior if the applicant has already been residing in the Czech Republic on the basis of a visa for a stay of over 90 days or if in possession of a long-term residence permit for some other purpose.

1.7.4 Blue card
The blue card is a permit for long-term residence for employment purposes in the Czech Republic under special circumstances. A non-EU or non-EEA national who has a blue card is entitled to:

(a) reside in the Czech Republic; and

(b) work in the job for which the blue card was issued, and change that job under specified conditions.

The blue card combines a residence permit and a work permit in one document.

The blue card is issued to workers with higher professional or university education who have an employment contract for at least one year for the statutory weekly work hours, and who have agreed upon a gross monthly or annual salary amounting to at least 1.5 times the gross annual salary in the Czech Republic announced in a communication from the Ministry of Labour and Social Affairs.

The blue card is valid for the term of employment set in the employment contract plus three months, but for a maximum of 2 years.

To apply for a blue card, the same rules apply as for the employee card above.

1.7.5 Non-EU or non-EEA nationals with free access to the labour market
According to the law, the right of free access to the labour market in the Czech Republic is granted to non-EU or non-EEA nationals who, for example:

- acquired secondary or tertiary vocational education or university education in the Czech Republic; or who

- wish to be employed in the Czech Republic as a pedagogical employee or an academic employee of a university, or as a cleric of a church or a religious organization registered in the Czech Republic; or who

- has been posted to the Czech Republic by his/her foreign employer based in some other Member State of the EU/EEA or Switzerland as part of a provision of services; or for whom
- a valid international agreement so provides.

An employee card can be issued to a foreign national for the duration of the contractual employment in accordance with the submitted documents (such as a contract of employment), but not for longer than two years with the option of repeated extension of its validity.

1.7.6 Ukrainian refugees (temporary protection)
In response to the war in Ukraine, EU member states adopted a coordinated approach to refugee protection and enshrined temporary protection status in their national legislation.

Under Czech regulations, temporary protection provides its holders with many benefits: e.g., the possibility of legal residence and work in the Czech Republic as well as access to health care and education.

The Czech Republic regulates the situation of Ukrainian refugees through three laws adopted in March of 2022. In 2023 the Czech Republic introduced an amendment to extend the temporary protection granted to war refugees from Ukraine by one year until March 2024.

ARTICLE 2.

INVESTMENT FACTORS

2.1 GOVERNMENT ATTITUDE TOWARDS FOREIGN INVESTMENT

The Czech Republic is one of the most successful transition economies in terms of attracting foreign direct investment. From 1993 to 2020, more than EUR 150 billion in FDI was recorded.[1]

The Czech Republic had a 10% share of total foreign direct investment (FDI) in Central and Eastern Europe (CEE) in 1997-2008. During this period, FDI represented 6% of Czech GDP and flowed mainly into the automotive, real estate, and alternative energy sectors. In 2008, the Czech Republic attracted over USD 1 billion, primarily into the automotive sector. Due to the global economic crisis beginning in 2007, inbound FDI decreased by approximately 19% in 2009. However, this was a lower decline than the CEE average. Overall FDI in the Czech Republic doubled in 2010 from the previous crisis year of 2009, and in 2012 FDI in the Czech Republic again increased (almost doubling from 2010).[2] In 2015, the stock of foreign direct investments in the Czech Republic totalled EUR 107.1 billion, and it totalled EUR 159.1 billion in 2020.[3]

In 2022, most of the FDIs were allocated into financial and insurance activities (28.3%), manufacturing, wholesale, and retail trade (27.1%), and repair of motor vehicles and motorcycles (12.2%). In terms of geography, the majority of FDI came from the European countries, namely the Netherlands, Germany, Luxembourg, Austria, France, Great Britain, and Switzerland. The most important non-European investors were the United States and Japan.[4]

Originally, the Czech Republic attracted FDI mainly into the engineering industry. New, large greenfield projects were realized in the automotive sector in the northeast and central regions of the country. These investments especially benefited from lower labour costs (in comparison with Western countries), the strong tradition of Czech engineering, as well as the convenient location in Central Europe.

The Czech Republic desires to become a destination for investments with high value added, requiring less investment capital. For this reason, the country is focused on negotiating with investors from areas of research and development (R&D) and services, to which it can offer an optimal combination of favourable investment factors. Spending on R&D in the Czech Republic has increased from 0.95% of GDP in 1995 to 2% of GDP in 2020. Total R&D spending in the Czech Republic increased by 147% on average between 2014 and 2019[5]. The Czech Republic has also recorded an increased interest in investment incentives, with the majority of the applicants being small and medium-sized enterprises (SMEs). The majority of the applications were from the manufacturing industry[6].

The mergers and acquisitions area is on the rise. Despite the pandemic, more than 200 deals were carried out worth over USD 5 billion, and the amount of new investment projects almost doubled in 2021 compared with 2020.[7]

One may generally say the Czech Republic does not dispose of one or two dominant favourable investment factors, but rather when viewed from an overall perspective the Czech Republic offers an interesting mix of advantages for potential foreign investors (EU membership; a high share of secondary and tertiary education, notably a highly qualified, flexible, and innovative workforce; a history of experience in industrial production; a strategic location; and a mentality, culture, and attitudes close to those of Western countries).

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[1] Source: Report on Czech and Foreign Direct Investment, the Czech National Bank – 2020

[2] Source: CzechInvest Annual Reports

[3] Source: Report on Czech and Foreign Direct Investment, the Czech National Bank – 2020

[4] Source: Report on Czech and Foreign Direct Investment, the Czech National Bank – 2020

[5] Source: CzechInvest FDI Report 01/2022

[6] Source: CzechInvest FDI Report 01/2022

[7] Source: CzechInvest FDI Report 01/2022

The Czech Republic is characterized as a mature host country for FDI with a relatively stable currency, and a good rate of economic growth providing favourable conditions for investors.[8]

2.2 ECONOMIC TRENDS[9]

2.2.1 Gross domestic product – (CZK bn)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current prices	4088.9	4142.8	4345.8	4625.4	4796.9	5110.7	5410.8	5791.5	5709.1	6108.7
Growth %, real terms	-0.8	0.0	2.3	5.4	2.5	5.2	3.2	2.3	-5.5	3.6

2.2.2 Industrial production

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Growth %, current prices	7.6	1.7	1.5	8.9	2.0	1.2	7.2	3.5	1.1	-6.1	11.1

2.2.3 Inflation

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
%	1.9	3.3	1.4	0.4	0.3	0.7	2.5	2.1	2.8	3.2	3.8	15.1

The high inflation rate in the Czech Republic in 2022 mainly reflects high energy and other costs, as well as expectations of strong demand after the opening of the economy following lockdowns.

2.2.4 Unemployment %

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
%	7.3	6.7	7.0	7.0	6.1	5.0	4.0	2.9	2.2	2.0	2.6	2.8

The regions with the highest rate of unemployment are mainly located in the north (Ústí nad Labem Region) and northeast (Moravian-Silesian Region) of the Czech Republic.

2.2.5 Average real wages

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Growth %	0.6	-0.8	-1.5	2.5	2.9	3.7	4.2	5.9	5.0	1.4	1.0

2.2.6 Balance of payments – accounts (CZK bn)

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current	-84.8	-63.3	-21.8	7.8	20.7	85.2	79.1	24.1	19.2	113.7	-51.1
Financial	-74.8	11.7	68.3	63.6	173.4	122.1	115.6	60.8	8.4	163.3	10.9

The Czech Republic is an open economy. The main business partners of the Czech Republic in 2020 were EU countries (especially Germany and Slovakia). The main export commodities in 2020 included motor vehicles, trailers and semi-trailers, and machinery and equipment.

[8] Source: CzechInvest, Investment Climate in the Czech Republic – brochure 2020

[9] Source: The Czech Statistical Office as of 1 February 2023. The Czech Statistical Office regularly updates the data in these tables, even for past years.

2.2.7 Indebtedness – % to GDP[10]

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
State budget balance	-3.5	-2.5	-2.0	-1.8	-1.4	1.3	-0.1	0.1	-0.5	-6.5	-6.9
State debt	36.9	40.8	40.6	38.3	36.2	33.6	31.8	30.0	28.5	36.3	40.4

2.3 INVESTMENT INCENTIVES

The Czech Republic offers various investment incentives, e.g., full or partial corporate income tax relief, financial support for the creation of new jobs, for training/retraining of employees, as well as transfers of public land at discounted prices.

The provision of investment incentives to foreign investors began in 1998 and culminated in 2002 with the adoption of the Act on Investment Incentives. Investment incentives were initially directed towards the manufacturing industry for investments exceeding the minimum financial threshold of CZK 350 million (acquisition of tangible and intangible assets). This limit was later decreased and currently is set at CZK 80 million for large enterprises. The limit has been reduced to CZK 40 million in regions with special state financial assistance and in special industrial zones. A higher limit of CZK 2 billion applies to strategic investment projects with the exception of manufacturing of strategic products for the protection of citizens' lives and health listed in Annex 2 to Decree No. 221/2019 Coll., as amended. Nevertheless, there are currently three main sectors supported: manufacturing, technology centres, and business support services centres. The eligibility criteria vary for each type of investment incentive.

Since 2019, the main focus is to replace quantity with quality, mainly by prioritizing research and development, employing research specialists, cooperating with universities and research institutions, supporting small and medium businesses, and reducing support for the manufacturing sector. The new amendment to the Act on Investment Incentives has been prepared by the Ministry of Industry and Trade and its adoption is expected during 2023. This amendment will narrow the government's authority to approve investments only to strategic ones. In case of other projects, the decision on investment incentives will be issued based on an assessment of the conditions and legal obligations and on the basis of binding opinions of the relevant authorities.

Under Decree No. 428/2021 Coll., the state aid rate for some regions has been increased to 30% and 40% of eligible costs, instead of the previously applicable 25%. On the other hand, state aid for more developed regions has been reduced to 20% and will drop to 15% from 2025.

The current forms of investment incentives are (i) corporate income-tax relief for up to 10 years for new companies, or partial corporate income-tax relief up to 10 years for existing companies; (ii) job creation grants; (iii) training and retraining grants; (iv) cash grants for capital investments (for strategic investment projects); (v) property tax exemption for up to 5 years; and (vi) transfers of public land including related infrastructure at favourable prices.

Project funding can also be found through programmes at ministries or regional cohesion councils financed by the EU or the Czech Republic (e.g. the infrastructure development programme at the Ministry of Industry and Trade to support business and innovation, efficient energy management, information and communication technology (ICT) development, as well as the programme at the Ministry of Labour to support employment and requalification).

2.4 COMPETITION LAW AND PUBLIC PROCUREMENT

2.4.1 Competition law – in general

Czech competition law is based on European concepts. As new public procurement directives were adopted by the European Parliament in 2014 (including a new directive on concessions), the Czech Republic transposed the new directives into national law, i.e. Act No. 134/2016 Coll., on public procurement procedures (the "Public Procurement Act"). The main purpose of the act is to simplify existing rules and procedures, i.e. to reduce the administrative burden, to protect competition, to prevent corruption, as well as to ensure efficiency and transparency in public procurement. The new rules also regulate the activities of the Office for the Protection of Competition, which is an independent agency and the central state administrative authority responsible for creating conditions that favour and protect

[10] Source: The Czech Republic - Government Debt Management - ANNUAL REPORT 2020 and CZSO

competition, supervision over public procurement, and consultation and monitoring in relation to the provision of state aid.[11]

2.4.2 Public procurement procedure – in general

Public procurement procedures under Czech law involve the process of selecting the most eligible candidate for the delivery of a particular subject of performance being requested, i.e. the specific process for entering into an agreement. In the Czech Republic, the awarding of public contracts is regulated in particular by the Public Procurement Act and other implementing regulations to the Public Procurement Act. The Civil Code regulates other cases not specifically regulated by the Public Procurement Act.

In the Czech Republic, public procurement procedures are quite a strict process where even a minor mistake could result in the applicant being disqualified from the public procurement procedure. Despite a certain rigidity, however, the contracting authority should always comply with the principles of effectiveness, economy, and efficiency (also resulting from EU legislation), and to achieve the purpose of the Public Procurement Act, i.e. to select the most suitable bid. For this reason, it is possible for a supplier to rectify certain failures when submitting a bid to a certain extent; however, it is certainly left to the discretion of the contracting authority whether the supplier will be allowed to rectify or clarify any ambiguities in the bid.

2.4.3 Announcement of the public procurement procedure

A public procurement procedure starts with its announcement/publication, usually by sending a notification of the commencement of a public procurement procedure to the Public Procurement Journal[12] by the contracting authority (a special website) or by sending a notice of invitation to the public procurement procedure to particular suppliers.

2.4.4 Tender conditions and tender documentation

Tender conditions

From the supplier's point of view and when preparing for a bid, the tender conditions are significant: They set out the specific requirements of the contracting authority and of the Public Procurement Act that the supplier must meet, i.e. they set out the specific content of the bid to be submitted to the contracting authority.

If the tender conditions are contrary to the Public Procurement Act, the suppliers may file an objection to the tender documentation that must fulfil the formal and content requirements prescribed by public procurement law. The suppliers may also request the contracting authority provide additional information concerning the interpretation and application of individual conditions and requirements should any inconsistencies/ambiguities exist in the tender documentation.

Tender documentation

Generally, the tender conditions are best specified in the tender documentation. The text portion of the tender documentation must be available in electronic form on the contracting authority's profile[13] from the date of publication (on the contracting authority's profile or in the Public Procurement Journal) of the notice of commencement of the public procurement procedure or date of sending to prospective suppliers the notice of invitation to the public procurement procedure. The information, which must be published in the Public Procurement Journal in certain cases, usually only contains the basic information about the particular public contract with references to the tender documentation for more information.

Additional information

If any inconsistencies/ambiguities exist in the tender documentation, suppliers may request the contracting authority to provide additional information concerning the interpretation and application of individual conditions and the requirements of the contracting authority. A request for additional information must be submitted in writing (generally it can only be sent via email) within the time limits set out by the Public Procurement Act. The contracting authority is required to respond to the supplier's request for additional information within statutory time limits. Simultaneously, the contracting authority must publish the additional information (in the same wording that was received from the supplier) and its response thereto on the contracting authority's profile.

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[11] Source: The Office for the Protection of Competition

[12] Website: www.vestnikverejnychzakazek.cz, where basic information regarding over-limit and under-limit public procurement procedures are mandatorily published.

[13] The contracting authority's profile is a website where documents concerning or relating to public procurement procedures announced by the contracting authority are published. The contracting authority's profile should be generally accessible free of charge. However, registration (free of charge) could be required to obtain documentation in electronic form.

2.4.5 Suppliers – legal form
The contracting authority is obliged to exclude a supplier that is a joint-stock company or has a legal form similar to joint-stock company and has not issued solely book-entered shares from any public procurement procedure. If the selected supplier has its registered office abroad and is a joint-stock company or has a legal form similar to a joint-stock company, it will be requested by the contracting entity to submit a written affidavit containing a list of the shareholders who have shares of an aggregate nominal value in excess of 10% of the registered capital of the participant in the award procedure within a reasonable time limit, and indicate the source of the information about the size of the holdings of the shareholders. This does not apply to a participant in the award procedure that is a joint-stock company where the shares in the aggregate nominal value of 100% of the registered capital are in the ownership of the state, a municipality, or a region.

2.4.6 Bids – in general
A bid must contain all documents required by the contracting authority in the tender documentation and by the Public Procurement Act. Documents are generally classified into two categories: (a) documents certifying qualification (eligibility) requirements for suppliers and (b) other documents (e.g. contractual terms, guarantees). The structure of the bid, i.e. the order of documents in the tender, is generally determined in the tender documentation, but this is only as a recommendation from the contracting authority.

2.4.7 Bids – language
A bid, as well as any other documents supplied to the contracting authority, must be submitted in the language required by the contracting authority (usually Czech), i.e. documents in languages other than Czech, including documents provided by a foreign supplier, must be submitted along with a translation into Czech (a certified translation could be required by the contracting authority if doubts arise over the translation's correctness).

2.4.8 Bids – qualification
A supplier demonstrates its qualifications, capabilities, and experience to competently and professionally perform the subject-matter of a public contract by meeting the qualification (eligibility) requirements. Foreign suppliers must prove compliance with the qualification requirements with documents issued in accordance with the laws of the country where they were obtained to the extent required by the Public Procurement Act and by the contracting authorities. The contracting authority must always accept the European Single Procurement Document (ESPD), which serves as preliminary evidence of fulfilment of the conditions required in public procurement procedures across the EU. The ESPD (a special kind of affidavit) is provided exclusively in electronic form and is available in all EU languages. Unless stipulated otherwise (expressly excluded by the contracting authority in the tender documentation), the supplier may also replace qualification documentation with an affidavit. Both the ESDP and an affidavit serve only as preliminary evidence proving the qualification of the supplier and original documents (e.g. extracts from the criminal register, indebtedness in relation to taxes, and indebtedness in relation to social security contributions) have to be submitted to the contracting authority before any contract is concluded. It is necessary to mention that proof of qualification may also concern certain subcontractors, i.e. qualified subcontractors who demonstrate some of the qualification requirements instead of the supplier.

2.4.9 Bids – contract
The tender documentation often contains a binding draft agreement that tenderers are not allowed to amend or modify – they can only complete the missing information (identifying the contracting parties, tender price, etc.). The tender documentation only exceptionally contains individual business terms and conditions that must subsequently be incorporated in the final draft of the agreement by the supplier forming a part of the bid.

2.4.10 Bids – confidentiality
The contracting authority is not allowed to provide other participants (suppliers) with (i) any information regarding the content of the submitted bids until the end of the public procurement procedure; and (ii) confidential information (information marked by the supplier as confidential) except for such information that must be mentioned in the documents processed by the contracting authority or that are allowed to be provided with the prior written consent of the supplier granted in relation to this specific information.

2.4.11 Suppliers – identification of the corporate ownership and beneficial owners
Czech regulations require the contracting authority to obtain information about the actual owner of the selected supplier from a register that provides information about actual owners. Failure to comply with this requirement will result in the exclusion of the selected supplier from the procurement procedure and no contract will be concluded.

2.4.12 Submission deadline
The contracting authority is obliged to set a deadline for the submission of bids (submission deadline). The deadline always contains the date and the hour by which bids must be submitted to the contracting authority. All bids must be submitted on time, otherwise the bid will be automatically disqualified from the procurement procedure for missing the deadline.

2.4.13 Objections
If the contracting authority commits any illegal action, the suppler is entitled to raise objections to such illegal action within the statutory time limit. The objections must fulfil the formal and content requirements set out in the Public Procurement Act.

2.4.14 Public procurement electronization
As of 18 October 2018, all suppliers as well as contracting authorities are obliged to use solely electronic communication tools in all public procurements awarded through procurement procedures in the Czech Republic (the “Obligation”).

This Obligation applies to all written communication within a procurement procedure between suppliers and tenderers, e.g. requests for additional explanations of the tender documentation, submissions of bids (including all bid documents and the contract), objections, etc. If allowed, the electronic form is not required for oral communication, but its content must be duly documented (minutes, recordings). The Obligation does not apply to small-scale public contracts. The Obligation furthermore does not apply to any internal documents such as meeting minutes or to communication between other entities, such as between the contracting authority and an administrator, nor does it apply to any communication before the initiation of a procurement procedure (preliminary market consultation) or after the end of a procurement procedure (for example while fulfilling a relevant agreement). All such documents may be in physical form.

A breach of the Obligation will lead to absolute nullification of any act undertaken by the supplier in a form that is not electronic, e.g. if a bid is not submitted in the required electronic form, it will be deemed not submitted and the contracting authority will not consider the bid. The only exception is an agreement where non-compliance with the electronic form requirement does not invalidate the agreement.

2.5 FREEDOM OF OPERATION – REQUIREMENTS AND REGULATIONS

The Czech Republic is a democratic market economy and a member of the EU.

There are no general restrictions on foreign investment. Foreign persons or entities can operate a business under the same conditions and to the same extent as Czech persons. However, sectors such as banking or trading in military equipment have certain limitations or registration requirements, and foreign entities need to register their long-term branches in the Czech Commercial Register. Furthermore, the Czech Republic has implemented its national foreign investment screening mechanism in accordance with Act No. 34/2021 Coll. on the screening of foreign investments that entered into effect on 1 May 2021. The law focuses on foreign investors with an ultimate beneficial owner from non-EU countries. At the same time, the investment typically counts for 10% or higher share in the targeted Czech company active in a sector that is important for the security, public, or internal order of the Czech Republic. If the company does business in the field of production of military material, selected dual-use goods, or belongs to critical or critical-information infrastructure, the investor will have to ask for consent from the Ministry of Industry and Trade (MOIT) with the investment before its completion. Other investments affecting national security could also be subject to the ex officio screening up to 5 years after the completion of the investment. However, this mandatory permission is not required before the investment is concluded.[14]

2.5.1 Intellectual property

Industrial property rights include protection of the results of technical creative work (patents and utility models), subjects of industrial design protection (industrial designs), rights to a mark (trademarks and geographical indications), and topography of semiconductor product protection. Protection is available in the Czech Republic for national, regional, international, and community IP rights.

2.5.2 Trademarks

Trademarks are generally governed by Act No. 441/2003 Coll., on trademarks as amended, which is fully harmonized with European Community law, including Directive (EU) 2015/2436 of the European Parliament and the Council of 16 December 2015. The amendment to the Act on Trademarks came into effect on 1 January 2019. In accordance with new Czech and European legislation, a trademark may consist of any signs, in particular words, including personal names, or designs, letters, numerals, colours, the shape of goods or of the packaging of goods, and sounds provided that such signs are capable of (i) distinguishing the goods or services of one undertaking from those of other undertakings; and (ii) being represented in the register in a manner that enables competent authorities or the public to determine the clear and precise subject-matter of the protection afforded to its proprietor. Due to the abolishment of the graphical representation requirement, new types of trademarks such as a position, pattern, sound, multimedia, holograph, or others are also acceptable. Nevertheless, all these new (non-conventional) trademarks have to be expressed in a way that allows state authorities and the public to determine their sought scope of protection. Additionally, a “certification trademark” was implemented into Czech law. This special type of trademark distinguishes goods and services that are certified by its owner in respect of material, production process, quality, accuracy, or other characteristics from non-certified ones. Only persons qualified for the certification of goods and services concerned may apply for registration of a certification trademark.

[14] https://www.prkpartners.com/news/act-on-screening-of-foreign-direct-investments

The Industrial Property Office operates a fully automated system of trademark procedures and search system using various criteria (e.g. text wording of trademark, type of trademark, classification of figurative elements of a trademark, the trademark owner's name or classes of goods and services). All records of trademarks registered through national and international procedures are recorded in the system.

An application for trademark registration can be filed by any natural or legal entity. The application procedure is subject to administrative fees. The Industrial Property Office carries out a formal examination of the application to determine whether the application has all the necessary particulars stipulated by law, and then it conducts a substantive examination to determine whether the mark being applied for is eligible for registration. Primarily, a mark is not eligible for registration if it is a generic name or descriptive denomination or if it is misleading. Effective as of 1 January 2019, the Industrial Property Office does not reject ex officio trademark applications that are identical to an earlier trademark registered for identical goods or services (monitoring/checking of the identity between applied-for signs and earlier registered trademarks is not part of the substantive examination). Now it is up to each trademark owner to monitor the Official Journal and to file an objection to protect their earlier-registered rights, and to prevent the registration of the objected trademark application. If the mark qualifies for registration in the Trademark Register, the Industrial Property Office will publish the application in the Official Journal that is issued weekly. Persons who previously acquired rights may be potentially infringed upon have 3 months from the date of publication to raise objections to the registration of the trademark in the Register. If no objections against the mark are filed within the given deadline or if the objections are rejected as unjustified, the Industrial Property Office will register the applied designation in the Trademark Register.

The trademark registration is valid for 10 years from the date of the filing of the application. However, the protection period can be repeatedly renewed for another 10 years upon request subject to payment of a renewal fee.

Upon registration of the trademark in the Trademark Register, the owner of the trademark acquires exclusive rights to use it. The amendment to the Trademark Act emphasizes the genuine use of the trademark, extends the consequences for failure of genuine use of the registered trademark, and in particular it strengthens the trademark applicant's rights. From 1 January 2019, it has been possible to require an opponent to prove the genuine use of its trademarks provided the TM has been registered for more than 5 years following commencement of the opposition proceedings.

Furthermore, the new Czech law strengthens the rights of the trademark owners by implementing new tools to ensure better protection against counterfeiting, especially by preventing the transit of infringing goods through the Czech Republic, even when the counterfeits are not intended for release into free circulation on the local market.

2.5.3 Industrial designs

Industrial design means the appearance of a product or its part resulting particularly from the features of its lines, contours, colours, shape, structure, materials of the product itself, or its decorations. Like trademarks, industrial designs, if the designer so wishes, can become legally protected by their registration in the Register of Industrial Designs.

Industrial designs are governed particularly by Act No. 207/2000 Coll., on industrial designs as amended, which is fully harmonized with European Community law.

Not every industrial design can be protected. An industrial design is qualified for protection if it is new and of an individual nature. An industrial design is considered new if no identical industrial design was available to the public before the date of filing the application or before the date of origination of priority rights. An industrial design is of an individual nature if the general impression that it invokes in a well-informed user distinguishes it from the general impression invoked in the same user by another industrial design that has been available to the public before the application's filing date.

Registration of an industrial design in the Register of Industrial Designs is applied for by filing an industrial design application. There are 2 types of applications: single (for one industrial design) and multiple (for 2 or more industrial designs). The industrial design application must contain the particulars of the applicant, an expression of the designer's will to register the industrial design in the Register, and a visualization of the industrial design that provides an unambiguous perception of the product's appearance.

The protection period for a registered industrial design is 5 years from the filing date. Protection can be repeatedly renewed upon request for an additional 5 years for a total of up to 25 years (subject to payment of applicable fees).

The acquired protection ensures its owner exclusive rights to use the industrial design; to prevent third parties from using it without approval; to grant licences to other persons to use the industrial design; or to assign the rights to the industrial design to other persons (including sale of the right). Use of an industrial design means, in particular, to manufacture or place a product on the market where the protected industrial design is embodied or to which it is applied.

2.5.4 Patents

Patents are granted for inventions that comply with the legal conditions for granting protection under Act No. 527/1990 Coll., on inventions and improvement proposals as amended, and Decree No. 550/1990 Coll., on Patent Procedure as amended.

A patent application may be filed in respect of an invention that is new, is the result of inventive research, and is industrially utilizable. A patent cannot be granted for discoveries, scientific theories, mathematical methods, the appearance of products, plans, rules and methods for performing spiritual acts, computer programs (with the exception of computer-implemented inventions where the computer program is an integral part of the patented invention as a whole), or simply the presentation of information. The application is subject to an administrative fee.

The Industrial Property Office carries out a patent-granting procedure on the basis of a submitted patent application that may be filed by the inventor or by a person to whom this right was transferred by the inventor. If the application does not contain clearly non-patentable solutions and is free of deficiencies, the Industrial Property Office will publish the application in the Official Journal 18 months after the priority date. A system of deferred examination is in effect in the Czech Republic. A substantive examination must be demanded by the applicant or another person within 36 months from the filing date of the application at the latest.

A patent granted in the Czech Republic is valid for 20 years from the filing date of the application. The fees for maintenance of the patent's validity must be paid in accordance with Act No. 173/2002 Coll., on the maintenance fees for patents as amended.

2.5.5 Utility models

Utility models serve to protect technical solutions that are new, exceed the scope of mere professional skill, and are industrially utilizable. Utility model protection is appropriate for technical solutions of a lower inventive level or of less economic importance, as it is simpler, faster, and less costly than patent protection.

Solutions that can be protected by patents and utility models are comparable. However, biological reproduction materials or processes of any kind cannot be protected by utility models. The application requirements for a utility model are analogous to those of a patent application, but the utility model registration procedure is governed by Act No. 478/1992 Coll., on utility models as amended according to what is known as the "registration principle." This means the Industrial Property Office checks to see the basic conditions have been fulfilled and records the utility model in the Register without conducting any examination of novelty or level of creativity (that is, whether or not the utility model is eligible for protection).

The validity of a registered utility model lasts for 4 years from the filing date of the application. Upon request, it may be prolonged up to 2 times by 3 years each time (i.e. the total duration of validity of a registered utility model is 10 years).

The application procedure as well as the prolonging of validity is subject to administrative fees.

2.5.6 Geographical denominations and appellations of origin

An appellation of origin is the name of a region, a specific place, or a country ("region") used for goods originating in that region where the goods or other characteristics are essentially or exclusively given by the particular geographical environment of the region with its inherent natural and human factors and whose processing, production, and preparation takes place in a delimited geographical region. Traditional geographical and non-geographical appellations are also considered as appellations of origin for agricultural products or foods provided that such goods fulfil other conditions in accordance with the regulation.

A protected geographical indication is the name of a region used for products originating in that region, provided that it has a certain quality, reputation, or other characteristics that may be attributed to that geographical origin and whose processing, production, or preparation takes place in the delimited geographical region.

Special attention is to be paid to the designation of Swiss ("Swiss made" / "Made in Switzerland") origin used for products manufactured in Switzerland / services provided by Swiss corporations because the new law regulating the designation of Swiss origin came into effect on 1 January 2017, and it is also applicable to the Czech Republic (under a bilateral treaty between the Czech Republic and Switzerland and under EU legislation). The new regulation provides more detailed and stricter rules governing the use of the Swiss designation of origin as well as new means of protection against its misuse.

To register geographical denomination and appellations of origin IP rights, an application must be filed with the Industrial Property Office. The procedure and the requirements are set forth by Act No. 452/2001 Coll., on the protection of designations of origin and geographical indications as amended.

However, an amendment to this Act came into effect on 6 August 2022. This amendment ensures the Czech legal system complies with EU law (Regulation (EU) 2019/1753 of the European Parliament and of the Council) with regard to the exclusive protection of designations of origin and geographical indications for agricultural products and foodstuffs, including wine and spirits, the labelling of which is now protected only under directly applicable EU legislation.

2.5.7 Copyright

Copyright and related rights (i.e. rights of performing artists, producers of audio and audio-visual recordings, broadcasters, and the special right of makers of databases) are regulated by Act No. 121/2000 Coll., on copyright, rights related to copyright, and on the amendment of other laws (the Copyright Act) as amended.

An amendment of the Copyright Act came into effect on 5 January 2023 in order to transpose the new EU regulation of copyright and rights related to copyright into the Czech legal system that had not yet been included in the national legal system at all or only partially. In principle, these are the binding provisions of Directive (EU) 2019/789 laying down rules on the exercise of copyright and related rights applicable to certain online transmissions by broadcasting organisations and retransmissions of television and radio programmes (the so-called OnlineSatCab Directive); and Directive 2019/790 on copyright and related rights in the Digital Single Market (the so-called APnaJDT Directive). This includes in particular the regulation of exceptions and limitations to exclusive rights for the purposes of scientific research; for the use of protected subject matter in teaching in the digital environment for illustrative purposes; for archiving; for the regulation of licensing of works not available on the market; for the exercise of extended collective management of rights or certain contract law institutes; but also, for example, the regulation of mandatory collective management for the transmission of broadcasts regardless of the transmission technology used.

Moreover, the amendment introduces a new right for publishers of periodicals vis-à-vis online content platform providers, such as search engines and social networks, to ensure that publishers share the profits that these providers receive through the use of content created by publishers (without which they would have nothing to offer in this segment). Another important part of the amendment relates to so-called online content platform providers and ensures that authors can choose whether to agree to upload or leave their works on a particular online content platform, or whether to request their works be removed or not uploaded at all. The online content platform providers will be required to obtain permission (licenses) from the authors, and then the works will remain on the online content platform. If the online content platform providers fail to obtain a licence, they will be obliged to remove the works and prevent re-uploading based on information from the author. The amendment also includes safeguards for online content platform users who upload copyrighted works either on their own or using one of the exceptions to the rights, such as various parodies. Where works, or in most cases parts of works are uploaded in accordance with copyright law, the online content platform providers may not remove or block them.

Furthermore, the amendment introduces the principle of appropriate and reasonable remuneration for authors as its fundamental principle.

The subject-matter of a copyright is a literary work or other work of art, or a scientific work that is the unique outcome of the creative activity of the author and is expressed in any objectively perceivable

manner, including in electronic form. A computer program, database, or photograph is also considered as a work if it is original in the sense that it is the author's own intellectual creation. On the other hand, the Copyright Act does not protect the theme of a work, an idea, procedure, principle, method, discovery, scientific theory, mathematical formula, statistical diagram, or similar item.

The copyright of a work arises at the moment the work is expressed in any objectively perceivable form. The protection of copyright is informal – no formal requisites need to be fulfilled for protection to arise.

Copyright includes exclusive personal rights (i.e. the right to decide on the publishing of the work; the right to claim authorship; and the right to the inviolability of the work) and exclusive property rights (i.e. the right to use the work in its initial form or in a form adapted by another person or otherwise modified; and the right to grant authorization on a contractual basis to any other person to exercise that right). The author cannot validly waive his/her personal rights. Personal rights are non-transferable and expire upon the death of the author. The property rights persist for the life of the author and an additional 70 years following his/her death. If a work is created by joint authors, the duration period of the property rights is calculated from the death of the last surviving author.

2.5.8 Competition

Czech competition law regulates restrictive agreements and practices, mergers, and abuses of a dominant market position. As a general rule, agreements and practices that lead or could lead to a violation of competition rules are void. EU antitrust law also applies.

ARTICLE 3.

ANTITRUST ISSUES

Antitrust issues are governed by Act No. 143/2001 Coll., on the protection of competition and on amendments to certain acts (Act on the Protection of Competition) as amended (the "Competition Act"). The Competition Act is based on EU competition law.

The Competition Act deals with the following issues:

(a) agreements, decisions, or concerted practices that distort competition;

(b) abuse of a dominant market position;

(c) merger control;

(d) action of public administration authorities distorting competition;

(e) proceedings initiated by the Office for the Protection of Competition (the "Office") including their initiation, statement of objections, investigation, and public access; and

(f) penalties.

3.1 AGREEMENTS, DECISIONS, AND CONCERTED PRACTICES AFFECTING COMPETITION

Agreements between undertakings, decisions of associations of undertakings, and concerted practices of undertakings ("Agreement" or "Agreements") that have as their object or effect the distortion of competition in the Czech Republic are prohibited and are null and void.

Under the Competition Act, the following are prohibited:

Agreements that

(a) directly or indirectly fix prices or other similar business terms and conditions;

(b) limit or control production, sales, research and development, or investments;

(c) divide markets or supply sources;

(d) make the conclusion of a contract subject to acceptance of additional performance/obligations that by their nature or according to commercial use and fair business practices have no connection with the subject-matter of such contract;

(e) apply dissimilar conditions to identical or equivalent transactions with other undertakings, thereby placing them at a competitive disadvantage;

(f) oblige the parties to an Agreement to refrain from trading or other economic co-operation with undertakings that are not a party to the agreement, or to otherwise harm such undertakings (group boycott).

This prohibition does not apply to Agreements in the following three cases:

1. Legal exemptions

If the Agreements

(a) contribute to the improvement of the production or distribution of goods or to the support of technical or economic development and provide consumers an appropriate portion of the resulting benefit;

(b) do not impose restrictions on undertakings that are not necessary to achieve the goals stated in (a) above;

(c) do not enable undertakings to exclude competition in respect of a substantial part of the market for goods whose supply or purchase is the subject of the Agreement,

the above prohibition does not apply. The office may also grant an exception for Agreements with prohibited provisions by implementing a regulation.

If the reason for prohibition relates only to a part of an Agreement, only that particular part will be prohibited and considered null and void. However, if such part cannot be severed from the remaining content (the nature of the Agreement, the content or purpose of the Agreement, or the circumstances in which the Agreement was concluded), the whole Agreement will be prohibited and considered null and void.

2. Block exemptions

The prohibition does not apply to Agreements that do not affect trade between EU Member States but do fulfil other conditions stated by union block exemptions under the Treaty on the Functioning of the European Union or that are exempt for the agriculture sector.

The office may grant block exemptions for other categories of Agreements provided the benefits to other participants, in particular customers, are proved to prevail over the distortion of competition on the market resulting from the block exemption.

3. De minimis agreements

Agreements with a minor effect on competition are not prohibited (save for "hardcore" restrictions).

3.2 ABUSE OF A DOMINANT MARKET POSITION

One or more undertakings jointly (joint dominance) have a dominant position in the market if their market power enables them to behave, to a significant extent, independently of other undertakings or customers.

Abuse of dominant position to the detriment of other undertakings or consumers is prohibited; in particular, such abuse could consist in:

(a) direct or indirect enforcement of unfair conditions in the agreements on other participants in the market (particularly the enforcement of fulfilment of contractual obligations that are disproportionate at the time of signing the agreement);

(b) making the conclusion of a contract subject to an agreement of one or more parties to supplementary performance when the nature of that performance or according to commercial use has no connection with the subject of the contract;

(c) applying different conditions on identical or equivalent transactions towards particular trading parties, thereby placing them at a competitive disadvantage;

(d) terminating or limiting production, sales, or research and development to the prejudice of consumers;

(e) consistent offering or selling goods at unfairly low prices that results or may result in a distortion of competition; or

(f) refusal by the dominant undertaking(s) to grant other undertakings access to its/their own infrastructure facilities for reasonable reimbursement when the undertaking/s in the dominant position own(s) or use(s) them based on other legal grounds provided the other undertakings are unable to operate in the same market as the dominant undertaking(s) because of legal or other reasons without being able to jointly use such facilities, and the dominant undertaking(s) fail(s) to prove joint use is unfeasible for operational or other reasons, or that they cannot be reasonably requested to enable such use. This also applies, in due proportion, to the refusal of access for a reasonable reimbursement for other undertakings to access intellectual property or networks owned or used on other legal grounds by the undertaking(s) in a dominant position.

Unless proved otherwise, an undertaking or undertakings in joint dominance are not considered to be in a dominant position if its/their share in the relevant market achieved during the examined period does not exceed 40%.

3.3 MERGER CONTROL

1. Concentrations

When a concentration between undertakings occurs (i.e. a merger, acquisition of control, creation of a fully-function joint venture), the duty to have the transaction approved by the office could arise under the condition that the following turnover thresholds are met (provided, however, that the given concentration does not have an EU dimension):

EITHER

(a) The combined net turnover achieved in the last accounting period in the Czech market exceeded CZK 1.5 billion (approx. EUR 60 million) for all the enterprises concerned AND at least two of the enterprises concerned each achieved a net turnover of more than CZK 250 million (approx. EUR 10 million) in the last accounting period in the Czech market;

OR

(b) The net turnover achieved in the last accounting period in the Czech market:

(i) if the concentration takes the form of a merger by absorption or amalgamation, by at least one of the parties to the merger;

(ii) if the concentration takes the form of an acquisition of control by the undertaking or a part thereof over which control is acquired;

(iii) if the concentration takes the form of a "fully-function joint venture" (establishment of an undertaking that is controlled by more undertakings and that fulfils all functions of an independent economic unit) by at least one founding undertaking;

exceeded CZK 1.5 billion AND the worldwide net turnover achieved in the last accounting period by at least one other undertaking concerned exceeded CZK 1.5 billion.

To determine whether net turnover thresholds are met, the net turnovers generated by the following persons must be aggregated: (i) the undertakings concerned; (ii) all persons controlled directly or indirectly by the undertakings concerned (subsidiaries); (iii) all persons that will directly or indirectly control the undertakings concerned after the completion of the concentration (parent companies after completion); (iv) all persons controlled directly or indirectly by the same person who will control the undertakings concerned after the completion of the concentration (sister companies); and (v) all persons jointly controlled by two or more persons referred to under (i) through (iv).

The term "net turnover" means the net (i.e. exclusive of any taxes and rebates) sales (i.e. amounts derived from the sale of products and provision of services) from ordinary activities of all members of the respective group of undertakings concerned, irrespective of the sector in which the turnover is achieved (however, intra-group sales should be deducted from the overall figures). A specific list of items to be used for calculating the turnover of banks, credit, and other financial institutions is provided.

In general, the turnover needs to be attributed to the place where the customer is located.

3.4 ACTION OF PUBLIC ADMINISTRATION AUTHORITIES DISTORTING COMPETITION

It is expressly forbidden for public administration authorities to distort competition without justifiable reasons by favouring certain undertakings with their support, or by excluding certain competitors from competition, or by excluding all competition on the relevant market.

The office supervises whether or not public administration authorities are distorting competition and imposes fines for this infringement of the Competition Act.

3.5 PROCEEDINGS INCLUDING THEIR INITIATION, STATEMENT OF OBJECTIONS, INVESTIGATION, AND PUBLIC ACCESS

a) Initiation of Proceedings

The proceedings for breach of the Competition Act are initiated ex officio by the Office.

Proceedings on merger control are initiated based on a notification. The obligation to file a notification with the Office is mandatory if the above-mentioned thresholds are met. There is no time limit for filing the notification. However, the Competition Act stipulates a standstill obligation. It means that as a general rule, the undertaking(s) concerned cannot implement the rights and obligations arising from the concentration until the concentration has been cleared by the Office.

Under Czech law, two types of notifications and proceedings exist:

(i) a simplified procedure applicable when particular conditions are met; and

(ii) a standard procedure with an investigation involving a first phase and (under certain conditions) a second phase.

The deadline for the Office to issue a decision on concentration of undertakings is the following:

(i) 20 days from receipt of the completed (short form) notification in the simplified procedure;

(ii) 30 days after receiving a completed (full-form) notification in the first phase of proceedings (if the concentration will not result in a substantial distortion of competition or if the concentration is not subject to approval; and

(iii) five months after receiving the completed (full-form) notification in the second phase (if the Office concluded the concentration raises serious concerns of a substantial distortion of competition).

A decision issued by the Office can be appealed. The Chairman of the Office decides on the appeal.

b) Statement of Objections

Before issuing a decision, the Office issues a statement of objections that contains information on the case, a legal assessment of the case, primary evidence, and the amount of the fine it intends to impose if relevant. After a statement of objections is issued, the Office must also enable the party(ies) to become acquainted with the grounds of the decision, and it must stipulate a reasonable deadline (at least 15 days) for the party(ies) to propose amendments to the evidence.

c) Investigation

The Office has broad investigative powers including the right to request information as well as search business or other premises of the undertakings (dawn raids).

The Office is entitled (after a preliminary investigation and in some cases) not to initiate proceedings ex officio if there is no public interest in undertaking such proceeding due to the minimal adverse effect of the conduct on competition (prioritizations).

d) Public Access

The Office is required to make certain documentation publicly available. The Office is required to publish all proposals for merger clearance and its decisions in legal force (but without publishing the parties' business secrets).

3.6 PENALTIES

The Office may impose fines of up to CZK 10,000,000 (approx. EUR 400,000) or 10 % of the net turnover for the last accounting period for administrative offences listed under Competition Act. In addition, prohibition to engage in public procurement proceedings or to perform public procurement or concession contracts can be imposed for up to 3 years for certain administrative offences (major rigging cases).

There is a leniency programme as well as the settlement procedure available under Czech law the use of which may under certain conditions lead to a decrease in a fine or even avoidance of fine.

The Office may initiate proceedings to revoke a clearance decision within one year from the day when it finds that it cleared the concentration based on information that was proven to be inaccurate or incomplete or if the parties do not comply with the commitments, but no later than 5 years after such facts have occurred.

In case of a breach of the standstill obligation, the Office may, in addition to a fine, adopt necessary measures to restore effective competition on the relevant market.

Internet link: http://www.uohs.cz/en/

3.7 ACT ON THE COMPENSATION OF DAMAGES IN THE AREA OF COMPETITION

The Act No. 262/2017 Coll., on the compensation of damages in the area of competition as amended (the "Compensation Act") governs certain areas relating to (i) the obligation to compensate damage caused by an infringement of Czech, national member states' or EU competition law; (ii) the rights of any claimant (natural or legal person) harmed by certain infringements of competition law to claim damages in the proceedings; and (iii) the rules of proceedings (initiation, limitation periods, penalties, etc.).

The Compensation Act applies to two forms of prohibited actions, i.e. prohibited agreements and abuse of a dominant position. Other types of infringements of competition law are not regulated by either the Compensation Act or the EU Directive 2014/104/EU.

Under the Compensation Act, damage must be compensated in full, i.e. the discretionary power of a judge to reduce or mitigate compensation (regulated by the Civil Code) does not apply. Compensation in full means actual loss, loss in profit, as well as payment of interest. If damage was caused by several undertakings (typically in case of cartels), all of them are liable jointly and are obliged to settle with each other according to their share on the damage (the court does not decide on the level of participation of individual infringers). The Compensation Act provides for some exceptions from this general rule.

The Compensation Act also provides for a special right of claimants to seek disclosure of evidence. Before initiating proceedings, a claimant can ask the court to order the infringer (defendant) or any third party to disclose evidence necessary to prove the claimant's claim. However, the claimant must pay a deposit of CZK 100,000 (approx. EUR 4,000) to secure any compensation for damage or other harm caused by this disclosure. In cases of follow-up actions related to damages caused by cartels, the burden of proof is transferred from the claimant to the defendant (infringer).

Specifically, a five-year limitation begins when the claimant became aware of, or could have reasonably been expected to become aware of the harm, the identity of the infringer, and about the infringement of competition law. However, this period does not start before the moment of termination of the prohibited conduct.

ARTICLE 4.

REAL ESTATE, ENVIRONMENTAL REGULATION AND ENERGY

4.1 REAL ESTATE

Full ownership of real estate is recognized under Czech law. Furthermore, real estate ownership rights benefit from constitutional protection.[15] Expropriation of real property is only permitted in exceptional circumstances and subject to strict rules set forth by law.

The title to real property and most other property rights and obligations are recorded in a public register, the Cadastral Register, which is administered by the Czech state. Records in the Cadastral Register are legally determinative, except for limited circumstances such as proven fraud.

The Czech Civil Code (Act No 89/2012 Coll.) governs all matters related directly to real property, including fundamental provisions for conveyance contracts, rights related to liens and encroachments, condominium rights and obligations, commercial leases, and others.

4.1.1 Acquisition of real estate

In principle, any entity (company or person) may acquire and own real estate in the Czech Republic with few restrictions. This means that not only Czech and EU residents, but also residents from third countries may acquire real estate in the Czech Republic.

The principle of "material publicity of entries in the Cadastral Register" applies. Therefore, an excerpt from the Cadastral Register represents proof of ownership of real estate. As a result, each acquirer of real estate (or any right in rem to such property) who purchased it for consideration and in good faith can rely on the correctness of the relevant entry in the Cadastral Register and is protected against any third-party claims of ownership, save for very limited circumstances.

4.1.2 Registration of real estate transfers

Any agreement relating to the transfer of real estate (e.g. sale and purchase agreement) must be concluded in writing. The ownership title to real estate, which is subject to registration in the Cadastral Register, is acquired (if transferred by agreement) upon its registration in the Cadastral Register. Additional obligations follow, such as publication or specific approvals, if the land plots or buildings are purchased by or sold to municipalities or public authorities.

Registration is retroactive, i.e. the transfer is effective from the moment the application for registration is submitted to the Cadastral Office ("the moment" means the buyer becomes the real estate owner from the date, hour, and minute of delivery of the application for registration to the Cadastral Office), although the registration process takes three to four weeks.

The ownership title to real estate not subject to registration in the Cadastral Register (if it is transferred by agreement) is acquired on the effective date of the relevant agreement.

In addition to transfers under an agreement, the ownership title to real estate may also be acquired: (i) based on the decision of a state authority; (ii) by operation of law; (iii) by construction (in the case of buildings); (iv) through a public auction; (v) by prescription[16] ; and (vi) by other means (e.g., inheritance).[17]

Therefore, once the relevant transfer agreement is executed, the relevant court decision is issued, or another situation occurs, the relevant document must be submitted to the Cadastral Office for registration. The procedural aspects of title and other record registration in the Cadastral Register are governed by a specific act on the Cadastral Register.

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[15] Article 11 of the Charter of Fundamental Rights and Freedoms.

[16] The lawful (good faith) owner of real estate is entitled to become its owner if it keeps the real estate in its possession for a period of 10 consecutive years.

[17] In all these cases, the relevant change must also be registered in the Cadastral Register. However, the effect of registration is only of a declaratory nature

Once the application for registration of a change is filed with the Cadastral Office, it will inform the owner of the subject real estate and other entitled persons about the initiated proceedings.
The registration cannot be approved and registered sooner than 20 days after initiating the proceedings. This is in order to give sufficient time for all concerned parties to raise an objection to the registration process, if necessary.

4.1.3 Due diligence
Proper real estate due diligence will include a 10-year historical review of the acquisition title chain. In addition to full title verification, the due diligence should include a review of encumbrances, compliance with cadastral and construction laws, environmental issues, and all other aspects that are relevant to the nature of the property in question (e.g. unlimited access, connections to infrastructure, compliance with the zoning plan).

Although the Cadastral Register is the primary source of information on real estate located in the Czech Republic, the need for due diligence is excluded only if there are no objective reasons that raise doubts over compliance of the actual and registered status.

Therefore, potential buyers of any real estate should coordinate and discuss the purchase with a legal advisor in order to select the most appropriate method for protecting their interests.

4.1.4 Cadastral Register
The Cadastral Register contains information on land plots (including information about any buildings constituting a part of them, if any), buildings, housing, and non-residential units within condominiums, the right to build, and other real estate established by operation of law. Minor buildings are not registered in the Cadastral Register. The Cadastral Register is publicly available, and information on a particular real property can be obtained through an extract from the Ownership Folio.

The extract from the Ownership Folio includes the following information about a real property:

(a) identification of the owner(s), and their ownership shares;

(b) surface area in square meters;

(c) type of protection applicable (such as a “historical area”, if applicable);

(d) reference to a purchase agreement or other title deed under which the current registered owner’s title to the real property was recorded in the Cadastral Register, including the file numbers under which such contracts or other documents are kept in the archives of the Cadastral Register;

(e) restrictions on the title to the real property, i.e. mortgages, easements, rights to build, and pre-emptive rights, with a specification of the parties in favour of which the rights corresponding to such restrictions exist, the contracts or other titles under which such restrictions came into existence, as well as the file numbers under which such contracts or other documents are kept in the archives of the Cadastral Register;

(f) rights of governmental or municipal organizations to use or administer real property, rights of a party to permanently use the real property, rights of a branch office to use the real property owned by the company to which the branch belongs, and other rights registered in Cadastral Register to the real property in question;

(g) indication that the real estate or right vested in such an estate has been affected by an ongoing change of legal relations.

The archives of the Cadastral Register represent an additional source of information regarding the real estate.

4.1.5 Real estate acquisition tax
The real estate acquisition tax was abolished in 2020 with retroactive effect on all real estate property transfers effected as of 1 December 2019.

4.1.6 Real estate financing

Acquisitions of real estate in the Czech Republic are typically financed by a combination of debt and equity. Most debt financing for local real estate transactions is provided through secured bank loans.

An investor looking for a bank loan will most likely need to provide a wide range of security, including in most cases a mortgage and lien over all of the real property, subordination of any shareholder loans, a pledge of cash and receivables, and other securities. No specific restrictions apply for granting security over real estate to a foreign entity, nor are there any specific restrictions on debt repayment to a foreign lender.

Enforcement of a claim is subject to obtaining an Execution Order issued by a court or a recognized arbitration proceeding. There is also the possibility of a private enforcement of a mortgage/pledge if explicitly agreed upon in the underlying mortgage/pledge agreement or notarial deed.

4.1.7 Commercial leases

Commercial leases are governed by the Civil Code, which includes general provisions on leases as well as special provisions applicable to specific uses such as for commercial premises, residential premises, etc.

Czech law recognizes only one type of lease.

The legal rules applicable to commercial leases are mainly non-mandatory, and contractual parties can freely deviate from the statutory provisions, which is very often the case.

4.1.8 Right to build

The right to build represents the most appropriate possibility for erecting a structure or building on the land of another owner. The structure does not become part of the land (as would otherwise happen under the principle of superficies solo cedit) until the right to build expires.

The right to build can only be granted for a maximum of 99 years. With respect to the structure, the builder has the same rights as the owner; with respect to the land encumbered with a right to build, the builder has the same rights as under a usufructuary lease unless contractually agreed otherwise.

A right to build also requires registration in the Cadastral Register to become effective and can therefore be sold (the building is also transferred as a part of it), or it can be subject to a lien.

4.1.9 Other rights to real estate

In addition to the ownership title, the following other rights to real estate exist:

Easements – An easement is another way to allow a third party to occupy and use real estate. It may be granted for a definite or indefinite period of time and in favour of a certain person or every owner of a certain property (in rem right).

Typically, easements are used to secure access to the property via real estate owned by a different person. There are two types of easements: equitable servitudes and real covenants. Equitable servitudes affect the owner of an asset so that they must suffer something to the benefit of someone else, or they must refrain from a certain activity. Real covenants oblige the owner of an encumbered asset to take certain action in favour of the entitled person.

Easements created by contract require registration in the Cadastral Register to be valid.

Mortgage – A mortgage is commonly used as a security instrument in a loan transaction. A mortgage can be established by an agreement, operation of law, or by a decision of a state authority and becomes effective upon registration in the Cadastral Register (however, certain exceptions exist for a mortgage established by state authorities – financial offices).

Trusts – Trusts are a general concept from Anglo-Saxon law. A trust fund represents property allocated by its founder and separated from its other assets. Along with the establishment of the trust fund, the property becomes an independent property governed by the statutes of the trust fund, and the founder loses their property and other related rights. Trust funds may be created for both private and public purposes.

4.1.10 Zoning and construction procedure

Construction Act – Construction activities in the Czech Republic are subject to complicated and burdensome zoning and construction regulations set forth in myriad laws and regulations that apply to the design, appearance, and method of construction. A new Construction Act enacted in 2021 will

be considerably amended even before its validity in 2024. Nevertheless, it is expected to change this burdensome and inefficient system and should restructure the organization of Building Offices as well as how other agencies are involved in the permitting process.

Planning – Buildings must be constructed in accordance with the zoning planning documentation applicable to the respective land plot where the building is to be located.

The decision on the location of a building (zoning permit) is based on the zoning planning documents and must comply with the binding rules of these documents. When deciding on the building location, the Building Office also takes into account the opinions of the owners of neighbouring real properties and utility network operators. After the zoning permit is issued, the developer (i.e. the person or entity for whose benefit the building is to be constructed) generally has to apply for a building permit. The application for the building permit must be accompanied by detailed project documentation. The building permit specifies the binding conditions for the construction and use of the building (architectural, technical, environmental, etc.). A building permit is not required for minor structures, renovations, or maintenance work. Such work only needs to be announced to the Building Office.

Technical limits – In general, before a zoning permit and building permit can be issued, all environmental and hygienic permits, opinions of various state authorities (including a decision on the reclassification of agricultural land if needed), and the final decision assessing the environmental impact of the building must be obtained.

Coordinated permit – For some types of buildings specified in the Building Act, it is also possible to apply for a coordinated permit that includes conditions from both the zoning and the building permits. With regard to the fact that there are not two proceedings, as stated above, the developer must prepare and submit more comprehensive and detailed project documentation with the application. This coordinated permit proceeding may also include the environmental impact assessment (for details, please see Subsection. 4.2.2.).

Use of the Building – Generally, a building may only be used after issuance of the use permit/approval that specifies the sole purpose for which the building can be used. The use permit/approval is only issued if the building was constructed in compliance with the decision on the zoning permit, the project documentation approved by the Building Office during the applicable proceedings, and the building permit or the coordinated permit.

4.1.11 Energy performance of buildings

Any construction of new buildings, major renovation, etc. requires prior issuance of an energy performance certificate. Certificates must also be obtained and handed over to the purchaser within the sale or lease of a building, residential or non-residential unit, or any part of them.

Certificates can only be issued by an authorized expert and are valid for 10 years from the date of execution, or until the first major renovation/reconstruction of the real estate for which it was issued. Effective from 1 July 2015, large entrepreneurs are obliged to prepare an energy management audit (energy management is understood as a set of technical equipment/facilities and buildings serving for energy consumption) on buildings used or owned by them. The energy audit should be updated at least once every four years.

4.2 ENVIRONMENTAL REGULATION

4.2.1 Legislation

Legislation related to the protection of the environment includes all forms of normative acts that can be separated according to various criteria. Nature and landscape as a whole are protected in so-called “cross-cutting” legislation (e.g. the Construction Act and Act No. 114/1992 Coll., on nature and landscape protection). Following this framework, individual elements of the environment are governed by “composition rules” (e.g. the Water Act, the Air Protection Act, and the Mining Act). The legal framework is then specified in detail in other legal provisions where “in some areas” municipalities may pass local legal regulations (within the limits of the obligations set in law).

The Czech Republic is a party to a large number of international environmental treaties and complies with regulations issued by the European Union (both primary and secondary legislation). The primary law, the Treaty on European Union, lays down the principle of sustainable development. Provisions of the Treaty on European Union are not directly applicable. Therefore, secondary legislation (directives) plays a more important role. Other relevant provisions are also included in the Treaty on the Functioning of the European Union whose relevant provisions can be applied directly.

4.2.2 Environmental impact assessment ("EIA")

An EIA assesses the environmental impact of a project before it is further realized. The legal regulation is in Act No. 100/2001 Coll., on environmental impact assessment effective as of 1 January 2002 ("EIA Act") and newly in Act No. 283/2021 Coll., the Construction Act that is to be generally effective from 1 July 2023 ("New Construction Act"). The New Construction Act shall not introduce any material changes into the environmental impact assessment. The only changes will be of a procedural nature, and thus consist mainly of modifications to competence diversification and the entire procedure. Competency diversification shall occur between the building authorities (in later instances also the Specialized and Appellate Building Authority) and non-integrated EIA bodies.

Projects under consideration in the EIA process are buildings, roads, factories, mines, and facilities (newly built ones as well as modifications to them e.g. expansion, technological changes, increased capacity, etc.)

The administrative process takes place before the competent authority – the Ministry of Environment or a Regional Office – while a broad variety of concerned authorities participate by issuing opinions regarding protection of individual environmental elements (e.g. water, air, landscape). When the EIA proceeding is initiated, all documents pertaining to the project subject to the assessment are made public on the CENIA portal. Within the EIA proceedings, members of an environmental protection association may raise objections, and the competent authority is obliged to settle these objections. A statement – positive or negative – is issued as a result of the proceedings and serves as a basis for other decisions, in particular zoning or building decisions. The currently valid regulation states an EIA statement is valid for seven years. Under certain conditions, however, the validity of an EIA statement may be repeatedly prolonged for a period of five years. An EIA's validity can be prolonged if no changes occur in the conditions of the area concerned or in the assessment methods as a result of which the project is likely to have an unforeseen impact on the environment.

4.2.3 Integrated Pollution Prevention and Control (IPPC)

Act No. 76/2002 Coll., on integrated pollution prevention and control and on the integrated pollution register (the "Act on IPPC") regulates selected industrial and agricultural production for protection of the environment as a whole and is implemented by Decree No. 288/2013 Coll., that sets out the application template for issuance of an integrated permit. These legal acts transpose into Czech law Directive 2010/75/EU of the European Parliament and of the Council on Industrial Emissions.

Annex No. 1 to the Act on IPPC lists the industrial categories that require an integrated permit. Applications for an integrated permit are reviewed and issued by a regional authority.

An integrated permit includes binding conditions for the operation in terms of air protection, water management, waste management, accident prevention, efficient use of raw materials and energy, and protection from noise and vibration.

An industrial operator may apply for an integrated permit before or after the issuance of a building permit or a joint permit.

4.2.4 Liability

Failure to comply with environmental protection regulations give rise to liability – both criminal and administrative.

Criminal Liability – Criminal offences are included in the Criminal Code, Act No. 40/2009 Coll., which has been valid since 1 January 2010, covering a broad spectrum such as the criminal offence of damage and threat to the environment, to the more specific criminal offence of forest damage and unauthorized discharge of pollutants. Penalties include imprisonment, a ban on activity, forfeiture of an item or other asset, or a fine.

Administrative Liability – Administrative liability covers administrative offences committed by both natural and legal entities (and natural persons as entrepreneurs). Offenses are regulated especially in Act No. 250/2016 Coll., on offenses where a fine is the most commonly awarded penalty.

4.2.5 Individual components of the environment

Protection of air

Generally speaking, protection of air ensures the air is not polluted above the set level. The operators of stationary sources of emissions (excluding operators of small stationary sources) must, among other obligations, comply with emission limits. They are also obliged to pay pollution fees. Special treatment is applied in smog situations as regulatory measures may be adopted, which means the production or operation of stationary (or mobile) sources of emissions is reduced for the necessary length of time.

Protection of water
Surface and underground water is subject to legal protections. Use of water for other than personal use is regulated by the water authority. Wastewater may only be discharged into surface and underground water with permission and for a fee. Certain hazardous substances cannot be discharged at all. Rivers are also protected as it is forbidden to change their course, etc.

Protection of climate
The climate is also subject to legal protection (regulated by international, European, and national law), especially due to climate change and the impact and results connected therewith, e.g. the massive increase in atmospheric concentrations of greenhouse gases (emissions). Emissions trading is one of those efforts to reduce emissions. It is regulated by Act No. 383/2012 Coll., on the conditions of greenhouse gas emissions allowance trading as amended. Another tool for improving the environment and reducing greenhouse gases is promoting the use of energy from renewable sources (e.g. energy from biomass, water, wind, solar, and geothermal).

Soil protection
All land is subject to protection, while the form and intensity vary. Agricultural land, which represents more than 50% of the area of the Czech Republic, is protected through the Agricultural Land Fund. Use of agricultural land for other than agricultural purposes is possible only with the consent of the competent authority and for a fee. Forest lands (more than 30% of the area of the Czech Republic) are also protected similarly to agricultural land.

Waste management
Regulation of waste management is threefold: the waste management plan of the Czech Republic; the waste management plan of each district; and finally, the waste management plan of each waste producer. Generally, the most important obligation is to prevent generating waste. Where waste generation cannot be prevented, the waste producer is obliged to use it and/or dispose of it in a way that does not endanger human health and the environment.

Waste management is regulated by Act No. 541/2020 Coll., on waste and its implementation regulations (the "Waste Act"). The main legislation is further specified by Decree No. 8/2021 Coll., on the waste catalogue and assessment of waste properties (effective from 27 January 2021) and Decree No. 273/2021 Coll., on waste management particulars (effective as of 12 July 2021). It mainly introduced: (i) a regulation on waste deposits in landfills; (ii) obligations for waste collection operators (surveillance camera systems, stricter conditions for waste collection using mobile equipment); (iii) provisions on illegal dumping stipulating procedures for identifying the person responsible for illegal dumps; (iv) procedures for reclassifying waste as non-waste; and (v) provisions reclassifying waste trading as a separate trade activity.

4.3 ENERGY

4.3.1 Energy and natural resources in the Czech Republic
The major geological reserves of energy minerals in the Czech Republic include only uranium ore, black coal, and brown coal (lignite) amounting to around 1% of global stocks of these raw materials.

Lignite deposits are concentrated in the Northwest basins and more than a third of domestic electricity production and about half of district heating production are provided from this coal. All black coal mining is currently concentrated in the Czech part of the Silesian Basin (the northeast of the Czech Republic). Coal was historically used to power the strong metallurgic and steel-making industries.

Uranium mining was terminated in 2016. However, uranium remains an important Czech energy raw material with a share of 36% in the total production of domestic electricity, which is expected to climb with the development of new units at Dukovany and Temelín and the development of small modular reactors.[18]

Large deposits of manganese and lithium discovered in the Czech Republic have increasingly gained importance with trends related to energy transition throughout Europe being introduced and implemented. The deposits of manganese are the largest in the European Union[19] and according to some estimates there could be 3-5% of the world's resources of lithium located at the Cínovec area in the Czech Republic.[20] Both of these natural resources are vital to battery manufacturing, so high demand for these raw materials is expected with the development of electromobility and other new technologies.

[18] Source: http://www.geology.cz/extranet/publikace/online/surovinove-zdroje/surovinove-zdroje-ceske-republiky-2021.pdf

[19] Source: Study on the European Union's list of Critical Raw Materials (2020): https://ec.europa.eu/docsroom/documents/42883/attachments/1/translations/en/renditions/native (accessed on 23 February 2022)

[20] Source: GEOMET s.r.o.: http://www.geomet-cz.com/ (accessed on 23 February 2022)

4.3.2 Power generation mix

The power generation mix refers to the proportions of so-called primary and secondary sources used to generate electricity.

The power generation mix of the Czech Republic is diversified, but dominated by fossil fuels, nuclear power, and supplemented by natural gas and renewables. According to the 2021 Annual Report on the Operation of the Czech Electrical Grid by the Energy Regulatory Office,[21] the power generation mix was composed of:

brown coal (lignite)	37 %	hydro	3 %
nuclear fuel	36 %	hard coal	2 %
natural gas	8 %	pumped storage	2 %
biogas	3 %	wind	1 %
photovoltaic	3 %	other	<1 %
biomass	3 %		

The Czech Republic is currently in the process of increasing or at least maintaining the capacities of existing nuclear power plants by organizing a tender for the construction of unit 5 at the Dukovany nuclear power plant (NPP), which is expected to be followed by construction of unit 6 at Dukovany and unit 3 and 4 at the Temelín NPP. As part of the implementation of environmental policies at the EU level, the Czech Republic is expanding the share of renewables (mainly photovoltaics and hydro-power with respect to climatic conditions).

The desired strategic aims of the Czech Republic are to maintain reasonable prices of electricity and heat (currently and temporarily achieved by price capping), energy independence (including resources and generation), the stability of the grid, and diversify sources while decreasing carbon emissions from electricity and heat generation.

4.3.3 Main regulation of the energy sector

Any entity wishing to start a business in the Czech Republic must ensure a stable supply of electricity and other utilities (depending on the nature of its business). It is thus important to at least outline the main legal regulations of electricity production, transmission, and distribution in the Czech Republic. The energy sector is mainly regulated by the following acts:

- Act No. 458/2000 Coll., on Business Conditions and Public Administration in the Energy Sectors and amendments to other laws as amended (the Energy Act);
- Act No. 165/2012, on Promoted Energy Sources and amendments to other laws as amended (the Promoted Energy Sources Act); and
- Act No. 263/2016 Coll., the Atomic Act as amended that specifically regulates nuclear energy.

Business relations, contracting, and consumer protection are generally covered by Act No. 89/2012 Coll., the Civil Code as amended, and Act No. 634/1992 Coll, the Consumer Protection Act.

4.3.4 Transmission, distribution, trading, and supply of electricity in the Czech Republic

The Electricity transmission system is administered and maintained by the transmission system operator (TSO) – ČEPS, a.s. – an entity solely owned by the Czech Republic. ČEPS, a.s. is responsible for balancing the supply of electricity and ensuring the safe transmission of electricity from producers to distributors (distribution system operators - DSOs).

[21] Source: https://www.eru.cz/documents/10540/6616306/Rocni_zprava_provoz_ES_2020.pdf/edc0cb03-700a-43a7-8c08-a1ccb3f2d173

There are three licensed DSOs in the Czech Republic each operating in a different region of the country. The north of the Czech Republic (the largest one) is operated by ČEZ Distribuce, a.s.; the south is covered by EG.D, a.s.; and PREdistribuce, a.s. covers the distribution of electricity in the capital city of Prague.

End users in the Czech Republic can freely choose their electricity suppliers thanks to the full liberalization of the market, similarly to other EU countries. Currently, there are around 50 entities selling electricity in the Czech Republic. Anyone wishing to power their enterprise should contact a reliable supplier or the respective local distributor and set up their own connection to the grid. The desired strategic aims of the Czech Republic are to maintain reasonable pricing of electricity and heat, energy independence (including resources and generation), the stability of the grid, and diversify sources while decreasing carbon emissions from electricity and heat generation.

4.3.5 Prices of electricity and the reasons behind them

The energy price situation has been turbulent on the European market since late 2021, and we are very likely to remain in such a situation for a good part of 2023. The main reasons for the increase in the prices of electricity and heat are: (i) decreased supply of natural gas from Russia resulting in the reduction of stocks and the stability of gas supplies to European storage tanks; (ii) increasing prices of electricity generated from high emission sources (mainly coal and lignite) influenced by rising prices of emission allowances; and (iii) bankruptcy of several large end-consumer suppliers. In order to support private individuals as well as legal entities, the Czech state set price caps on electricity and gas for all of 2023. The government also approved several state aid schemes to mitigate the consequences of high energy prices to the most vulnerable individuals. To compensate for the expenditures, the so-called “windfall tax” was approved taxing sudden windfall gains by a taxpayer or an entire industry. In the Czech Republic, the windfall tax mainly applies to energy producers.

With respect to the above, the Czech Republic is looking into diversifying energy sources that would include the maintenance of coal and lignite as energy sources; nuclear power as a reliable, clean, and stable source; and enhancement of renewables to achieve EU environmental policy goals while allowing for the independent and stable supply of electricity and heat for industry and other sectors.

With regard to recent developments, it is recommended to seek a stable supply of electricity from stable suppliers under long-term contracts and avoid speculative short-term rates from suppliers that are basing their business on trading electricity as their business model has proven to be unreliable.

Recent development on the Czech energy market has shown that the credibility and future prospects of the supplier are very important to ensure price stability as even some of the larger suppliers on the market eventually turned out to be the wrong choice.

ARTICLE 5.

LABOUR

5.1 EMPLOYMENT RELATIONSHIP REGULATIONS

Employees have statutory protection under the Czech Labour Code (Act No. 262/2006 Coll.). This applies to all employment relationships involving Czech parties in the Czech Republic. The Czech Labour Code also applies to employment relationships in the Czech Republic where one of the parties is foreign, unless the parties have chosen another jurisdiction as governing law (however, the mandatory rules of the Czech Labour Code still apply).

Employees from other EEA member states seconded to work in the Czech Republic are also subject to certain statutory provisions of Czech law.

5.2 EMPLOYMENT CONTRACT

Czech law requires all employment relationships to be entered into and governed by a written employment contract, and failure to do so invalidates the employment contract. This, however, can be remedied by drawing up a written contract later. The following must always be agreed in an employment contract:

(a) the type of work;

(b) the place of work; and

(c) the date of commencement of work.

Additionally, employees must be notified of the following, in writing, either in the employment contract itself, or within 1 month from the commencement of the employment relationship:

(a) the employer's business name and seat, if the employer is a legal entity, or the employer's name and address if the employer is an individual;

(b) details about the type of work and the location where the work is to be carried out;

(c) the annual holiday entitlement or the manner in which the entitlement will be determined;

(d) information about notice periods for terminating employment;

(e) information about the employer's wage and remuneration system, payment dates, and the place and method of payment;

(f) weekly working schedule;

(g) information about any collective agreements that apply to the employee.

5.3 IMPLIED TERMS

Many terms are implied in an employment contract, mainly through provisions of the Czech Labour Code. These include, for example, a trial period (maximum 3 months or 6 months for managerial employees), terms relating to trial periods, notice periods, access to certain information about the employer, non-competition clauses, and others.

5.4 WORKING HOURS/OVERTIME

A working week consists of a maximum of 40 working hours, with certain exceptions.

The employer may demand an average or maximum of 8 hours of overtime work per week, but no more than 150 hours per year. Any additional overtime work requires approval of the employee. Total overtime work (both required by the employer and performed with the employee's consent) may not exceed an average of 8 hours per week, which means approximately 416 hours per year.

It is possible to agree with an employee that compensation for up to 150 hours of overtime work per year is included in the agreed salary, and with a managerial employee this can be up to 416 hours per year. Otherwise, for any overtime work the employer must pay salary plus an overtime premium of 25% of the employee's average earnings unless both parties agree the employee will be provided with unpaid leave instead of this premium.

5.5 HOLIDAYS

Each employee is entitled to a minimum of 4 weeks of holidays per calendar year. Holiday time may be increased through a collective agreement, internal regulations, or in an individual contract (provided the rules on equal treatment are respected). Additionally, the Czech Republic currently has 13 statutory public holidays.

5.6 TERMS OF EMPLOYMENT

Minimum salary

As of 1 January 2023, the lowest minimum monthly salary was set at CZK 17,300 (approx. EUR 692) and the lowest minimum hourly salary was set at CZK 103.80 (approx. EUR 4.2). However, in addition to the lowest minimum wage, there are 8 categories of higher statutory minimum salaries according to the particular type of work (the highest category of minimum monthly salary was set at CZK 34,600 (approx. EUR 1,384). There are no exceptions to the minimum wage for juveniles, disabled employees, etc.

5.7 STATUTORY RIGHTS OF EMPLOYEES WHO ARE PARENTS OR CAREGIVERS

(a) Maternity rights

Female employees are entitled to 28 weeks of maternity leave. This is extended to 37 weeks for multiple births. Leave can begin as early as the eighth week before the expected date of childbirth. However, employees generally start their maternity leave at the beginning of the sixth week. Maternity leave must not be taken for less than 14 weeks and cannot be terminated or interrupted for six weeks after childbirth under any circumstances.

During maternity leave, the employee is entitled to maternity benefits paid by the state.

(b) Parental rights

Parental leave must be granted to female or male employees upon request. Parental leave can be granted at any time between the end of maternity leave (for mothers), or the date of birth (for fathers), and the time the child reaches the age of 3.

If the employee takes all-day care of a child, according to the statutory definitions (usually while being on parental leave, but not necessarily), the employee is entitled to parental benefits directly paid by the Czech Labour Office.

Employees who are parents or caregivers also have other special rights. Most notably, an employer may only give notice of termination to a pregnant female worker or to a female or male worker on parental leave under special conditions. The employer is also obliged to grant shortened (or specially-scheduled) working hours if special categories of employees specified by the Labour Code request it provided there are no serious operational reasons on the employer's side.

5.8 BONUSES

Contractual and discretionary bonuses are common. However, there are no specific regulations, recommended guidelines, or standards of reasonable governing of bonus schemes. Only general rules concerning non-discrimination apply.

5.9 EMPLOYEE REPRESENTATION

Generally, there are 2 forms of employee representation in the Czech Republic: trade unions and work councils. Due to their strong political ties, trade unions have a strong position in the Czech Republic. However, membership is currently decreasing. Trade unions are easy to establish, and they automatically represent all employees regardless of membership. There are only a few work councils in existence, namely because the work councils are not entitled to negotiate and conclude collective agreements.

5.10 COLLECTIVE AGREEMENTS

Collective agreements are common in the public service sector and most other industries. Collective agreements are concluded at the company level, while higher-level collective agreements may be concluded between a group of employers and the major trade unions. Under certain conditions, higher-level collective agreements can extend to other employers even if they are not signatories to such higher-level collective agreements.

5.11 DISMISSALS – GENERAL

An employer may only terminate employment by notice for reasons set forth in section 52 of the Czech Labour Code or immediately terminate employment for reasons set forth in section 55 of the Czech Labour Code. The employee may give notice of termination to the employer for any reason whatsoever (or without stating a reason) or immediately terminate employment for reasons set forth in section 56 of the Czech Labour Code.

5.12 NOTICE PERIODS

The notice period for terminating employment is 2 months. The notice period stipulated in the Labour Code can be extended by an agreement among the parties, but it must be the same for both the employer and the employee.

The notice period commences on the first day of the calendar month following the month in which the termination notice was delivered to the employee and ends on the last day of the relevant calendar month.

5.13 SEVERANCE PAYMENTS

For dismissals for organizational reasons, the employee is entitled to mandatory severance ranging from one to three average monthly earnings depending on the length of employment. If termination is for health reasons resulting from an occupational disease or work injury, the employee is entitled to a mandatory severance payment of at least 12 times his/her average monthly earnings.

Mandatory severance payments may be increased by a collective agreement, internal regulations, or in an individual employment contract.

5.14 PROTECTED EMPLOYEES

An employer cannot dismiss certain members (or former members) of a trade union body without the union's prior written consent. An employer may not dismiss employees during a protective period, such as during pregnancy, illness, and caregiver leave except if the business (or a part) is being shut down or relocated, or if there are grounds for immediate termination.

5.15 ORGANIZATIONAL CHANGES

(a) Business reorganizations and redundancies

Termination as a result of organizational changes is regulated by section 52 (a-c) of the Czech Labour Code. The conditions for termination of employment by the employer for these reasons are as follows:

(i) The employer must decide on the relevant organizational changes before serving notice of termination;

(ii) The employee representatives must usually be consulted before the notices are served. If a large number of employees are affected (e.g. due a reorganization of the employer), such consultation is obligatory. A failure to consult, however, does not affect the validity of the dismissal;

(iii) A written notice of termination must be delivered to each employee.

(iv) The grounds for termination must be clearly stated in the notice and identified as being for "organizational reasons", so that it cannot be confused with other statutory reasons for termination. The employee must be acquainted with the decision on organizational changes (usually in the notice);

(v) Two months' notice must be given (unless a longer notice period has been agreed);

(vi) A minimum severance pay ranging from one to three average monthly earnings must be paid, depending on the length of employment;

(b) Collective dismissals

In addition, employers must notify any relevant employee representatives of a proposed collective dismissal in writing at the latest 30 days before the notices of termination are sent out. Representatives must be consulted about possible measures to reduce redundancies or mitigate adverse consequences for employees.

Consultation itself is sufficient to meet the employer's legal obligations. An agreement does not necessarily need to be reached.

Employers must give initial written notification to the labour office of the proposed reorganization resulting in collective redundancy no less than 30 days before giving termination notices to the individual employees. After employee representatives have been consulted and a final decision on collective redundancies has been made, the employer must file a final written report to the Labour Office. Employment may be terminated no earlier than 30 days after this final report has been delivered to the Labour Office. If the employer fails to deliver a final report at least 30 days before the end of the notice period, the notice period is extended accordingly.

(c) Pensions

Under Czech law, pension contributions are paid as a part of social security contributions. As a benefit, an employee is entitled to a state pension at an age stipulated by law.

Currently, company pension schemes or industry-wide pension schemes do not exist. The compulsory pension system organized by the state also includes an option for employees to re-direct a certain amount of their pension contributions to private funds. Private pension funds offer supplementary pension insurance. This is voluntary and arranged by employees personally. In all cases, supplementary insurance is provided by entities unrelated to the employer. A pension fund must be a licensed company located in the Czech Republic. However, employers' contributions to employees' supplementary pension insurance are a common benefit, namely due to its tax benefits.

ARTICLE 6.

EXCHANGE CONTROLS

6.1 IN GENERAL

The regulation of currency exchange is contained in Act No. 277/2013 Coll. on currency exchange activities as amended (the "CEA Act"). The CEA Act governs the conditions for the operation and activities of currency exchange offices, as well as other conditions relating to the performance of currency exchange activities. Exchange control as well as the rights and obligations of residents and non-residents were formerly included in Act No. 219/1995 Coll., the Foreign Exchange Act (the "FE Act"), which was repealed in 2016. Certain provisions from the FE Act were moved to other legal regulations, such as provisions relating to restrictions during a state of emergency (which are now included in Act No. 240/2000 Coll., the Crisis Management Act (the "CMA Act") or provisions regarding the information obligations towards the Czech National Bank (included in Decree No. 235/2013 Coll., on the submission of statements to the Czech National Bank by statistically significant reporting entities for the purpose of preparing the international balance of payments, investment position ,and debt service statistics (the "CNB Reporting Decree")).

In 1995, the Czech Crown became a freely convertible currency.

In general, there are no substantial restrictions imposed upon persons operating on the foreign exchange market. The only exceptions are reporting duties in relation to financial operations (which are described below), and certain requirements for currency exchange activities. In addition, special restrictions may be adopted in a state of emergency.

In the CEA Act, currency exchange activities are defined as continual activities consisting of foreign exchange transactions carried out in one's own name and under one's own responsibility for the achievement of profit. The CEA Act furthermore considers a foreign exchange transaction to mean an exchange of (a) banknotes, coins, and cheques denominated in a certain currency for banknotes or coins or checks denominated in a different currency; or (b) non-cash means of payment or electronic money denominated in a certain currency, if the payer has given a payment order to transfer such non-cash means of payment or electronic money through a recipient performing the exchange for banknotes, coins, or checks denominated in a different currency. Under the CEA Act, currency exchange activities may be carried out by:

(a) Banks, foreign banks, and foreign financial institutions under conditions stipulated in the act regulating the activities of banks (Act No. 21/1992 Coll., on banks as amended);

(b) credit unions under conditions stipulated in the act regulating the activities of credit unions (Act No. 87/1995 Coll., on credit unions and certain other related measures and the amendment of the Czech National Council Act No. 586/1992 Coll., on income taxes as amended);

(c) currency exchange offices, i.e. natural persons or legal entities that are entitled to perform the activities of a currency exchange office on the basis of permission granted by the Czech National Bank; and

(d) the Czech National Bank (the "CNB") under conditions stipulated in the act regulating the activities of the CNB (Act No. 6/1993 Coll., on the Czech National Bank as amended).

The CNB grants permission to perform the activities of a currency exchange office at the request of the person or entity intending to carry out activities of a currency exchange office. The currency exchange officers who obtain this permission are registered in the Currency Exchange Officers Register maintained by the CNB. The act also sets rules that must be observed during the provision of exchange services, including the rules for required information and specifying the content of exchange rate cards and receipts. Customers are entitled to cancel the exchange within three hours following the exchange since April 2019.

State administration of the foreign exchange market and exchange activities regulated by the CEA Act are performed by the CNB.

At times of extreme national emergency, the law allows the government of the Czech Republic to impose certain restrictions that must be observed. A state of emergency may be declared by the government of the Czech Republic in the event of a natural catastrophe, ecological or industrial accident, or other threat to life, health, property, domestic order, or security to a significant extent. When a state of emergency is declared, the government of the Czech Republic is entitled to forbid:

(a) acquiring – in exchange for Czech currency – funds, securities and registered securities where the issuer is a person whose permanent residence or seat is outside the Czech Republic as well as rights whose value can be determined in money and obligations derived therefrom;

(b) making any payments from the Czech Republic to other countries, including payments between payment services providers and their branch offices;

(c) depositing funds in accounts abroad;

(d) selling securities and registered securities whose issuer is a person with its permanent residence or seat in the Czech Republic to persons with their permanent residence or seat outside the country;

(e) accepting financial credits from persons with their permanent residence or seat outside the Czech Republic;

(f) establishing accounts in the Czech Republic for persons whose permanent residence or seat is outside the Czech Republic and depositing money in their accounts;

(g) transferring money to the Czech Republic from another country between payment services providers and their branch offices.

6.2 INWARD DIRECT INVESTMENT

For the purposes of compiling the balance of payments, investment position, and debt services toward foreign countries, the following entities that are classified as statistically significant reporting entities must report certain information to the CNB:

a) domestic investors with direct investment in a foreign country provided the amount of its share in the foreign business or the amount of such investor's credits provided or received within its foreign direct investment reaches at least CZK 2.5 million by the end of a calendar year;

b) a domestic company with a direct investment from foreign investors provided the amount of its share in the company's business or the amount of its credits provided or received within the investor's direct investment reaches at least CZK 25 million by the end of a calendar year;

c) a person or entity whose total assets or liabilities in relation to foreign countries reaches at least CZK 200 million by the end of a calendar year;

d) a person or entity whose total financial credits provided or received in relation to foreign countries reaches at least CZK 100 million by the end of a calendar year.

The scope of required information depends on the category of the statistically significant reporting entity and is described in the CNB Reporting Decree. The required information must be provided within the scope, for the period, within the time limits, and in the manner prescribed by the CNB Reporting Decree.

6.3 REPATRIATION OF FUNDS

In general, there are no restrictions except those that may apply in a state of emergency (see para 6.1).

6.4 IMPORTS AND EXPORTS

Generally, there are no significant restrictions or limitations in respect of imports or exports. In times of state emergency, the restrictions mentioned above would have to be respected. Certain restrictions may also be imposed on the basis of international sanctions.

6.5 OUTWARD INVESTMENT

Generally, there are no significant restrictions or limitations on outward investment. Certain restrictions may be imposed on the basis of international sanctions. Outward investments and other information mentioned above must also be reported to the CNB in accordance with the CNB Reporting Decree.

6.6 PORTFOLIO INVESTMENT

No specific restrictions apply other than those already mentioned above.

ARTICLE 7.

ESTABLISHING A BUSINESS

7.1 FORMALITIES FOR ESTABLISHMENT

7.1.1 Establishment and incorporation of companies and partnerships

The formation of a company or a partnership in the Czech Republic is a two-step process. First, the company or partnership must be established by execution of a memorandum of association or foundation deed by all its founders (predominantly in the form of a notarial deed). When establishing a joint-stock company, it is necessary to adopt articles of association. Second, following establishment the company or partnership must be incorporated, which is done by registering it in the Commercial Register (an official register administered by the courts containing relevant information about companies and partnerships).

Registration of a company or partnership in the Commercial Register is carried out in court proceedings. If all statutory requirements are fulfilled, the court registers the company or partnership in the Commercial Register. The company or partnership is then fully incorporated as of the date the court registers it in the Commercial Register. This registration procedure in the Commercial Register can also be carried out through a notary public who executes the respective memorandum of association or foundation deed in the form of a notarial deed.

7.1.2 Trade licences and other permits

In order for a company or partnership to be entitled to carry out business activities, it must obtain the relevant trade licences. Act No. 455/1991 Coll., the Trade Licensing Act as amended contains a list of existing trades, and the requirements that an entrepreneur, or in the case of a company or partnership its authorized representative (known as its responsible representative), must fulfil in order for the company or partnership to obtain the required trade licence authorizing it to carry out the relevant trade. The requirements for obtaining trade licences are as follows, and they must be fulfilled by the entrepreneur (or in the case of companies and partnerships, its responsible representative):

(a) full legal capacity (required for all trades) – minimum 18 years of age: This condition can also be fulfilled if the court together with legal representatives of a minor give consent with the operation of business by the minor (other exceptional cases are set forth in the law);

(b) integrity in the sense of the Trade Licensing Act (i.e. absence of a criminal record in respect of a broad range of criminal acts – required for all trades); and

(c) prescribed education or professional experience in the relevant field (not required for unqualified or so-called free trade licences).

Aside from trade licences, companies and partnerships may also need to obtain various special permits and approvals from state authorities to act in certain fields of business (typically waste management, telecommunications, dealing with military equipment, and a number of other specialized areas).

7.1.3 Data protection

As the Czech Republic is part of the EU, EU Regulation No 2016/679 (the "GDPR") is directly applicable. The GDPR represents EU-wide legislation for personal data administration, processing, protection, transfer, and security with significant implications all over the world. The GDPR necessitates a strengthened focus on the protection of personal data and privacy. As such, it is expected to improve internal processes of all commercial entities and public bodies. Subjects should benefit by exercising wider and better control over the way their personal data is collected, accessed, and processed.

To ensure compliance of national law with the GDPR, Act No 110/2019 Coll., on personal data processing (the "Personal Data Processing Act"), and several individual acts were amended. Furthermore, the Personal Data Processing Act transposes EU Directive No. 2016/680. Where allowed, the Czech Republic took advantage of the possibility to diverge from provisions of the GDPR and in certain cases adopted Czech-specific legislation, such as setting out (i) lower sanctions which may be imposed on public authorities and bodies (up to CZK 10,000,000 – approx. EUR 380,000); (ii) fewer obligations under a licence for journalists and academic workers; or (iii) setting the age limit for consent of minors at 15 years.

The Personal Data Processing Act establishes rights and obligations (i) of the Office for Personal Data Protection, the public authority designated for personal data protection; (ii) of processors of personal data, both public and private; and finally (iii) of data subjects.

The Czech Republic also signed the Data Protection Convention (Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data, 1981 Strasbourg) on 8 September 2000. The Convention became applicable in the Czech Republic as of 1 November 2001.

7.1.4 Obligation to join a chamber of commerce or trade association
Businesses in the Czech Republic do not have a general obligation to join any chambers of commerce or trade associations. However, for certain traditionally independent professions (such as doctors of medicine, attorneys at law, auditors, architects, and others), there is a requirement for obligatory or automatic membership in the relevant chamber or association, which is a prerequisite for performing the given profession.

7.1.5 Register of ultimate beneficial owners of legal entities and trust funds
Effective from 1 January 2018, a mandatory register for identifying ultimate beneficial owners of legal entities and trust funds was introduced into the Czech legal system. It is a non-public administration information system maintained by register courts where the statutory data of ultimate beneficial owners is recorded. In accordance with Act No. 37/2021 Coll on beneficial owners register (the "UBO Act"), the ultimate beneficial owner for registration purposes is a natural person who ultimately owns or has control over a legal entity or trust fund. If an ultimate beneficial owner cannot be identified in this way, it is deemed to include all persons who are members of the statutory body (or hold a position similar to that of members).

Legal entities and trust funds are obliged to identify their ultimate beneficial owner and arrange for the entry of the information into the register of ultimate beneficial owners without undue delay from the occurrence of a relevant event (e.g. establishment and incorporation of the company).

Applications for entry in the register of ultimate beneficial owners must be submitted in a prescribed electronic form (e-form) available on the website of the Ministry of Justice. The application form must be accompanied by documents certifying the existence of the ultimate beneficial owner.

The most significant information is the following:

a) New definition of "real" UBOs: Every natural person who, either directly or indirectly, is entitled to more than 25% share of earnings, or has a share of more than 25% of the voting rights, or exercises decisive influence on the company, or can make the decisions of the company's supreme body conform to his will, must be registered as the UBO.

b) New definition for "substitute" UBOs: If no real UBO exists or cannot be ascertained, all statutory body members and any legal person listed at the top of the ownership structure of the company are to be registered as UBOs.

c) Fines: The UBO act introduces fines that can be imposed both on the company (for noncompliance with the registration obligation following a court ruling that the register entry is inaccurate), and on the UBOs themselves for not providing the information (if they fail to inform the company of their status as a UBO or fail to provide necessary assistance with registration). Fines can be imposed in the maximum amount of CZK 500,000 (approx. EUR 19,100).

d) Civil sanctions: If a UBO is not registered, he/she cannot, directly or indirectly, exercise any of the most important shareholder rights – namely voting rights and dividend rights. This might constitute a variety of problems for both the UBOs (who would not be allowed to participate at a GM or appoint statutory body members), as well as for the statutory body members (who would be subject to potential liability for damage for acting without due care if they allowed dividend pay-outs or participation at a GM of unregistered UBOs).

The register of ultimate beneficial owners is partly publicly accessible and under certain conditions the ultimate beneficial owner and respective information registered in the Commercial Register and other public registers will be automatically reflected in the register of ultimate beneficial owners.

It is crucial to ensure the companies in which you have direct or indirect ownership interest or control have their UBO records in order.

ARTICLE 8.

PRINCIPAL FORMS OF BUSINESS ENTITIES

In the Czech Republic, business entities are primarily governed by Act No. 90/2012 Coll., on business corporations and cooperatives (the "Business Corporations Act"), while some general aspects of legal entities can be found in the Civil Code. Companies established before 1 January 2014 are, under certain conditions, governed by Act No. 513/1991 Coll., the Commercial Code as amended. In addition, the legal regulation of certain specific business entities, such as banks and insurance companies, is contained in special laws (Act No. 21/1992 Coll., on banks; Act No. 277/2009 Coll., on insurance).

8.1 LIMITED LIABILITY COMPANIES

The Czech limited liability company, (in Czech: společnost s ručením omezeným, "SRO") is the most commonly used business form in the Czech Republic. Among the advantages of the SRO is a very low minimum registered capital requirement (CZK 1 in a one-member SRO), and limited liability of the members (interest holders) of the SRO for the company's obligations. Each member of an SRO is jointly and severally liable for the obligations of the SRO up to the aggregate amount of unpaid capital contributions as registered in the Commercial Register. Once all capital contributions are paid up and registered in the Commercial Register, the members' liability for the company's obligations terminates.

8.1.1 Establishment of a company

An SRO may be established by one or more natural or legal persons. The number of members of an SRO is not limited. An SRO is established by one founder upon the execution of a deed of foundation or by more founders upon the execution of a memorandum of association (both in the form of a notarial deed). The Civil Code revoked the prohibition on chaining SROs, thus allowing for an SRO to be established by an SRO whose sole founder or member is an SRO.

8.1.2 Registered capital and contribution

The minimum registered capital requirement for an SRO is CZK 1 (provided that the SRO has one member; the Business Corporations Act requires each member to provide a contribution of at least CZK 1). A higher contribution might be determined by the deed of foundation or the memorandum of association. Members' capital contributions to the registered capital of an SRO may be in cash or in-kind contributions. The value of an in-kind contribution to an SRO must be determined by an independent expert. The managing director or founders (when establishing the company) select an expert from a list (maintained under a special legal regulation).

The total amount of all contributions must equal the amount of the registered capital. The contributions must be paid up within the period set forth in the SRO's deed of foundation or memorandum of association, or within five years from the incorporation (registration) of the company, or from the takeover of the obligation to pay the contribution(s).

When establishing a limited liability company with registered capital of no more than CZK 20,000, it is possible to pay the contributions directly to the administrator instead of having to open a special bank account specifically for the payment of the contributions, which simplifies the process of establishing an SRO.

8.1.3 Ownership interest

Each member of an SRO may own one or more ownership interests. If a deed of foundation or memorandum of association permits it, different types of ownership interests can be created. It is possible to own shares without voting rights. The amount of a member's ownership interest is set according to the ratio of the amount of the members' capital contributions and the total amount of the company's registered capital unless the deed of foundation or memorandum of association provides otherwise.

If permitted by a deed of foundation or a memorandum of association, ownership interest may be represented by a special type of security – an ordinary share certificate, (in Czech: kmenový list). Its transferability cannot be limited and it cannot be traded on public markets.

A member may voluntarily terminate participation in an SRO under a new procedure – "exit of a member". A member may exit if the general meeting decides on (i) a change regarding a material aspect of the

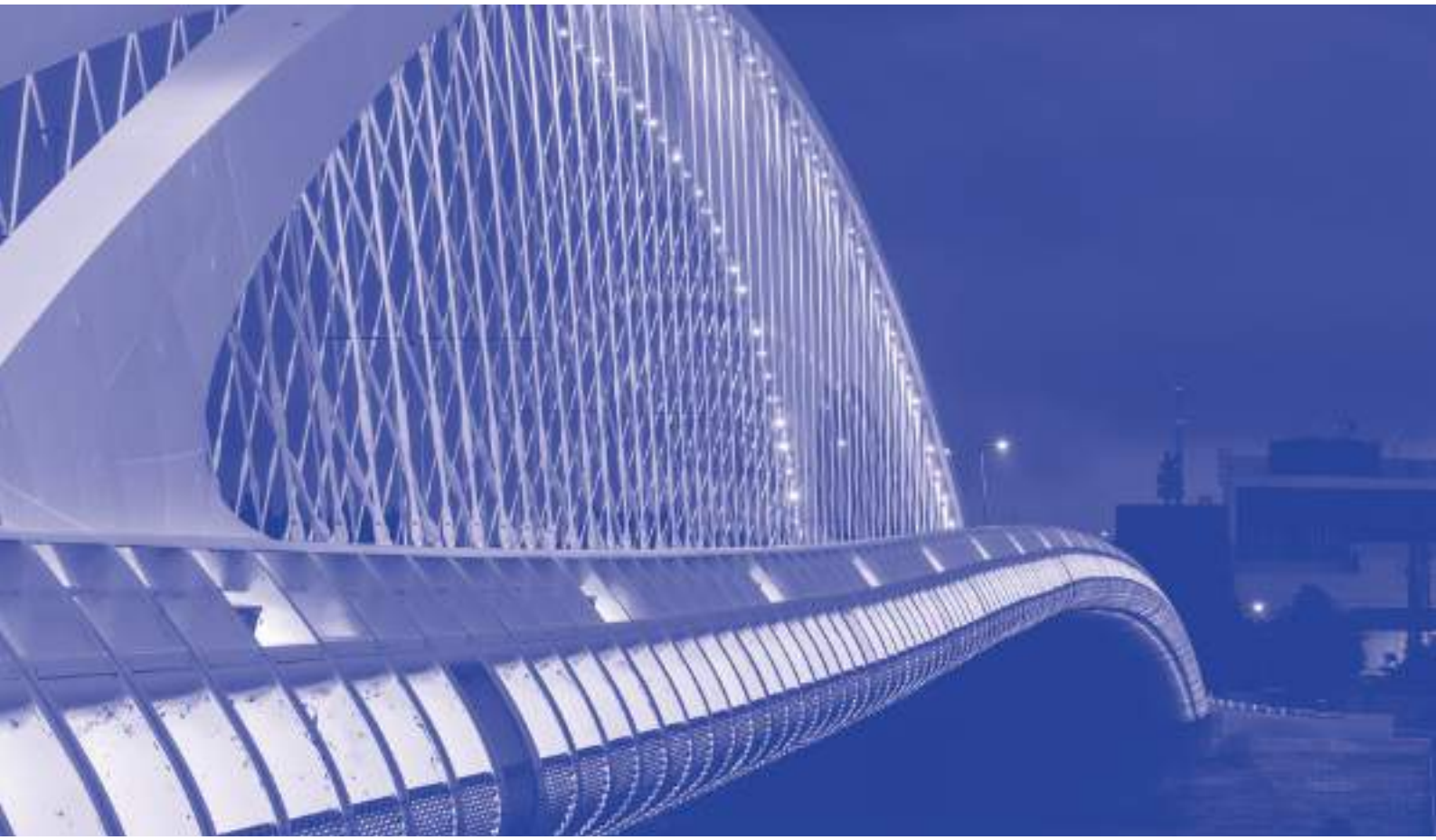
business (e.g. a change in the scope of business); or (ii) an extension of the existence of the company. The memorandum of association may stipulate different conditions. However, a member may only exit if they do not agree with a particular decision of the general meeting and voted at the general meeting against such a decision.

8.1.4 General meeting and voting rights
The members (interest holders) of an SRO exercise their voting rights at a general meeting, which is the supreme corporate body of the SRO. At the general meeting, the company's members decide on the company's most important corporate matters. Matters that fall within the powers of the general meeting are listed in the Business Corporations Act. The deed of foundation or memorandum of association of the SRO may generally increase (but not decrease) the scope of powers of the general meeting. As a general rule, the general meeting may also reserve or attract the right to decide upon other matters that otherwise fall under into the competences of other corporate bodies. A general meeting must be held at least once per accountancy period.

At least a majority of the votes of members present at the general meeting must be in favour of the proposed resolution to adopt decisions (unless the law or deed of foundation/memorandum of association stipulates otherwise, which is the case in most fundamental corporate matters where a higher quorum of votes is required). The general meeting reaches quorum if members are present who hold at least one-half of all votes, unless the deed of foundation or memorandum of association stipulates otherwise. When voting, each member has one vote per each CZK 1 of his/her capital contribution, unless the deed of foundation or memorandum of association stipulates otherwise.

If permitted by the deed of foundation or memorandum of association, the general meeting may appoint a body's members by means of "cumulative voting", which means the number of votes of a particular member is multiplied by the number of seats to be elected in the particular body. Subsequently, a member may distribute votes to one or more candidates.

8.1.5 Statutory bodies and management of a company
The statutory body of an SRO, which is generally empowered to act on behalf the company in all matters, is one or more managing directors. Each managing director is authorized to act on behalf of the company individually. If determined by a deed of foundation or memorandum of association, the managing directors can form a collective body jointly acting on behalf of the company.



The deed of foundation/memorandum of association may limit or restrict the rights of the managing director(s) to act on behalf of the company in relations with third parties (typically, the deed of foundation or memorandum of association may set forth financial thresholds for the execution of certain transactions by the managing director and require the joint action of two or more managing directors). These limitations must be registered in the Commercial Register in order to be effective towards third parties. However, any limitations set forth in internal regulations (e.g. requiring prior approval of the general meeting of the company) are not effective towards third parties (even if published), and an act of a managing director in breach of any such restriction is fully valid and binding for the company (the managing director himself though would be liable to the company for this breach of their duties under the requirement of due care by a manager).

Managing directors are elected and recalled by the general meeting from among the SRO's members or other natural or legal persons. Legal persons elected as members of company bodies must authorize a natural person who meets legal requirements for the performance of the respective office to represent the legal person in the respective body and are obliged to register this natural person in the Commercial Register.

Managing directors are responsible for the overall business management of the company (organization and management of the company's business affairs, strategic decisions, day-to-day operations, etc.). The responsibility of the statutory body in relation to the insolvency of an SRO is strengthened.

A statutory body member may be remunerated only if remuneration or other compensation to be paid in exchange for performance of his/her office is approved by the general meeting.

The statutory body is obliged to perform their office with due care and can be held liable for any damage caused to the company (this may even amount to criminal liability). However, if a member of the statutory body makes any business decision based on needed relevant information, with loyalty and in the justifiable interest of the company, their liability for any negative consequences that may arise from such a decision will be minimized. In that case, the member of the statutory body is not liable for the outcome of the business decision.

8.1.6 Supervisory board

An SRO has the option to form a supervisory board and if so, it is provided for in the deed of foundation/ memorandum of association or in another legal regulation. The main competences and responsibilities of the supervisory board are supervision of the activities of the managing director(s), revision of the company's accounts and financial statements, and informing the general meeting of its findings at least once per year. Managing directors or other persons entitled to act on behalf of the company cannot be members of the supervisory board.

8.1.7 Accounting

An SRO is obliged to keep accounts from the day of its incorporation. The accounting period of an SRO is generally one calendar year, but the company may change its accounting period to a fiscal year different from the calendar year (a period of 12 months starting on the first day of a month other than January). An SRO is obliged to prepare its financial statements for every accounting period. The financial statements must be approved by the general meeting and then filed to the Commercial Register (where they are made available to the public).

8.1.8 Auditing requirements

An SRO is obliged to have its financial statements audited if required by a special legal regulation or if it qualifies as a large accounting unit (with exceptions) or a medium-sized accounting unit. For small accounting units, they must have financial statements audited if as of the balance sheet day of the respective accounting period and of the immediately preceding accounting period at least two of the following conditions are fulfilled:

(a) the total book value of the company's assets is more than CZK 40,000,000;

(b) the company's yearly turnover exceeds CZK 80,000,000; or

(c) the average number of employees in the given accounting period was more than 50.

"Micro accounting units" do not need to have their financial statements audited (unless required by a special legal regulation). A limited liability company (SRO) would qualify as a micro accounting unit if it does not meet at least two of the following conditions:

(a) the total book value of the company's assets equals CZK 9,000,000;

(b) the company's annual turnover equals CZK 18,000,000; and

(c) the average number of the company's employees during the accountancy period is 10.

If a limited liability company (SRO) qualifies as a "public interest entity" (e.g. an issuer of securities traded on an EU-regulated market), it is subject to a statutory audit regardless whether it meets the above-mentioned criteria or not.

8.2 JOINT-STOCK COMPANIES

A Czech joint-stock company (in Czech: akciová společnost) ("AS") is the corporate form most widely used in the Czech Republic for the operation of businesses involving larger investments. The company is fully responsible for its obligations towards third parties. However, the shareholders are not personally liable for the company's obligations. The founders can choose whether to have the company with a corporate structure that is monistic (an administrative board) or dualistic (a board of directors and a supervisory board). The business judgment rule applies to members of the statutory body (administrative board/board of directors).

8.2.1 Establishment of a company

A joint-stock company can be established by one or several founders (legal or natural persons). The company is established upon the adoption of the articles of association by all of its founders (which must meet all statutory requirements) in the form of a notarial deed.

8.2.2 Registered capital and shares

The minimum registered capital of an AS is CZK 2,000,000 or EUR 80,000. The registered capital of an AS is divided into shares the aggregate nominal value of which corresponds with the total amount of registered capital. In addition, the company may also issue no par value shares (in Czech: kusové akcie). Shares without voting rights may also be issued.

8.2.3 General meeting and voting rights

The shareholders of an AS exercise their voting rights at the general meeting, which is the supreme corporate body. Shareholders may be accompanied by one specified person (an advisor) at the general meeting unless the articles of association state otherwise. Matters that fall within the powers of the general meeting are listed in the Business Corporations Act and in the articles of association. The general meeting may not, however (contrarily to the general meeting of an SRO), reserve or acquire the right to decide upon matters not entrusted to it by law or by the articles of association. The general meeting must be held at least once in an accounting period.

A general meeting may adopt decisions if properly convened and attended by shareholders who together hold shares with an aggregate nominal value exceeding 30% of the company's registered capital (unless the articles of association stipulate otherwise). To pass a decision, at least a majority of the votes of shareholders present at the general meeting must vote in favour of the proposed decision (unless the law or the articles of association stipulate otherwise). In most fundamental corporate matters, a higher quorum of votes is required by law.

Voting rights at the general meeting are connected to a share. The number of votes per one share of a certain nominal value or per no par value share must be set forth in the articles of association.

8.2.4 Monistic structure – administrative board

The statutory body of an AS with a monistic (one-tier) structure is an administrative board that is responsible for both the business management (statutory body) of the company and for supervision of the company's performance (supervisory body). The administrative board consists of three members unless the articles of association stipulate otherwise (the administrative board can even consist of only one member). The members of the managing board are elected by the general meeting. However, it is also possible to issue special shares with appointment rights. In such cases, certain shareholders might be entitled to appoint one or more members of the administrative board. However, the number of members appointed by shareholders cannot be higher than the number of members elected by the general meeting.

In the articles of association, it is possible to adjust the powers of individual members of the administrative board and, for example, to stipulate that certain members only have executive powers

while the others are entrusted with supervisory functions; or that only the chair of the administrative board is entitled to act on behalf of the company. The manner of acting on behalf of the company must be entered into the Commercial Register.

The administrative board defines the primary focus of the management and supervises its proper performance. The powers of the administrative board include any matters relating to the company unless they are entrusted by law to the competencies of the general meeting. The administrative board elects and recalls the chair of the administrative board.

The statutory body is obliged to perform their office with due care and can be held liable for any damage caused to the company (similarly as in an SRO).

8.2.5 Dualistic structure – board of directors and supervisory board
The statutory body of an AS with a dualistic structure is a board of directors that has 3 directors (unless the articles of association state otherwise). Each director may act on behalf of the company individually unless provided for otherwise in the articles of association. No one is entitled to give instructions to the board of directors regarding the management of the company. However, members of the board of directors may ask the general meeting to give such instructions. Directors are elected and recalled by the general meeting unless the articles of association provide that the directors are elected and recalled by the supervisory board. Special shares with appointment rights might be issued and, in such cases, certain shareholders might be entitled to appoint one or more members of the board of directors. However, the number of members appointed by shareholders cannot be higher than the number of members elected by the general meeting. The board of directors is responsible for the management of the company and its business activities.

The articles of association or a decision of the general meeting may limit the right of the board of directors to act on behalf of the company toward third parties (similarly as in an SRO). However, such limitations or restrictions are not effective vis-à-vis third parties (analogically as in an SRO), and an act by a director in breach of any such restriction is fully valid and binding for the company.

An AS is, by law, obliged to form a supervisory board. The main competencies and responsibilities of the supervisory board are supervision of the activities of the board of directors, review of the company's accounts and financial statements, and informing the general meeting of its findings.

A supervisory board has 3 members (unless the articles of association provide otherwise). Members of the supervisory board are elected and dismissed by the general meeting (unless provided otherwise). If an AS has more than 500 employees in a legal employment relationship, the number of supervisory board members must be divisible by three and two-thirds of the supervisory board members are elected by the general meeting and one-third by the employees of the AS. The articles of association can provide for a higher number of supervisory board members elected by employees. However, this number cannot be higher than the number of members elected by the general meeting. The articles of association can also stipulate that the company's employees are entitled to elect some supervisory board members even if the company has fewer than 500 employees. Only those employees in a legal employment relationship have the right to elect and dismiss members of the supervisory board.

Members of the board of directors cannot be members of the supervisory board.

A member of the board of directors or supervisory board may also be a legal entity provided that its powers are exercised through a natural person who meets the statutory requirements. Legal persons elected as members of company's bodies must authorize a natural person who meets the legal requirements for the performance of the respective office to represent the legal person in the respective body and they are obliged to register such natural persons in the Commercial Register.

The statutory body is obliged to perform his/her office with due care and can be held liable for any damage caused to the company (similarly as in an SRO).

8.2.6 Accounting
An AS is obliged to keep its accounts from the day of its incorporation. With regard to the accounting period and financial statements, the above-mentioned information regarding the accounting of an SRO also applies mutatis mutandis to an AS.

8.2.7 Auditing requirements
An AS is obliged to have its financial statements audited if required by a special legal regulation, if it qualifies as a large and /or medium-sized accounting unit (with exceptions). With respect to small

accounting units, they must audit their financial statements if they fulfil at least one of the following conditions on the balance sheet day for the respective accounting period and for the one immediately preceding it:

(a) the total book value of the company's assets exceeds CZK 40,000,000;

(b) the company's annual turnover exceeds CZK 80,000,000; or

(c) the company's average number of employees in the given accounting period was more than 50.

Micro accounting units do not need to have their financial statements audited (unless required by a special legal regulation). A joint-stock company (AS) would qualify as a micro accounting unit if it does not meet at least two of the following conditions:

(a) the total book value of the company's assets equals CZK 9,000,000;

(b) the company's annual turnover equals CZK 18,000,000; or

(c) the average number of the company's employees during an accountancy period is 10.

If a joint-stock company (AS) qualifies as a public interest entity (e.g. an issuer of securities traded on an EU regulated market); bank, savings or credit union; insurance company; reinsurance company; pension company; or health insurance company; it is subject to a statutory audit regardless whether it meets the above-mentioned criteria or not.

8.3 PARTNERSHIP

A partnership, (in Czech: veřejná obchodní společnost - "VOS"), is a company whose partners are personally jointly and severally liable for the partnership's obligations in full. Generated profits are split equally between the partners unless the memorandum of association states otherwise.

8.3.1 Establishment of a partnership

A VOS may be established by at least two (2) natural or legal persons. The partnership is established upon the execution of a memorandum of association by all its founders (with notarized signatures).

A VOS is not obliged to adopt articles of association or any other similar document. The relations between the partners are governed by the memorandum of association.

8.3.2 Registered capital and contribution

A VOS is not obliged to create registered capital, and its members are not obliged to make any capital contributions to the partnership unless agreed otherwise in the memorandum of association.

8.3.3 Ownership stakes

The ownership stakes of all partners are equal unless agreed otherwise in the memorandum of association.

8.3.4 Statutory body

The statutory body of a VOS is collectively formed by all its partners. However, the memorandum of association may provide that only one (or more) partners are the partnership's statutory body. If the statutory body is formed by more partners, each partner is authorized to act on behalf of the partnership individually unless the memorandum of association provides otherwise.

The memorandum of association may limit or restrict the rights of the partnership's partners to act on behalf of the partnership (analogically to an SRO or AS with similar consequences).

The statutory body is obliged to perform their office with due care and can be held liable for any damage caused to the company (similarly as in an SRO or AS).

8.3.5 Decision-making in a partnership

A VOS does not establish any special corporate body with ultimate decision-making powers (such as a general meeting). Decisions of a VOS on any matter are adopted by its partners. The consent of all partners is required for decision-making in all matters of the partnership unless the memorandum of association provides otherwise.

8.3.6 Supervisory body
A VOS does not have a supervisory body. Nevertheless, each partner is entitled to examine all of the partnership's documents and review the data contained therein.

8.3.7 Accounting
A VOS is obliged to keep its accounts from the day of its incorporation. With regard to the accounting period and financial statements, the above-mentioned information regarding the accounting of an SRO or AS also applies mutatis mutandis to a VOS.

8.3.8 Auditing requirements
The same rules as those applicable to an SRO as described in Subsection 8.1.8. above apply to audits on the financial statements of partnerships.

8.4 LIMITED PARTNERSHIPS

8.4.1 Members and their liability

Members
A limited partnership (in Czech: komanditní společnost - "KS"), is a company that has two types of members (partners):

(a) limited partners (in Czech: komanditisté) and

(b) unlimited partners (in Czech: komplementáři).

Liability of limited partners
Each limited partner is jointly and severally liable for the KS's obligations up to the unpaid amount of their capital contribution as registered in the Commercial Register. Once the limited partner pays up their capital contribution in full and this is registered in the Commercial Register, their liability for the partnership's obligations terminates.

Nevertheless, the memorandum of association may provide that limited partners are jointly and severally liable for the KS's obligations up to a certain amount. This is known as a "limited partners' guarantee" (in Czech: komanditní suma). The amount of each limited partners' guarantee cannot be lower than the partner's capital contribution, and this is registered in the Commercial Register.

Furthermore, if the names of some of the limited partners appear in the name of the partnership, those limited partners are liable for the KS's obligations as unlimited partners, i.e., they are jointly and severally liable for the partnership's obligations in full.

Liability of unlimited partners
Unlimited partners are personally jointly and severally liable for the partnership's obligations in full, and their liability for the partnership's obligations cannot be decreased or excluded.

8.4.2 Establishment of a partnership
A KS is established upon execution of a memorandum of association by all its founders (in writing and with notarized signatures). A KS must have at least two partners – one limited partner and one unlimited partner. Should the partnership have more than two partners, it is sufficient if one partner is a limited partner and the rest are unlimited partners or vice versa. The maximum number of partners is not limited.

A KS is not obliged to adopt articles of association or any similar document.

8.4.3 Registered capital and contribution
A KS creates registered capital, the amount of which is dependent on the number of partners and their contributions. Limited partners have an obligation to make a contribution to the registered capital of the partnership in the amount agreed in the memorandum of association. The minimum contribution for each limited partner is not limited. The amount of the agreed capital contributions, including the portion already paid by the limited partner(s), must be registered in the Commercial Register. The partners can agree in the memorandum of association that the unlimited partners are also obliged to provide a certain capital contribution. However, unlimited partners' contributions are not registered in the Commercial Register and their payment has no effect on their liability for the obligations of the partnership.

8.4.4 Ownership interest
According to the Business Corporations Act, the ownership interests of limited partners are determined by the ratio of their contributions.

8.4.5 Statutory body

The statutory body of a KS comprises all unlimited partners, and they are authorized to act on behalf of the partnership towards third parties. However, the memorandum of association may provide that only one (or more) unlimited partners are the statutory body of the KS. Limited partners may not be appointed as the statutory body of the partnership.

The memorandum of association may limit or restrict the rights of unlimited partners to act on behalf of the partnership (similarly as in an SRO and AS with similar consequences).

The statutory body is obliged to perform their office with due care and can be held liable for any damage caused to the company (similarly as in an SRO or AS).

8.4.6 Decision-making in a KS

A KS does not establish any special corporate body with ultimate decision-making powers (such as a general meeting). In order for the KS to adopt decisions in matters not falling under the competence of the statutory body, the consent of all partners (limited and unlimited) is required unless the memorandum of association provides otherwise. Amendments to a memorandum of association agreement require the unanimous vote of all partners.

8.4.7 Supervisory body

A KS does not have a supervisory body. However, all partners of a KS are entitled to examine and inspect all the partnership's accounting-related documents and review the data contained therein.

8.4.8 Accounting

A KS is obliged to keep its accounts from the day of its incorporation. With regard to the accounting period and financial statements, the above-mentioned information regarding the accounting of an SRO, AS, or VOS also applies mutatis mutandis to a KS.

8.4.9 Auditing requirements

The same rules as those applicable to the SRO as described in Subsection 8.1.8. above apply to audits on the financial statements of the KS.

8.5 BRANCH OFFICES OF FOREIGN COMPANIES

Under Czech law, a foreign company is a company that has its seat (registered office) outside the Czech Republic. Foreign companies may establish branch offices (in Czech: odštěpný závod) in the Czech Republic and carry out their business activities in the Czech Republic via their branch offices in the same extent as Czech entities. Generally, a branch office must have economic and functional independence. A branch office of a foreign company is not a legal entity but serves to represent a foreign company. Therefore, all rights and obligations arising from the business activity of the branch office are not rights and obligations of the branch office, but the foreign company itself.

In order for a branch office of a foreign company to be entitled to commence business activities in the Czech Republic, the branch office must be registered in the Czech Commercial Register on the basis of an application filed by the foreign company. The branch office must register the head of the branch office (in Czech: vedoucí odštěpného závodu), who is entitled to represent the branch office in all business matters. As part of the registration, information regarding the name, registered office, scope of business, and head of the branch office must be included. In addition, the branch office must also obtain all relevant Czech trade licences and must appoint a responsible representative (if required).

Establishment of the branch office brings about certain tax and accounting consequences if it would be considered a local presence (in Czech: stála provozovna) in case the activities of the branch office are beyond mere PR/marketing activities.

8.6 INSURANCE COMPANIES

The activities of insurance companies in the Czech Republic are primarily governed by Act. No. 277/2009 Coll., on insurance as amended (the "Insurance Act"). Further regulatory-related issues for the insurance sector can be found in Act No. 170/2018 Coll., on distribution of insurance and reinsurance that came into force on 1 December 2018 and implements the Insurance Distribution Directive ((EU) 2016/97). Insurance companies in the Czech Republic can be established either as joint-stock companies or cooperatives (a special type of legal entity), although we are not aware of any currently active Czech insurance company that would be structured as a cooperative. Insurance activities can be carried out in the Czech Republic by Czech insurance companies (i.e., companies with their registered office situated in the Czech Republic) or foreign insurance companies (i.e., companies with their registered office outside the Czech Republic) provided that the conditions of the Insurance Act have been fulfilled.

8.6.1 Czech insurance companies in the Czech Republic

A Czech insurance company is authorized to carry out its insurance business on the basis of and to the extent permitted by a licence granted by the CNB.

8.6.2 Foreign insurance companies in the Czech Republic

A foreign insurance company from another EU country is authorized to carry out its insurance business in the Czech Republic subject to a notification (in accordance with the Insurance Act) to its local regulator

- under the freedom of establishing its branches, or
- under the freedom to temporarily provide services,

within the scope in which it is authorized to carry out its insurance business in the country of its registered office.

An insurance company from a non-EU country may carry out insurance business in the Czech Republic only through its branch based on authorization granted by the CNB. The details are stipulated by law.

8.6.3 Establishment of a Czech insurance company

Since Czech insurance companies may exist as a joint-stock company or a cooperative, the process of their establishment and incorporation is generally governed by the relevant provisions of the Business Corporations Act regulating the establishment and incorporation of joint-stock companies and cooperatives.

8.6.4 Registered capital

The minimum amount of registered capital of a Czech insurance company is at least CZK 105 million if the insurance company provides life insurance. For insurance companies that provide policies other than life insurance, the minimum amount of registered capital ranges from CZK 70 million to CZK 200 million depending on the class of non-life insurance provided. The registered capital of a Czech insurance company is exclusively monetary. The registered capital must be fully paid before filing the application to the CNB for the issuance of a license to carry out insurance activities.

Issues regarding registered capital of foreign insurance companies are governed by their domestic legal regulations.

8.6.5 Shares or membership interest

If the insurance company is established as a joint-stock company, the registered capital is divided into shares which (if voting rights are attached to such shares) may be issued exclusively as book-entry shares.

If the insurance company is established as a cooperative, the registered capital is divided into membership interests.

The CNB's prior consent is required for an acquisition of shares in an insurance company if a person intends to acquire a stake in the company such that their share of voting rights will reach or exceed 20%, 30%, or 50%; or if this insurance company will otherwise be controlled by such a person.

8.6.6 Statutory body and management of an insurance company

The statutory body of a Czech insurance company is the board of directors (in a two-tier system) or managing board (in a one-tier system), which is responsible for the business management of the insurance company. The statutory body of foreign insurance companies is governed by their domestic legislation.

In line with the provisions of the Business Corporations Act and different from the regulation in respect of banks (see below), the Insurance Act allows legal persons to become the members of a board of directors and a managing board of an insurance company. However, a legal person (a member of a board of directors or managing board) must authorize its representative, a natural person who meets the statutory requirements. The natural person must be registered in the Commercial Register together with the legal person (please also see the last paragraph of point 8.2.5 above).

In line with EU law (namely 2009/138/EU, Solvency II Directive), all persons involved in the running of an insurance company or have other key responsibilities (such as those included in the system of governance, which includes risk-management, compliance, internal audits, and actuarial), must have sufficient qualifications and integrity and must not be in conflict of interest. Further details and

obligations, including details regarding rules on remuneration policies are laid down in the Commission Delegated Regulation (EU) 2015/35 or Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

8.6.7 Decision-making body
If the insurance company is established as a joint-stock company, the ultimate decision-making body is the general meeting.

If the insurance company is established as a cooperative, the ultimate decision-making body is the meeting of members at which the members decide about the insurance company's most important matters.

8.6.8 Controlling body
If the insurance company is established as a joint-stock company, the insurance company must have a supervisory board (in a two-tier system) or supervisory powers are carried out by a managing board (in a one-tier system). In general, a legal person may become a member of such a controlling body. However, similarly to legal persons appointed as members of the board of directors or managing boards, a natural person must be authorized as a representative of such a legal person (please see point 8.6.6 above).
If the insurance company is established as a cooperative, the insurance company must form a supervisory commission as its supervisory body.

8.6.9 Solvency
In line with EU law (namely 2009/138/EU, Solvency II Directive and Commission Delegated Regulation (EU) 2015/35), an insurance company must hold own eligible funds at least in the amount of the solvency capital requirements with respect to the whole extent of its activity. The capital requirement should never drop below a level that would threaten fulfilment of its commitments, i.e. below the minimum capital requirement.

8.6.10 Technical reserves

Both Czech and foreign insurance companies are obliged to create technical reserves related to the commitments that ensue from insurance activities that are probable or certain, but it is uncertain when and to what extent such activities will occur.

Details on the creation of technical reserves of Czech insurance companies and non-EU insurance companies are set in the Insurance Act and Commission Delegated Regulation (EU) 2015/35. An insurance company from an EU country must create its technical reserves in accordance with its domestic legal regulations.

8.6.11 Accounting

Both Czech and foreign insurance companies that carry out insurance activities in the Czech Republic through branch offices must keep their accounts in accordance with Czech accounting legislation (Act No. 563/1991 Coll., on accountancy as amended).

8.6.12 Audit

Insurance companies that are obliged (under Act No. 563/1991 Coll., on accountancy as amended) to prepare financial statements must have their financial statement audited by an independent auditor. Czech and non-EU insurance companies are obliged to notify the CNB of their selected auditor or auditing firm. If the CNB rejects the selected auditor, the insurance company is obliged to notify the CNB of its selection of a new auditor within 30 days from the delivery of the CNB decision on rejection. The CNB is also empowered to conduct an extraordinary audit if it finds deficiencies in the auditor's report.

8.7 BANKS

Banking in the Czech Republic is governed primarily by Act No. 21/1992 Coll., on banks as amended. Banks may only be established in the Czech Republic as joint-stock companies. Besides Czech banks (banks with their registered office in the Czech Republic), banking may also be carried out in the Czech Republic by foreign banks (banks with their registered office outside the Czech Republic) via their branches (and to a very limited extent also without the need to establish branches).

8.7.1 Licences

In order to be entitled to carry out banking activities in the Czech Republic, Czech banks and generally foreign banks need to obtain a licence from the CNB. The licence determines the scope of banking activities the bank is allowed to carry out in the Czech Republic (for example investment activities, financial leasing, establishing letters of credit, etc.). A banking licence is granted for an indefinite period and is not transferable to another person or entity.

8.7.2 Foreign banks in the Czech Republic

Banks from another EU country may carry out their activities in the Czech Republic on the basis of a "single licence" granted to it by the regulator of the country of its registered office in one of the two following ways:

(a) via its branch established in the Czech Republic; or

(b) based on the freedom to temporarily provide services (without establishing a branch office), provided the bank's activities do not have the character of permanent economic activity.

Banks from non-EU countries that intend to carry out banking activities in the Czech Republic are required to establish a branch or subsidiary in the Czech Republic and obtain a licence from the CNB.

8.7.3 Establishment of a Czech bank in the Czech Republic

A bank may only be established in the Czech Republic as a joint-stock company and therefore its establishment is regulated by the relevant provisions of the Business Corporations Act on joint-stock companies.

8.7.4 Registered capital and shares

The minimum amount of a bank's registered capital is CZK 500 million, and at least this amount of a bank's registered capital must be paid in cash (in-kind capital contributions are permitted beyond this amount). Further capital requirements apply in line with European legislation (namely, the CRR/CRD package).

8.7.5 General meeting and voting rights

The general meeting and exercise of voting rights of a bank's shareholders are generally governed by the relevant provisions of the Business Corporations Act on joint-stock companies.

8.7.6 Statutory body and management of the bank

The statutory body of a bank is:

(a) a two-tier system – the board of directors, which must have at least three members; and

(b) in a one-tier system – the managing board, which must have at least five members.

Members of the board of directors or a managing board of a bank may simultaneously hold memberships in bodies of other legal entities only under specific conditions set forth in the Act on Banks. The powers and competencies of the statutory body must be set forth in the bank's articles of association. Banks are obliged to inform the CNB of proposed membership changes in the bank's statutory body.

The statutory body is responsible for the business management of a bank. Only natural persons can become members of a statutory body.

8.7.7 Supervisory body

Banks obligatorily have a supervisory board in a two-tier system. In a one-tier system, supervision is performed by the managing board. The competences of members of the supervisory or managing board must be provided for in the articles of association.

Members of the supervisory board may simultaneously hold membership in bodies of other legal entities only under specific conditions set forth in the Act on Banks. Banks are obliged to inform the CNB about any proposed changes to membership in the bank's supervisory body.

Only natural persons can become members of the supervisory body.

8.7.8 Articles of association

Banks must adopt articles of association that regulate among other matters:

(a) the bank's structure and organization;

(b) powers and responsibilities of the members of the board of directors, the supervisory board, and statutory director;

(c) powers and responsibilities of other employees or workers of headquarters, branches, or other organizational units authorized to conduct banking transactions; and

(d) organization of the bank's management and control system.

Banks are obliged to inform the CNB of proposed amendments to their articles of association with regard to the obligatory contents of the articles of association under the law. Banks are obliged to file the articles of association and all changes to them with the CNB.

8.7.9 Accounting

Banks and branches of foreign banks are obliged to maintain accounts and keep their clients' transactions and their own transactions on separate accounts. Banks and branches of foreign banks are required to keep at least a 10-year history of transactions performed.

8.7.10 Audit

Banks are required to have audited:

(a) financial statements;

(b) the management and control system; and

(c) mandatorily published information (including information on shareholders, the bank's financial situation, and other information).

In addition to the foregoing, banks must ensure the auditor prepares a report on the audit of its financial statements and management and control system, which they are obliged to submit to the CNB within a specified period.

8.8 ESG

8.8.1 ESG / CSRD Regulatory Package

On 28 November 2022, the Council of the European Union approved the Corporate Sustainability Reporting Directive (CSRD). The CSRD amends the 2014 Non-Financial Reporting Directive (NFRD) and introduces uniform and EU-specific standards for non-financial reporting and expands the scope of persons affected by the requirements.

Although at the time of writing (February 2023), the Czech implementation of the directive is yet to begin and the reporting templates (as well as some of the supporting EU legislation pieces, such as the Directive on Corporate Sustainability Due Diligence) are still in the stage of preparation and drafts, the acronyms ESG/CSRD have recently become more and more common in business circles. What is ESG and what does it means for business in the Czech Republic?

The acronym ESG (Environmental, Social, and Governance) refers to new requirements in the field of social responsibility and environmental sustainability. ESG is de facto an assessment of a company's social responsibility in the area of social and environmental factors. It can be considered a form of a social credit score for a company. These three broad categories are used to define "socially responsible investors", i.e. investors who consider the inclusion of their values and concerns as important (such as environmental protection, corporate governance, or community interests).

Financial institutions, investors, business partners, other stakeholders, and the public correctly view ESG as a potential risk for companies that do not have sufficiently well-defined or even adhere to these standards. The legal, financial, and reputational risks and negative impacts associated with non-adherence with these standards can in many cases complicate the situation not only for the company that does not follow them in a sufficient manner, but also for other companies with which they do business. ESG is especially prevalent in the financial sector and public procurement where companies that do not comply with ESG standards face increasing obstacles. Other areas of business quickly follow and accordingly the awareness of ESG risks and the impact on the business increases in companies that are not direct recipients of this legislation, but are being polled by their business partners on the customer side that need to assess to what extent ESG risks are exposed via these supplier-customer relations.

In our experience, the main factors that tend to be evaluated when assessing a company's ESG risks, are especially (but not exclusively) the following areas:

- Carbon footprint
- Environmental sustainability
- Diversity
- Water consumption
- Respect for human rights
- Consumer protection
- Animal welfare
- Equality – discrimination
- Ethics
- Management structure
- Employment relations
- Employee remuneration
- Management remuneration
- Investment strategy
- Investor structure
- Principles of responsible investment
- Data protection

Although the reporting obligation under the CSRD will not apply until 2025 (retrospectively for non-financial reports covering the preceding year, 2024), it is already possible to recommend launching steps to prepare for the new ESG requirements. These steps may in particular include:

(a) Review of the company's and the group's key documents, including the rules on acting of representatives of the company and signature rights, and structuring them to comply with ESG regulations in the areas of corporate, employment, and finance;

(b) Assessing the appropriateness of appointing a chief sustainability officer delegating this agenda to relevant staff or outsourcing it to external consultants;

(c) Setting up supply chain management including consideration of the associated risks arising from CSRD reporting. This is particularly important as the biggest Czech export market, Germany, has already implemented legislation requiring its companies to investigate their supply chain for possible human rights and environmental violations;

(d) Review of compliance with existing legal obligations (e.g., labour or environmental law); and

(e) Timely and effective implementation of new relevant legislation.

8.8.2 NEW LEGISLATION RELATED TO GOVERNANCE AND COMPLIANCE

Whistleblowing directive implementation

With almost two years of delay, the Whistleblower Protection Act is expected to be enacted in the second quarter of 2023 with effective application in December 2023 when the recipients (esp. all companies with 50 or more employees) need to implement a whistleblowing system.

The whistleblowing system needs to be set in a way to:

(a) appoint so-called responsible person or persons, i.e. person or persons responsible for receiving, investigating, and proposing solutions to incoming whistleblower reports;

(b) allow for whistleblowers to submit whistleblowing reports personally, by telephone, mail, and email;

(c) guarantee the confidentiality of the whistleblower's identity, i.e. ensure no information that could be used to deduce the identity of the whistleblower gets to persons other than the responsible individual;

(d) enable timely investigation of the incoming whistleblower's report as well as a reasonable solution of any relevant finding; and

(e) enable communication of the responsible person with the whistleblower unless the report is anonymous without any possibility to reach the whistleblower.

A well-planned yet cost-effective implementation of the whistleblowing channel should not only satisfy the obligation of the proposal of the Whistleblower Protection Act, but also provide synergy effects in:

(a) limiting criminal/administrative liability of the company, its directors, and managers;

(b) fulfils the expectations of ESG legislation (esp. in cases of indirect application of CSRD to suppliers of the reporting entities); and

(c) promotes risk culture that mitigates financial and operational risks by limiting e.g. unethical practices in procurement, sales, or competitor relations and processes, which not only limit potential financial losses, but also reputational, legal, and regulatory risks related to breaches of respective legal acts.

ARTICLE 9.

OFFSHORE BANKING

9.1 OFFSHORE BANKING UNITS

Under Czech law, there are two regimes for carrying out banking activities by foreign banks. A difference is made between branches of banks from EEA member states and from non-EEA member states. Banks registered within the EEA may operate in the Czech Republic under the single licence principle, i.e. on the basis of an authorization obtained in their home member state and following the notification procedure.

Czech law, in line with EU law (namely Directive 2013/36/EU), allows for activities to be carried out in the Czech Republic on the basis of the single licence principle either (i) with the establishment of a branch office; or (ii) without the establishment of a branch office. Under the relevant section of Act No. 21/1992 Coll., on banks, banks with their registered office in an EEA member state are authorized to carry out the activities listed in the above-mentioned EU Directive without establishing a branch provided the performance of these activities does not have the character of permanent economic activity.

Banks from non-EU-member states or countries that do not benefit from the same treatment as EU members states are obliged to establish their branch office or subsidiary in the Czech Republic and apply to the CNB for a Czech banking licence if their intended activities are of an entrepreneurial nature.

Since 2022, it is also possible for banks with their registered office in an EEA member state (as well as for some third-country banks) to provide some investment services to professional clients on a permanent basis, even without establishing a branch in the Czech Republic.

ARTICLE 10.

COURT SYSTEM OVERVIEW

10.1 GENERAL

Dispute resolution in the Czech Republic is mainly governed by Act No. 99/1963 Coll., the Civil Procedure Code.

Czech courts are structured on a regional and functional basis. District courts located in each of the 86 districts in the Czech Republic represent the lowest level of judicial decision-making. These are general courts of first instance whose decisions may be appealed to one of the eight regional courts (depending on the location of the court of first instance). In certain specialized matters (e.g. shareholder disputes or intellectual property disputes), regional courts act as courts of first instance.

At the next tier of the civil court system, two high courts deal with appeals against the judgments of the regional courts in cases where regional courts acted as the court of first instance. At the top of the judicial hierarchy is the Supreme Court that decides on certain specialized matters (such as the recognition of foreign judgments in matrimonial matters), as well as on extraordinary appeals (recourses) against final and enforceable decisions issued by lower courts.

The Constitutional Court, which is an independent body outside the general court structure, is responsible for the protection of constitutionality and decides on potential or real conflicts between legal regulations, judicial or administrative decisions, and the Constitution of the Czech Republic.

10.1.1 Jurisdiction of courts

International jurisdiction of Czech courts is governed by multilateral and bilateral treaties and conventions and, in the absence thereof, by the Act on International Private Law. Rules of local jurisdiction are set out in Sections 84-89 of the Civil Procedure Code. General jurisdiction is based on the following criteria:

(a) the defendant's place of residence/domicile (seat or place of business);

(b) the place of the defendant's stay;

(c) the defendant's last known place of stay;

(d) the place where the defendant has property, if no court can be established according to the preceding criteria, and if property rights are exercised towards such a person; and

(e) the place of an enterprise or an organizational component (branch) of the defendant;

In addition to courts of general jurisdiction, a plaintiff may lodge an action with a court according to his/her own choice (alternative jurisdiction) under the following criteria:

(a) the place of the defendant's permanent workplace;

(b) the place where the incident that caused the damage occurred;

(c) the place of the defendant's organizational unit (branch), if the dispute relates to this component;

(d) in matters concerning bills of exchange or any other securities, the place of payment; and

(e) the place (seat) of a stock exchange if the dispute relates to an exchange business.

Exclusive jurisdiction is established for proceedings concerning real estate and associated rights (referred to a court in the district where the real property is located), as well as inheritance, bankruptcy, and status proceedings. According to section 89a of the Civil Procedure Code, prorogation of jurisdiction is possible in disputes between entrepreneurs regarding their business activities except where exclusive jurisdiction applies.

10.1.2 Depositions

In Czech litigation proceedings, testimony is usually given in the courtroom (in some cases it may be given by way of a written affidavit and potentially later supplemented by standard testimony if required). It is not possible to record a deposition by a certified court reporter.

10.1.3 Discovery

The concept of discovery is not generally recognized by the Czech legal system save for certain relatively rarely used exceptions.

Under section 129(2) of the Civil Procedure Code, the court has the right to order any person to submit a specific document that constitutes important evidence for the proceedings. Such evidence must be specifically identified.

If a party to the proceedings (usually the defendant) is ordered by the court to present a specific document the claimant has sufficiently identified and at the same time established the document is indeed in the defendant's possession, but the defendant fails to submit such document without sufficient grounds, the disputed issue to which the document is related shall be assessed by the court to the defendant's detriment.

Certain additional aspects of discovery will likely be introduced in relation to the transposition of Directive (EU) 2020/1828 of the European Parliament and of the Council of 25 November 2020 on representative actions for the protection of the collective interests of consumers and repealing Directive 2009/22/EC. A draft act on collective actions was published by the Ministry of Justice of the Czech Republic in December 2022 with the aim for the new legislation to come into effect by the end of June 2023.

10.1.4 Statutes of limitation

The applicable limitation period depends on the nature of the claim. Limitation periods are mainly regulated by the Civil Code. The general limitation period under the Civil Code is three years. This period commences the moment the right in question could have first been exercised in court.

10.1.5 Costs of proceedings

(a) Composition of costs

Reimbursable costs include court fees, lawyer's fees (including VAT), and other reasonable costs incurred by the parties involved (such as costs of expert opinions).

(b) Court fees

The court fee for monetary claims is generally 5% of the claimed amount (or 4% of the claimed amount for simpler claims filed via a special electronic form). If the claimant can demonstrate a poor social and economic status, the court may release them from the court fee obligation. Enforcement proceedings carried out by an executor are not subject to any court fee.

(c) Cost of legal representation

Reimbursement of the costs of legal representation is decided by Czech courts on the basis of Decree Number 177/1996 Coll., on Determining Fees of Attorneys and Notaries for Providing Legal Services (the "Attorney's Tariff"). The attorney's actual fees are usually determined by an agreement between the attorney and the client.

The Attorney's Tariff stipulates a fee for each act of legal service (such as preparing for representation, drafting a claim statement, attending a hearing, preparing an appeal) calculated on the basis of the claimed amount. The amount of the lawyer's fees, therefore, depends on the monetary value of the claim and the complexity of the proceedings. The Attorney's Tariff also determines the attorney's cash expenses including postage, telephone charges, and reimbursement for loss of time.

(d) Cost recovery

Under Czech law, there is a general rule that the party who loses the case bears all costs of the proceedings, i.e. its own costs as well as the costs of the successful counterparty.

If a party wins the case only partially, the party could bear the costs with the unsuccessful party proportionately, no party could be entitled to reimbursement, or the party could be awarded full recovery of its costs (if it was unsuccessful only in a minor part of the claim). In exceptional cases, the recovery of costs is not awarded to any party due to special reasons and circumstances, such as the poor economic and social status of the unsuccessful party.

10.2 ARBITRATION

Disputes in the Czech Republic can also be resolved by arbitration. Arbitration is governed by Act Number 216/1994 Coll., on Arbitral Proceedings and Enforcement of Arbitral Awards (the "Arbitration Act"). The Civil Procedure Code is then applied.

The parties may agree that any proprietary disputes arising from their relations (excluding enforcement and incidental disputes), that would otherwise fall under the jurisdiction of "ordinary" courts are to be decided by one or more arbitrators in an ad hoc arbitration or by a permanent arbitration court (e.g., the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic). Since November 2016, the possibility of arbitration clauses is excluded from consumer contracts, i.e. contracts entered into between a consumer and an entrepreneur.

An arbitral award may be subject to review by other arbitrators on the basis of an expressed agreement of the parties to the dispute. Furthermore, an arbitral award may be challenged before the court by filing an action to set aside an arbitral award. However, the reasons for which the court may set aside an arbitral award are very limited and of a formal nature.

In comparison with certain European jurisdictions where general courts are relatively efficient (such as Austria, Germany, or Switzerland), arbitration in the Czech Republic is often used for the resolution of local (rather than only international) disputes as well. One of the reasons why arbitration is popular in commercial disputes is time efficiency and the predictability of costs in comparison to court proceedings where decisions may be appealed and overturned multiple times resulting in disputes that last for more than 10 years. The average length of arbitration proceedings in the Czech Republic is around one year.

10.3 RECOGNITION AND ENFORCEMENT OF FOREIGN JUDGMENTS

10.3.1 General

The Czech government's attitude towards the recognition and enforcement of foreign judgments is, in general, very receptive. Recognition and enforcement proceedings under Czech national law are, especially in relation to property matters, simple (no formal recognition is needed and there are no exequatur proceedings).

The Czech Republic is a member of the EU and a signatory to many multilateral and bilateral international treaties (see section 10.4 below) and conventions that aim to eliminate procedural obstacles in proceedings related to the recognition and enforcement of foreign judgments. In the Czech Republic, the vast majority of recognition and enforcement proceedings concern judgments originating in EU member states. If the judgment subject to the recognition and enforcement procedure in the Czech Republic originates in another member state of the EU, the sources of law apply in the following order of priority:

(a) applicable EU Law – mainly Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) (the "Brussels I Recast Regulation");

(b) applicable conventions and treaties; and

(c) national law (mainly Act No. 91/2012 Coll., on international private law ("Act on International Private Law").

If the judgment submitted for recognition and enforcement to a Czech court originates in a non-EU country, the sources of law apply in the following order of priority:

(d) applicable multilateral conventions and treaties;

(e) applicable bilateral conventions and treaties; and

(f) national law.

According to Section 2 of the Act on International Private Law, provisions of international treaties binding for the Czech Republic and EU law take precedence over the Act on International Private Law. The provisions of the Act on International Private Law are thus applied only if an international treaty or applicable EU law does not provide otherwise.

According to Section 14 of the Act on International Private Law, foreign decisions (decisions by foreign courts and other foreign authorities in private legal matters, foreign judicial settlements, and foreign notarial deeds) have legal effect in the Czech Republic if they are valid (i.e. are final and conclusive) according to the affidavit of the respective foreign authority and if they have been recognized by Czech authorities.

Foreign arbitral awards are recognized in accordance with the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

10.3.2 EU law requirements for recognition of foreign judgments
Policy and procedural requirements for the recognition of foreign decisions in a member state of the EU or a country that is a signatory to an applicable international treaty are governed by relevant EU regulations or an international treaty. According to Article 45 of the Brussels I Recast Regulation, a judgment will not be recognized if:

(a) Recognition is manifestly contrary to public policy in the member state in which recognition is sought;

(b) The judgment was given in default of appearance, if the defendant was not served with the document that instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable them to arrange for their defence, unless the defendant failed to commence proceedings to challenge the judgment when it was possible for them to do so;

(c) It is irreconcilable with a judgment given in a dispute between the same parties in the member state in which recognition is sought;

(d) It is irreconcilable with an earlier judgment given in another member state or in a third state involving the same cause of action and between the same parties, provided that the earlier judgment fulfils the conditions necessary for its recognition in the member state addressed; or

(e) A foreign judgment will also not be recognized due to lack of jurisdiction under public international law (diplomatic immunity, consular immunity, head-of-state immunity) or if it conflicts with Article 6 of the European Convention on Human Rights.

10.3.3 Recognition and enforcement of EU member state decisions under the Brussels I Recast Regulation
A foreign judgment is recognized in the Czech Republic without any special procedure being required.

A judgment issued in an EU member state that is enforceable in that member state will be enforceable in another EU member states without any declaration of enforceability being required.

For the purposes of enforcing a judgment issued in another EU member state, the applicant seeking enforcement must provide the competent enforcement authority with the following:

(a) A copy of the judgment that satisfies the conditions necessary to establish its authenticity;

(b) A certificate referred to in article 53 of the Brussels I Recast Regulation containing a description of the measure ordered and certifying that (i) the court that issued the judgment in question had jurisdiction as to the substance of the matter; and that (ii) the judgment is enforceable in the EU member state of origin; and

(c) Where the judgment was issued without the defendant being summoned to appear, proof of service of the judgment.

Translation of the documents is not compulsory and only needs to be produced upon request of the competent authority.

Generally, it is not possible to re-open a case on the merits of a decision by a foreign court during the course of the recognition and enforcement procedure. Article 52 of the Brussels I Recast Regulation stipulates that a foreign judgment may not be reviewed as to its substance under any circumstances.

The court of the country in which recognition of a foreign judgment is sought is not to examine the correctness of the judgment. It may not substitute its own discretion for that of the foreign court, nor refuse recognition if it considers that a matter of fact or of law has been wrongly decided. Even though

the Act on International Private Law does not explicitly prohibit a review of a foreign judgment as to its substance, it is not possible to re-open the merits of a foreign decision under Czech law.

10.3.4 Recognition and enforcement of foreign judgments from non-EU countries

According to section 14 of the Act on International Private Law, decisions by foreign courts and decisions by foreign authorities in matters in which courts would have jurisdiction in the Czech Republic as well as foreign judicial settlements, notarial deeds, and other public deeds relating to such matters are enforceable in the Czech Republic if they have become final according to the confirmation thereof by the corresponding foreign authority and if they have been recognized by Czech authorities.

Section 15 of the Act on International Private Law contains the general conditions for the recognition and enforcement of foreign judgments. A foreign decision cannot be recognized or enforced if:

(a) Its recognition is hindered by the exclusive jurisdiction of Czech courts or if the proceedings could not be carried out by the authority of a foreign state should the provisions concerning the competence of the Czech courts be applied to the consideration of the jurisdiction of the foreign authority;

(b) There are pending proceedings in the same legal matter before a Czech court and such proceedings commenced earlier than the foreign proceedings that led to the decision the recognition of which is being sought (lis pendens obstacle);

(c) A Czech court has issued a final decision in the same legal matter, or if a final decision in the same matter was issued by an authority of a foreign state and recognized in the Czech Republic (res judicata obstacle);

(d) Through its procedure, the foreign authority deprived the party against whom the decision is to be recognized of the possibility to take proper part in proceedings, particularly if the latter had not been personally served with a summons or a motion to initiate the proceedings, or if the defendant had not been personally served with a motion to initiate the proceedings;

(e) The recognition is contrary to public order in the Czech Republic; or

(f) Reciprocity is not guaranteed; reciprocity may not be required if the foreign decision is not directed against a Czech citizen or legal entity.

Finality and enforceability of a decision

Unlike EU regulations (e.g., article 39 of the Recast Brussels Regulation), that stipulate a decision must be enforceable in order to be able to be recognized, the Act on International Private Law stipulates that a decision must be in legal force, i.e. final and conclusive.

The requirement that a decision must be enforceable is not explicitly stated in the Act on International Private Law. However, it is contained in the Civil Procedure Code and the Execution Code. Therefore, a decision must be enforceable in the state of its origin. According to Czech law, foreign decisions imposing an obligation that cannot be enforced because no appropriate method of enforcement exists are not enforceable.

Exclusive jurisdiction of Czech courts

Exclusive jurisdiction exists where a Czech court has the power to adjudicate a case to the exclusion of all other foreign courts. Czech courts have, for example, exclusive jurisdiction to declare a citizen of the Czech Republic dead or missing, to hold inheritance proceedings if real property of a deceased foreign citizen is located in the Czech Republic, or to decide on rights associated with real property located in the Czech Republic.

Lack of jurisdiction of a foreign authority

The judgment of a foreign authority cannot be recognized or enforced in the Czech Republic if that authority does not, under the rules of Czech law determining the competence and jurisdiction of domestic courts and authorities, have jurisdiction to decide that particular matter. In other words, the Czech rules on jurisdiction normally applied to authorities in the Czech Republic are applied to a situation in a particular foreign state and if, according to these rules, the authority that has issued the judgment in question would not have been competent to decide the matter, the judgment of that authority will not be recognizable or enforceable in the Czech Republic.

Exclusive jurisdiction is established for certain proceedings including proceedings concerning real estate and associated rights referred to a court in the district where the real property is located. According to section 89a of the Civil Procedure Code, prorogation of jurisdiction is possible in commercial matters.

Res judicata

A foreign decision will not be recognized if a Czech court has issued a final decision on the same legal matter or if the final decision was issued on the same matter by an authority of a third state and recognized in the Czech Republic. A foreign decision could therefore be recognized if a Czech court had issued a decision in the same legal matter, but the Czech court's decision would not have yet been in legal force at the time of the recognition. A foreign decision would not be recognized even if it would be reconcilable with a final Czech decision or an already recognized foreign decision.

Due process

A foreign decision cannot be recognized if the foreign authority issuing the decision deprived the party against whom the decision is to be recognized of the possibility to take proper part in proceedings, particularly where the decision was issued in absence of appearance or if the defendant was not served with a summons to the hearing or the document that instituted the proceedings. In order for an objection regarding the failure to observe due process to be considered (and thus to possibly cause recognition to be denied), such objection must be raised by the person or entity against whom recognition of the foreign decision is being sought.

Public policy

The recognition of a foreign decision is not possible if the consequences of that decision would be clearly contrary to the public policy or order of the Czech Republic. Public policy (or public order) is not expressly or specifically defined in any Czech legal regulation. It may, however, be considered to consist of the fundamental principles that form the basis of a country's laws and that need to be upheld.

Reciprocity

The principle of reciprocity states that a foreign judgment in the Czech Republic will have the same force that a Czech judgment would have in that other country. If the foreign country does not recognize Czech judgments, a judgment from that country is not enforceable in the Czech Republic.

The Ministry of Justice of the Czech Republic can issue a declaration on reciprocity in the matter of recognition and enforcement. Such a declaration is binding for Czech courts and enables them to henceforth recognize and enforce decisions awarded by the judicial authorities of the foreign state that issued the declaration. So far, only a few such declarations regarding civil matters have been issued by the Ministry of Justice of the Czech Republic and mostly concerned family law matters.

If there is no declaration on reciprocity, the Czech court may verify whether the respective foreign authorities will guarantee recognition and enforcement of Czech decisions in similar matters. Reciprocity will not be required if the foreign decision is not directed against a Czech citizen or legal entity, e.g., when a foreign debtor has property in the Czech Republic.

10.3.5 Enforcement under national law

Under the Civil Procedure Code, there are two methods of enforcement of obligations imposed by a court judgment or a decision of other authorities in the Czech Republic. The first is judicial enforcement by a court and its employees.

In the past, this method of compulsory execution of judgments did not prove successful due to its low efficiency and lengthiness. An additional legal regulation (Act No 120/2001 Coll. on court executors and execution activities - the "Execution Code") on the enforcement of decisions was adopted in 2001, introducing the institute of semi-private bailiffs known as executors (in Czech: exekutor). This led to much more efficient enforcement and a vast majority of parties currently choose execution proceedings over judicial enforcement.

The most significant disadvantage of judicial enforcement is that the judgement creditor needs to identify the debtor's specific assets that are to be targeted by judicial enforcement. In many cases, the judgement creditor does not have any available means of identifying such assets.

Executors, on the other hand, will use their powers to actively search for the debtor's assets and seize them. Banks and other institutions are obliged to answer the executor's inquiries about any accounts owned by the debtor and freeze such accounts upon the executor's order. The executor may also issue an order for attachment of the debtor's monthly earnings from their employer. Also, once the judgement debtor is served with the resolution on the commencement of execution proceedings, the debtor is prohibited from disposing of any assets and any actions contrary to this order shall be deemed invalid. In judicial enforcement, the prohibition of disposal always concerns only the particular assets identified by the creditor.

The significantly higher efficiency of executor enforcement is also attributed to the fact that executors are financially motivated: Their remuneration depends on the enforced amount, which makes their activities a private business to a certain extent. However, when carrying out enforcement as well as during any other additional activities entrusted to them by court, executors act as public officials.

Other disadvantages of judicial enforcement include the judgement creditor's obligation to pay a court fee generally amounting to 5 % of the amount to be enforced before enforcement is commenced. Although this amount is then added to the amount to be enforced, the obligation to pay the court fee upfront may be discouraging for judgement creditors, in particular when there are doubts regarding the outcome. Executor's remuneration and costs do not have to be paid upfront and are usually covered from the proceeds of enforcement. If there are no proceeds from executor enforcement, the judgement creditor may end up having to pay the costs of execution proceedings. Executor enforcement is also more time-efficient.

Courts are now competent to enforce mostly non-business-related judgments, such as:

(a) judgments concerning the upbringing of minors;

(b) judgments regarding domestic violence;

(c) judgments issued by bodies of the European Communities; and

(d) foreign judgments.

Although the competence of courts to enforce most of the above-mentioned judgments is exclusive, executors retain the right to enforce the following foreign judgments:

(a) judgments of courts of other EU member states declared enforceable;

(b) judgments declared enforceable under an international treaty or convention; and

(c) judgments recognized by Czech courts in accordance with the Act on International Private Law.

While it was always possible to file a motion for judicial enforcement of a foreign judgement where no separate decision on recognition was required, this had not been the case until recently for executor enforcement where recognition of the foreign judgement was a pre-condition for enforcement. The applicable legislation and Supreme Court case law required the foreign judgement to be recognized by a special court resolution before enforcement of a foreign judgement by an executor could commence. This would cause substantial delays in the enforcement process in some cases.

However, the above obstacle has been removed as of 1 January 2022 when an amendment to the Execution Code came into effect. Therefore, it is currently possible to file a motion for commencement of executor enforcement of a foreign judgement without the need to obtain a special resolution on recognition of the judgement beforehand. Instead, the motion for enforcement shall contain a motion for recognition of the foreign judgement. The court that has jurisdiction to authorize the executor to carry out enforcement shall then simultaneously decide on the recognition of the foreign judgement.

Judicial enforcement

Enforcement proceedings are commenced by a petition from the creditor filed with the enforcement court, i.e. a district court that has territorial jurisdiction

A creditor must attach the decision to be enforced and suggest the method of enforcement. The court will then issue a resolution on the commencement of enforcement proceedings. The debtor may file an appeal against this resolution, which has suspensive effect.

The debtor is, furthermore, entitled to file a motion to stop enforcement proceedings. This has a suspensive effect only if the court issues a resolution on the deferral of enforcement proceedings. Once a resolution on commencement of enforcement proceedings becomes effective, the court will carry out enforcement by way of the proposed method of enforcement.

Executor enforcement

Enforcement proceedings are commenced upon a petition filed by a creditor with an executor of the creditor's choice. Again, the petition must contain the decision to be enforced.

The executor is entitled to a fee for execution, reimbursement of cash expenses, for the time lost in performing the execution, reimbursement for serving documents, and VAT. The fee for court executors is regulated by a decree issued by the Ministry of Justice. These costs are usually reimbursed by the debtor. However, the executor can agree with the creditor on contractual compensation.

An executor may commence enforcement proceedings only upon being authorized by a competent enforcement court. The court shall authorize the executor within 15 days of the request for authorization is delivered, without a prior hearing with the debtor. Supervision of executors is entrusted to enforcement courts. The executor then issues execution order(s) where the method(s) of execution are set out. No appeal is available against an execution order. Under section 322 of the Civil Procedure Code, certain objects are excluded from enforcement. These include, in particular, movables that the debtor requires to satisfy their own basic material needs and those of their family, or objects needed to perform work tasks. The sale of objects that would be against good morals is also forbidden in execution proceedings.

The debtor is served with notification of the commencement of execution proceedings, a notice for voluntary payment, and execution order(s). The debtor may file a motion to stop the enforcement proceedings within 30 days of service of the above documents. Such a motion has a suspensive effect, meaning that the executor cannot continue with carrying out enforcement (but other execution orders can still be issued).

The enforcement court will then either stop the enforcement proceedings or dismiss the debtor's motion. The debtor may file multiple motions to stop the enforcement proceedings in the course of the enforcement proceedings. Each motion justified by new grounds may be filed within 15 days after the debtor received information that could lead to the termination of enforcement proceedings. However, repeated motions do not have a suspensive effect.

10.3.6 Information about a debtor's financial situation

Prior to commencing recognition and enforcement proceedings in the Czech Republic, a creditor can use the following registers that provide information about a debtor's financial situation and their assets:

(a) The Commercial Register administered by the Ministry of Justice and containing information on trade names, registered offices, business activities, statutory bodies, associates, membership contributions, and authorized stock as well as financial statements and annual reports (see https://or.justice.cz/ias/ui/rejstrik);

(b) The Insolvency Register administered by the Ministry of Justice and containing information on debtors' insolvency proceedings (natural and artificial persons) (see https://isir.justice.cz/isir/common/index.do);

(c) The Real Estate Cadastre administered by the Czech Office for Surveying, Mapping, and Cadastre containing a description of real estate, geometric, and positional determination of real estate and information about property rights and other rights relating to real estate (such as mortgages and easements) (see http://nahlizenidokn.cuzk.cz/);

(d) The Central Evidence of Executions administered by the Czech Chamber of Executors containing information on enforcement proceedings administered by executors (however, it does not contain information on judicial enforcements) (see https://ceecr.cz); and

(e) The Register of Actual Owners (introduced in 2021) administered by the Ministry of Justice containing information about ultimate beneficial owners of companies with otherwise publicly unavailable shareholding structures (https://esm.justice.cz/ias/issm/rejstrik).

10.4 INTERNATIONAL TREATIES AND CONVENTIONS

The Czech Republic is a signatory to many international treaties and conventions (both bilateral and multilateral) relating to the recognition and enforcement of foreign judgments.

According to Section 2 of the Act on International Private Law, provisions of international treaties binding for the Czech Republic take precedence over the Act on International Private Law or, more precisely, the provisions of national law only apply within the scope of the provisions of binding international treaties and directly applicable provisions of EU law.

10.4.1 Multilateral treaties and conventions

The Czech Republic is a party to the following international multilateral treaties and conventions:

(a) The Hague Convention of 1 March 1954 on Civil Procedure is binding for the Czech Republic (formerly Czechoslovakia) as of 11 August 1966. The Convention governs the communication of judicial and extrajudicial documents, letters of request, security for costs, free legal aid, and the free issue of extracts from civil status records.

(b) The Geneva Convention of 19 May 1956 on the Contract for the International Carriage of Goods by Road (the "CMR") is binding for the Czech Republic (formerly Czechoslovakia) as of 3 December 1974. The Convention applies to specific commercial activities and subject-matter and contains provisions for reciprocal enforcement.

(c) The Hague Convention of 15 April 1958 on the Recognition and Enforcement of Decisions Relating to Maintenance Obligations towards Children is binding for the Czech Republic as of 29 December 1970. It governs the reciprocal recognition and enforcement of decisions relating to maintenance obligations in respect to children.

(d) The New York Convention of 10 June 1958 on the Recognition and Enforcement of Foreign Arbitral Awards is binding on the Czech Republic as of 10 October 1959. Contracting states are required to give effect to private agreements to arbitrate and to recognize and enforce arbitration awards issued in other signatory states.

(e) The Hague Convention of 5 October 1961 Abolishing the Requirement of Legalisation for Foreign Public Documents is binding for the Czech Republic as of 16 March 1999. It specifies the requirements under which a document issued in one of the contracting states can be certified for legal purposes in all the other signatory countries.

(f) The Hague Convention of 1 June 1970 on the Recognition of Divorces and Legal Separations is binding for the Czech Republic as of 11 July 1976 and governs the reciprocal recognition of decision relating to divorces and legal separations.

(g) The Hague Convention of 2 October 1973 on the Recognition and Enforcement of Decisions Relating to Maintenance Obligations is binding for the Czech Republic as of 1 August 1976 and governs the reciprocal recognition and enforcement of decisions relating to maintenance obligations in respect to both adults and children.

(h) The European Convention of 5 October 1973 on the Grant of European Patents is binding for the Czech Republic as of 1 July 2002. The Convention applies to specific commercial activities and subject-matter and contains provisions for reciprocal enforcement.

(i) The Convention of 9 May 1980 concerning International Carriage by Rail (the "COTIF") is binding for the Czech Republic as of 1 July 2006. It applies to specific commercial activities and subject-matter and contains provisions for reciprocal enforcement.

(j) The European Convention of 20 May 1980 on Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children is binding for the Czech Republic as of 1 July 2000 and governs the reciprocal recognition and enforcement of decisions concerning custody of children.

(k) The Hague Convention of 19 October 1996 on Jurisdiction, Applicable Law, Recognition, Enforcement, and Cooperation in Respect of Parental Responsibility and Measures for the Protection of Children is binding for the Czech Republic as of 1 January 2002. It applies to questions of parental responsibility and contains provisions for reciprocal recognition and enforcement.

(l) The Hague Convention of 30 June 2005 on Choice of Court Agreements sets out rules for recognition and enforcement in cases where exclusive choice of court agreements was concluded in civil or commercial matters.

(m) The Lugano Convention of 30 October 2007 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters has as signatories Switzerland, the European Community, Denmark, Norway, and Iceland. It is the successor to the Lugano Convention of 16 September 1988 on jurisdiction and enforcement of judgments in civil and commercial matters and is a parallel agreement to the Recast Brussels Regulation.

10.4.2 Bilateral treaties concerning mutual legal assistance, jurisdiction, recognition, and enforcement of foreign decisions entered into by the Czech Republic

The Czech Republic (Czechoslovakia) has entered into a number of bilateral treaties that deal with mutual legal assistance, jurisdiction, and the recognition and enforcement of foreign decisions.

The scope of application of the aforementioned bilateral treaties with countries that are members of the EU or are signatories to other international multilateral treaties is limited. These bilateral treaties are applicable only to issues not regulated by EU law or multilateral treaties or conventions.

State	Date of effect	Legal assistance
Afghanistan	8 December 1982	Civil and criminal matters
Albania	28 May 1960	Civil, family, and criminal matters
Algeria	23 November 1983	Civil, family, and criminal matters
Australia	9 November 1933	Civil matters
Austria	30 December 1962 1 January 1996	Enforcement of judgments Criminal matters
The Bahamas	28 July 1977	Civil matters
Belgium	1 September 1986	Civil, family, and commercial matters
Belarus	4 June 1983	Civil, family, and criminal matters
Bosnia and Herzegovina	2 August 1964	Civil, family, and criminal matters
Bulgaria	6 January 1978	Civil, family, and criminal matters
Canada	1 June 1937 1 November 2000	Civil matters Criminal matters
China – Hong Kong	13 February 2015	Criminal matters
Croatia	2 August 1964	Civil, family, and criminal matters
Cuba	11 July 1981	Civil, family, and criminal matters
Cyprus	18 May 1983	Civil and criminal matters
Eswatini (Swaziland)	6 September 1968	Civil matters
Fiji	10 October 1970	Civil matters
France	1 July 1985	Civil, family, and commercial matters
Gambia	5 January 1937	Civil matters
Georgia	4 June 1983	Civil, family, and criminal matters
Germany	1 April 2002 19 June 2002	Civil matters Criminal matters
Greece	16 July 1983	Civil and criminal matters
Hungary	12 February 1990	Civil, family, and criminal matters
Italy	1 November 1990	Civil and criminal matters
Kazakhstan	22 August 2014	Criminal matters
Kenya	12 December 1967	Civil matters
Kosovo	2 August 1964	Civil, family, and criminal matters
Kyrgyzstan	4 June 1983	Civil, family, and criminal matters
Lesotho	4 October 1966	Civil matters
Moldavia	4 June 1983	Civil, family, and criminal matters
Monaco	25 July 1936	Criminal matters
Mongolia	2 August 1964	Civil, family, and criminal matters

Montenegro	2 August 1964	Civil, family, and criminal matters
Nauru	31 January 1968	Civil matters
New Zealand	8 March 1936	Civil matters
North Korea	16 June 1989	Civil, family, and criminal matters
North Macedonia	2 August 1964	Civil, family, and criminal matters
Poland	9 April 1989	Civil, family, employment, and criminal matters
Portugal	27 November 1930	Recognition and enforcement of judgments
Republic of South Africa	5 January 1937	Civil matters
Romania	2 January 1996 20 April 1959	Civil matters Civil, family, and criminal matters
Russia	4 June 1983	Civil, family, and criminal matters
Serbia	2 August 1964	Civil, family and criminal matters
Slovakia	5 April 1993	Civil and criminal matters
Slovenia	2 August 1964	Civil, family, and criminal matters
Spain	10 December 1988	Civil matters
Syria	8 November 1985	Civil, family, and criminal matters
Switzerland	16 December 1927	Recognition and enforcement of judgments
Tunisia	21 February 1981	Civil and criminal matters
Turkey	6 June 1933	Civil and commercial matters
Ukraine	8 November 2002	Civil matters
United Kingdom	30 August 1935	Civil matters
USA	7 May 2000	Criminal matters
Uzbekistan	1 December 2003	Civil and criminal matters
Vietnam	16 April 1984	Civil and criminal matters
Yemen	13 February 1990	Civil and criminal matters
Zambia	17 February 1927	Civil matters

ARTICLE 11.

TAXATION

11.1 TAX SYSTEM OVERVIEW

The current tax system in the Czech Republic was established in 1993. Taxes are divided into three basic groups: direct taxes, indirect taxes, and other taxes. Direct taxes include (i) personal income and corporate income taxes governed by the Czech Income Taxes Act; and, (ii) property taxes governed by the Czech Real Estate Tax Act and Act on Road Tax. Indirect taxes include (i) value added tax governed by the Czech Act on VAT; of (ii) the excise tax governed by the Czech Act on Excise Taxes; (iii) customs duties governed by the Czech Customs Duty Act; and (iv) ecological taxes governed by a special law on taxes from energy sources. Other taxes consist of mandatory contributions to the Czech social security and public health insurance systems governed by a variety of Czech laws; and municipal fees usually governed by local bylaws.

The administration and collection of taxes and fees is governed by the Czech Tax Code.

11.2 CORPORATE INCOME TAX

11.2.1 General principles

Legal entities with their seat or place of management in the Czech Republic, unit funds, and trusts established in accordance with Czech law are considered tax residents subject to worldwide taxation, including capital gains (unless exempted). Tax non-residents, including permanent establishments of foreign companies and branch offices of foreign companies constituting permanent establishments, are generally taxed on Czech-source income only and are subject to specific rules.

The tax base is generally calculated as the difference between income and expenses from Czech accounting books (accounting results), as adjusted for income tax purposes. The matching principle must be followed, i.e. all income and expenses should be properly accrued and/or deferred.

The standard corporate tax rate is 19% with a reduced rate of 5% applicable to the income of certain investment funds, and 0% applicable to income generated by specific pension funds of pension insurance institutions. Investment income represented by shares in profits received by Czech companies from abroad creates a separate tax base that is taxed at 15% (with the exception of pension funds of pension insurance institutions that do not tax their foreign-source dividend income). The corporate tax rate is the same for both foreign and domestic companies.

A temporary windfall tax has been introduced as of January 2023. This windfall tax will apply to extraordinary profitable companies in the fields of energy production and trading, banking, petroleum and extraction, and processing of fossil fuels. The windfall tax rate is 60% and will be applied to “excessive profits” at these companies. This excess profit will be determined as the difference between the corporate tax bases in 2023-2025 and the average of the corporate tax bases for the last 4 years (i.e., 2018-2021) increased by 20%.

The tax period is usually a calendar year, a fiscal year consisting of 12 successive calendar months, or other specific periods listed in the Income Taxes Act. In order to change the tax period from the calendar year to a fiscal year, the company must inform the relevant tax authority at least 3 months prior to the earlier proposed starting date of its fiscal year or the end of the current accounting period.

There are no provisions for consolidated taxation, i.e. each company within a group subject to Czech taxation is obliged to submit a separate corporate income tax return (group taxation is allowed for VAT purposes only).

Specific measures resulting from the EU Anti-Tax Avoidance Directive against aggressive tax planning were introduced by a significant amendment to Czech income tax legislation in April 2019, and these include a limitation on the tax deductibility of excessive interest expenses, an exit tax on relocated assets, taxation of hybrid instruments, as well as CFC rules.

In 2020, the DAC6 Directive was transposed into Czech law by an amendment to the act on international cooperation in tax administration and amendments to certain other acts, which became fully applicable in 2021. Under this regulation, all intermediaries or taxpayers in cross-border arrangements in the Czech Republic that are or could potentially be associated with obtaining a tax advantage are obliged to notify the Czech Specialized Tax Office of the proposal or implementation of such a cross-border arrangement. This

authority subsequently shares the information thereby obtained with the competent tax authorities in the other jurisdictions concerned.

As of 2023, the DAC7 Directive was transposed into Czech legislation by further amendments to the same act as in case DAC6 (see above), extending the framework for the automatic exchange of information to include a new range of information notified by digital platform operators in the areas of:

- provision of immovable property (rent, accommodation services, and other ways of providing immovable property or parts thereof);
- provision of means of transport (the possibility of using a means of transport without a driver as the provision of transport services by a driver is a personal service);
- personal service (transport services with a driver, e.g., taxi drivers);
- sale of goods (tangible objects and animals).

11.2.2 Tax deductible items

Generally speaking, all expenses incurred to generate, secure, and maintain taxable income are considered as tax deductible items. Naturally, all documentation (e.g. invoices, receipts) must be properly kept to support tax deductibility. For tax audit purposes, the tax authorities may require that such foreign language documents be translated into Czech.

Typical tax-deductible items include in particular:

(a) Operating expenses (e.g. rent, utilities, electricity, insurance)

(b) Salary costs including social security and health insurance payments

(c) Tax depreciation and tax net book value of sold assets

(d) Tax deductible reserves and provisions

(e) Interest (may be subject also to special rules)

(f) Royalties and management service fees

(g) Exchange rate gains/losses in the year in which they arise

Typical tax non-deductible items include:

(a) Entertainment expenses

(b) Gifts and donations

(c) Non-contractual fines and penalties

(d) Accounting provisions and accounting reserves

(e) Interest on credits and loans disallowed based on thin capitalization rules

(f) Expenses related to non-taxable or tax-exempt income or those financed from non-taxable or exempt income

11.2.3 Tax depreciation

All assets valued at more than CZK 80,000 may be depreciated for income tax purposes, either under linear or accelerated depreciation methods. The accelerated method is based on a formula using a ratio of coefficients that vary according to the category of the relevant asset. Once a method of depreciation is chosen, it must be applied over the entire life of the asset. Some assets (such as plots of land, artwork, and acquired assets exempt from income tax, etc.) are not eligible for tax depreciation.
Tangible fixed assets are classified into the following depreciation groups:

Examples of fixed assets	Depreciation group	Minimum depreciation period (years)
Office appliances and computers	1	3
Machines, pumps, cooling/freezing equipment, accumulators, motor vehicles	2	5
Elevators, escalators, turbines, air conditioning equipment, electric motors, and generators	3	10
Houses and buildings made from wood and plastic, long-distance transmission lines	4	20
Houses and buildings not made from wood or plastic, bridges, tunnels, other construction works (with the exception of buildings included in group 6 (below)	5	30
Administrative buildings, department stores, historical buildings, and hotels	6	50

Intangible Intangible fixed assets are generally depreciated for both accounting and tax purposes on a linear basis over the period of time during which the right to use the asset was granted. If no period was agreed, the accounting depreciation that must be setup in line with Czech accounting regulations is decisive for applying for and claiming tax depreciation.

As a temporary measure for new tangible fixed assets classified in groups 1 and 2 and acquired in the tax periods from 2020 until 2023, it is possible to apply "extraordinary accelerated monthly tax depreciation charges" with a maximum depreciation period of 12 calendar months (tangible fixed assets classified in group 1) and 24 calendar months (tangible fixed assets classified in group 2).

11.2.4 Capital gains (participation exemption)
Capital gains earned by Czech tax residents from the sale of shares and participation in EU and EEA tax resident subsidiaries are generally exempt from tax if the conditions stipulated in the EU Parent-Subsidiary directive have been fulfilled. A similar exemption applies to capital gains resulting from the sale of a non-EU/EEA tax resident subsidiary if (i) a double-tax treaty exists between the Czech Republic and the relevant non-EU/EEA country; (ii) the subsidiary has a specific legal form; (iii) the non-EU tax resident complies with the conditions for a dividend exemption under the EU Parent-Subsidiary directive; and (iv) it is subject to home-country corporate taxation similar to Czech corporate tax of at least 12%.

Capital gains derived by Czech tax non-residents from the sale of shares and participation in Czech tax resident subsidiaries are generally subject to Czech corporate tax unless a double-tax treaty overriding Czech legislation provides otherwise. The above-described participation exemption rules also apply to gains from the sale of shares by parent companies in Czech subsidiaries under conditions of the EU Parent-Subsidiary Directive.

11.2.5 Deductions from the tax base
Donations to entities and governmental bodies based in the Czech Republic, other EU member states, Iceland, and Norway for financing science, education, culture, sport, charity, and recovery from natural disasters and further to individuals who operate schools or medical facilities, facilities for the protection of abandoned animals or threatened species are deductible up to 10% (increased to 30% for tax periods from 2020 to those ending on or before 28 February 2023) of the company's tax base after the deduction of other allowances (e.g., tax losses from the past tax periods, R&D allowance). The minimum value of a tax-deductible deduction is CZK 2,000. Specific rules with respect to deductibility of donations apply to selected, publicly beneficial taxpayers.

In addition to the deductibility of the donations mentioned above, taxpayers are entitled to use a special tax allowance for certain costs incurred in relation to research and development projects. This provision is intended to encourage investment into research and development activities in the Czech Republic. In practice, this means costs incurred for research and development may in fact be deducted from the tax base twice (as "normal" operating costs and then as an extraordinary tax allowance, if properly recorded). This deduction, if not used in the period in which it arises, may be carried forward and applied during the next 3 tax periods.

Employers are further entitled to claim specific tax allowances in relation to the professional education of students. Such allowance consists of deductible costs incurred during the student's professional education (calculated at the rate of CZK 200/per hour) and extraordinary tax deductions for the purchase of long-term assets used for professional education.

11.2.6 Tax losses

Tax losses may be carried forward for a maximum of 5 years. Loss relief may be restricted where there has been a significant change in the control of the loss-making company (more than 25% in the ownership structure of persons or entities directly participating in the equity/share capital), or if a merger or demerger was carried out.

A taxpayer can ask the tax authorities to confirm the applicability of losses carried forward following a change in the equity of the share capital, or following a merger or demerger.

Losses incurred from the 2020 tax period may be carried back two preceding tax periods, but the total amount of the tax losses carried back may not exceed CZK 30 million. Tax losses cannot be offset against the profits of another group company.

11.2.7 Tax compliance

Corporate tax returns must be filed within 3 calendar months after the end of the tax period. However, this deadline is automatically extended by additional 3 calendar months if a power of attorney is granted by the company to a registered tax advisor/advocate to file its corporate tax return and then submitted to the relevant tax authorities within the first 3 calendar months after the end of the tax period. Where the tax return is filed electronically, the deadline for the submission of the tax return is 4 calendar months after the end of the tax period. Moreover, the 3-month extension is automatically granted to all taxpayers subject to Czech statutory auditing (see the criteria in Article 8 above).

In some special cases, tax returns must also be filed after an accounting period that is not necessarily considered to be a tax period. In these cases, the filing deadline is also three calendar months (or four months if filed electronically) and may be extended only with the approval of the tax authority.

Corporate income tax must be paid within the ordinary (or extended) deadline for filing the tax return. Tax prepayments may be required as from the second tax period of operations on a semi-annual or quarterly basis depending on the amount of the last corporate tax liability.

11.3 WITHHOLDING TAXES

Withholding tax is generally levied on Czech-sourced income paid abroad unless a double-tax treaty stipulates otherwise. Tax residents in other EU/EEA states are entitled to file a tax return for the taxable period during which they have earned certain Czech-sourced income subject to withholding tax and claim relevant expenses against this income if more advantageous. Should the tax withheld at the source be higher than the final income tax liability as declared in the tax return, a refundable tax overpayment will arise to the benefit of the foreign company.

The standard withholding tax rate is 15% with a reduced rate of 5% applicable to payments for financial leasing. Furthermore, there is a withholding tax of 35% on payments made to tax residents in offshore locations that have not concluded a double-tax treaty or agreement with the Czech Republic on exchange of information related to income tax matters or that have not become signatories to a multilateral instrument allowing for the exchange of information related to tax matters.

11.3.1 Dividends

Dividends and profit share distributions paid to both resident and non-resident taxpayers are subject to a final withholding tax of 15% unless an applicable double-tax treaty provides for a lower tax rate. Moreover, under the Czech implementation of the EU Parent-Subsidiary Directive, dividends paid by Czech tax resident companies to parent companies (as defined in the directive) located in other EU/EEA member states are exempt from withholding taxes (upon payment) and from corporate income tax (upon receipt), if the parent company holds at least 10% of the distributing subsidiary for an uninterrupted period of at least 12 months (this condition may also be fulfilled subsequently). Dividend distributions between Czech tax-resident companies are exempt from tax under similar conditions.

A similar tax exemption also applies to dividends received by a Czech tax-resident company from non-EU tax resident subsidiaries if (i) a double-tax treaty exists between the Czech Republic and the relevant non-EU country; (ii) the subsidiary has a specific legal form; (iii) the company complies with the conditions for dividend exemption under Czech implementation of the EU Parent-Subsidiary Directive; and (iv) the company is subject to home country corporate taxation similar to the Czech corporate tax of at least 12%.

Dividends and profit-share distributions paid to tax residents in offshore locations that have not concluded a double-tax treaty or agreement on the exchange of information in the area of income tax matters with the Czech Republic or have not become signatories of a multilateral instrument allowing for the exchange of information related to tax matters are subject to a final withholding tax of 35%.

11.3.2 Interest

Interest paid abroad is subject to a 15% withholding tax that can generally be reduced or eliminated by virtue of an applicable double-tax treaty or be exempt under the EU Interest and Royalties Directive. As mentioned above, EU/EEA tax residents receiving interest income are allowed to apply relevant expenses in their annual corporate tax return.

Interest paid to Czech tax residents is not subject to any withholding tax (with the exception of certain products offered by banks to private individuals). If the creditor is an individual taxpayer that is not obliged to keep accounting books, interest is a tax-deductible expense only if paid. For accounting purposes, interest must be accrued in accordance with the matching principle (i.e. all income and expenses should be properly accrued and deferred).

Interest paid to tax residents in offshore locations that have not concluded a double-tax treaty or agreement with the Czech Republic on the exchange of information related to income tax matters or that have not become signatories of a multilateral instrument allowing for the exchange of information related to tax matters are subject to a final withholding tax of 35%.

11.3.3 Royalties

Royalties paid abroad are subject to a 15% withholding tax that can generally be reduced or eliminated by an applicable double-tax treaty or be exempt under the EU Interest and Royalties Directive, which was incorporated into the Czech Income Taxes Act. As mentioned above, EU/EEA tax residents receiving income from royalties are allowed to apply relevant expenses in their annual corporate tax return.

The exemption of both royalties and interest income paid to EU/EEA tax residents from Czech tax residents (i.e. with no withholding tax) is applicable under the EU Interest and Royalties Directive, but subject to certain conditions:

(a) The interest/royalty is paid to a company resident in another EU/EEA country listed in the appendix to the Interest Royalty Directive by a Czech joint-stock company, limited liability company, limited partnership, unlimited partnership, co-operative, or by a Czech permanent establishment of a foreign EU company;

(b) Both the paying and receiving companies are directly related via capital (minimum share of 25%) for an uninterrupted period of at least 24 months (this condition may also be fulfilled subsequently);

(c) The recipient is the beneficial owner of the interest/royalty payment and the interest/royalty payments are not attributable to a Czech or third country permanent establishment;

(d) Exemption of the interest/royalty income is subject to special approval by the Czech tax authorities issued in the form of a decision.

Royalties paid to tax residents in offshore locations that have not concluded a double-tax treaty or agreement on the exchange of information in the area income tax matters with the Czech Republic or have not become signatories to a multilateral instrument allowing for the exchange of information related to tax matters are subject to a final withholding tax of 35%.

11.3.4 Thin capitalization

Thin capitalization rules apply in the Czech Republic to “debt financial instruments”, including ordinary credits and loans provided between related parties (including certain “back-to-back” debt financing loans) and may limit the tax deductibility of interest payments on debt financing from related parties and associated financial costs.

The applicable debt/equity ratio is 4:1 (6:1 if the debtor is a bank or an insurance company). Interest payments on the amount of related-party debt financing exceeding four (six) times the borrower’s equity and the same portion of associated financial costs are tax non-deductible for the borrower. Interest that exceeds this ratio may be further reclassified as a deemed distribution of dividends and taxed appropriately if paid abroad to non-EU/EEA residents and if such taxation is permitted by the respective double-tax treaty.

In addition, financial costs arising from debt financing instruments that are dependent on the borrower’s profits are generally tax non-deductible expenses.

11.3.5 “Excessive” financing cost deduction

In addition to the thin capitalization rules mentioned above, tax deductibility of “net” financing costs incurred by Czech corporate income taxpayers is limited to the higher of 30% of the taxpayer’s EBITDA or CZK 80 million per annum. The limit on the deduction applies to net financing costs, i.e. financing costs reduced by income from financing determined in accordance with Czech GAAP and Czech corporate income tax rules.

Any excessive financing costs disallowed for corporate income tax purposes may be used to reduce the taxpayer's corporate income tax base in subsequent tax periods to the extent that the taxpayer's actual net financing costs were below the limit for the deduction of excessive financing costs as described above. There are a number of exemptions to the application of this rule covering certain financial institutions, persons that are not associated with other persons, permanent establishment in another jurisdiction, or persons not included in a consolidation group.

Assuming the limits and the exemptions, application of this measure is expected to be very rare.

11.3.6 Controlled foreign company rules
CFC legislation is effective in Czech Republic as of 1 April 2019 and applicable to fiscal periods starting from that date.

Based on CFC rules, certain categories of passive income generated by a low-taxed foreign entity that is not engaged in an active business controlled by a Czech tax-resident corporate income taxpayer are included in the Czech corporate income tax base of the controlling taxpayer in a proportion corresponding to the shares held in the controlled foreign entity.

For purposes of the CFC rules, control exists if the controlling taxpayer together with the associated persons holds more than 50% of the shares in the controlled foreign entity.

Low taxation in the foreign jurisdiction is fulfilled if the effective corporate income tax burden is lower than 50% of the equivalent tax burden that would have been applicable in the Czech Republic if the foreign controlled entity were a tax resident in the Czech Republic.

The same portion of deductible expenses of the controlled foreign entity (transformed from the perspective of Czech tax and accounting law) can be deducted from the CFC's income up to the amount of the CFC income. Any CFC loss may be carried forward for 3 years. A share in the foreign corporate tax can be credited against the Czech corporate income tax liability from the CFC income.

11.3.7 Exit tax
By the application of exit tax rules, (i) transfers of assets of a Czech corporate income taxpayer from the Czech Republic to its permanent establishment existing abroad (provided that income attributable to the permanent establishment is exempt from Czech corporate income tax based on an applicable double-tax treaty); or (ii) transfers of assets of a foreign taxpayer from the Czech permanent establishment to a foreign jurisdiction; or (iii) transfers of assets as a result of the tax residency status change of the taxpayer from Czech to non-Czech are treated as a sale of assets for arm's-length consideration. The amount of consideration is included in the Czech corporate income tax base of the taxpayer transferring the assets outside the Czech Republic.

Exemptions from the exit tax exist that cover short-term transfers of assets (where the assets are transferred back to the Czech Republic within 12 months following their transfer abroad) and certain financial asset transfers.

Where an exit tax is levied on transfers of assets from another EU state to the Czech Republic, the assets are considered to be acquired for arm's length consideration and a corresponding deduction may be achieved in accordance with Czech corporate income tax rules.

11.3.8 Transfer pricing
Contracted prices (terms) agreed between related parties must comply with arm's length principles for corporate tax purposes. If the prices agreed between the related parties differ from prices that would be agreed between independent (non-related) parties in ordinary commercial transactions under the same or similar conditions and this difference is not properly documented, the tax base may be adjusted by the determined difference. Moreover, the tax authorities can invoke penalties. In applying arm's length principles, the Czech Republic generally adheres to the transfer pricing rules accepted by the OECD Transfer Pricing Guidelines.

The term "related parties" includes entities or individuals related by capital (direct or indirect relation by participation in share capital or voting rights of 25% or more), or otherwise (relation by means of management, control, or so-called "close" persons). Transfer pricing rules also apply to transactions between persons who have entered into a commercial relationship largely for the purpose of reducing their tax base or increasing their tax loss.

An advanced pricing agreement from the tax authorities may be obtained based on written request of the taxpayer subject to transfer pricing rules. The advanced pricing agreement provides the taxpayer with the

possibility to check in advance whether the pricing policy agreed between group members (related entities) is compliant with the arm's length principle used.

11.3.9 Taxation of foreign entities

A foreign entity is generally subject to Czech tax on income generated in the Czech Republic. The extent to which a foreign entity is subject to Czech tax is determined by the type of activities carried out in or related to the Czech Republic. A foreign entity can be subject to taxation by establishing a branch office (creating a "permanent establishment") or via withholding tax on Czech-sourced income (see above).

The taxation of operating profits of a branch office (constituting a permanent establishment for corporate income tax purposes) is similar to the taxation of profits of a business company, both being taxed on the accounting profit and loss basis as adjusted for tax purposes by tax non-deductible or/and non-taxable items (following the same tax rules). The tax base is subject to the standard corporate income tax rate of 19% or 5% in the case of certain EU or EEA-based foreign investment funds.

As opposed to company taxation, a branch office and/or representative office (constituting a permanent establishment) may apply for a ruling from Czech tax authorities according to which the tax authorities may accept that the corporate income tax base of the permanent establishment is determined using an alternative method of taxation (e.g., percentage of total revenues or incurred costs), which is usually simpler from an administrative point of view and may also result in lower corporate tax liability. However, this typically applies in situations where there are objective obstacles in determining the tax base of the permanent establishment based on the profit achieved for Czech accounting purposes (e.g. due to the impossibility to attribute profits to the permanent establishment based on its accounting books). The tax authorities, however, are not obliged to accept the alternative method of taxation as proposed by the permanent establishment.

A branch office (or a representative office) that does not constitute a permanent establishment in the Czech Republic is technically not subject to Czech corporate taxation (nevertheless, each particular case must be reviewed very carefully, as the existence of a branch/representative office without simultaneous permanent establishment does not commonly occur).

11.3.10 Permanent establishment (PE)

"Permanent establishment" means a taxable presence of a foreign entity in the Czech Republic (though not necessarily a legal entity or a branch/representative office). It is usually created through (i) the existence of a fixed place of business in the Czech Republic (e.g. an office, workshop, mine, building site); or (ii) a provision of services (if the employees of a foreign company or individuals working in another capacity for the foreign company provide management, consulting, or similar services to a Czech entity, and their presence during the provision of such services in the Czech Republic exceeds six months in any 12-month period); or (iii) the activities of an agent entitled to conclude agreements on behalf of the foreign, non-resident company. The above applies unless an applicable double-tax treaty overriding Czech legislation stipulates otherwise.

11.3.11 Securing tax

A Czech individual or entity may be required to secure tax from payments made to foreign non-EU/EEA taxpayers receiving Czech-sourced income not subject to a withholding tax (e.g. income derived through a permanent establishment or income from rent of real estate property located in the Czech Republic).

When paying, transferring, or crediting an amount to a foreign non-EU/EEA entity, the Czech taxpayer must withhold 10% from income derived from sources in the Czech Republic (as defined by the Czech Income Taxes Act) and 1% from sales of investment instruments and from the repayment of receivables assigned to a foreign entity. Furthermore, securing tax corresponding to the personal or corporate tax rate as appropriate should be withheld from income attributable to the general partners of a general or limited partnership.

The amount of secured tax is treated as an advance tax payment by the foreign entity and may be credited against the final corporate income tax liability as declared in its annual corporate tax return.

11.4 DOUBLE-TAXATION RELIEF AND TAX TREATIES

Generally, foreign tax relief is available under relevant double-tax treaty provisions. The Czech Republic has a broad double-tax treaty network: Currently 94 double-tax treaties are in force. The table below lists the countries with which the Czech Republic has a valid double-tax treaty, as well as the withholding tax rates applicable to dividends, interest, and royalty payments made by a Czech tax resident company to foreign recipients (unless the EU Interest and Royalties rules overriding the double-tax treaty provisions apply).

11.4.1 Table – applicable double-tax treaties

Withholding tax rates under the Czech Republic's tax treaties (%)			
Country	Dividends*	Interest**	Royalties***
Albania	15 / 5	5	10
Armenia	10	10	10(i) / 5(c)
Australia	15 / 5	10	10
Austria	10 / 0	0	5 / 0(c)
Azerbaijan	8	10	10
Bahrain	5	0	10
Bangladesh	15 / 10	10	10
Barbados	15 / 5	5	10 / 5(c)
Belarus	10 / 5	5	5
Belgium	15 / 5	10 / 0	10(ot) / 5(re)
Bosnia and Herzegovina	5	0	10
Botswana	5	7.5	7.5
Brazil	15	15	25(tm) / 15
Bulgaria	10	10	10
Canada	15 / 5	10	10 / 0(c)
Chile	15	15 / 5	10 / 5(re)
China	10	10	10
Columbia	15 / 5	10	10
Croatia	5	0	10
Cyprus	5 / 0	0	10(i) / 0(c)
Denmark	15 / 0	0	10 / 0(c)
Democratic Republic of Korea	10	10	10
Egypt	15 / 5	15	15
Estonia	15 / 5	10	10
Ethiopia	10	10	10
Finland	15 / 5	0	10(i) / 5(op) / 1(fl) / 0(c)
France	10 / 0	0	10(i) / 5(re) / 0(c)
Georgia	10 / 5	8	10(tm) / 5(i) / 0(c)
Germany	15 / 5	0	5
Ghana	6	10	8
Greece	38-47	10	10 / 0(c)
Hong Kong	5	0	10
Hungary	15 / 5	0	10
Iceland	15 / 5	0	10
India	10	10	10
Indonesia	15 / 10	12,5	12,5
Iran	5	5	8
Ireland	15 / 5	0	10

Israel	15 / 5	10	5
Italy	15	0	5 / 0(c)
Japan	15 / 10	10	10 / 0(c)
Jordan	10	10	10
Kazakhstan	10	10	10
Korea	5	5	10 / 0(c)
Kuwait	5 / 0	0	10
Latvia	15 / 5	10	10
Lebanon	5	0	10(c) / 5 (i)
Liechtenstein	10 / 0	0	10
Lithuania	15 / 5	10	10
Luxembourg	10 / 0	0	10 / 0(c)
Macedonia	15 / 5	0	10
Malaysia	10	12	12
Malta	5	0	5
Mexico	10	10	10
Moldova	15 / 5	5	10
Mongolia	10	10	10
Montenegro	10	10	10(tm)(i) / 5(c)
Morocco	10	10	10
Netherlands	10 / 0	0	5
New Zealand	15	10	10
Nigeria	15 / 12,5	15	15
Norway	15 / 0	0	10(tm) / 5(re) / 0(c)
Pakistan	5 / 15	10	10
Panama	10	10 / 5	10
Philippines	15 / 10	10	15(c) / 10
Poland	5	5	10
Portugal	15 / 10	10	10
Qatar	5	0	10
Romania	10	7	10
Russia	10	0	10
San Marino	10	10	10
Saudi Arabia	5	0	10
Serbia	10	10	10(i) / 5(c)
Singapore	5	0	10(tm) / 5(i) / 0(c)
Slovakia	15 / 5	0	10
Slovenia	15 / 5	5	10
South Africa	15 / 5	0	10
Spain	15 / 5	0	5 / 0(c)

Sri Lanka	15	10	10 / 0(c)
Sweden	10 / 0	0	5 / 0(c)
Switzerland	15 / 0	0	10
Syria	10	10	12
Tajikistan	5	7	10
Thailand	10	10	15(ot) / 10(i) / 5(c)
Tunisia	15 / 10	12	15(i) / 5(c) / 5(ts)
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	15 / 5	5	10
United Arab Emirates	5	0	10
United Kingdom	15 / 5	0	10 / 0(c)
United States	15 / 5	0	10 / 0(c)
Uzbekistan	10 / 5	5	10
Venezuela	10 / 5	10	12
Vietnam	10	10	10

*the lower rate applies if a certain percentage of the share is owned, the percentage differs treaty by treaty
**interest paid on government loans provided by one of the contracting states is frequently exempt from withholding tax
***some double-tax treaties recognize different rates for specific types of royalty payments: cultural (c); industrial (i); financial leasing (fl); operational (op); rent of equipment (re); trademarks (tm); technical services (ts); other (ot)

11.5 PERSONAL INCOME TAX

11.5.1 General principles

The scope of taxation depends on the tax residency status of the individual. Czech tax residents are generally taxable on their global income, while Czech tax non-residents are taxable on their Czech-sourced income only (if not exempt from tax).

For tax purposes, an individual is a Czech tax resident if they have permanent residence in the Czech Republic (i.e. a place of permanent residence under circumstances indicating their intention to dwell there permanently) and/or if they are present in the Czech Republic for 183 or more calendar days during a calendar year (including partial days). If the individual is considered resident in more than one country, the applicable double-tax treaty should determine the final tax residency status of the individual. Most double-tax treaties define an individual as a Czech tax resident based on the following criteria that should be evaluated in turn: available home in the Czech Republic; centre of vital interests and closer personal and economic connections to the Czech Republic; habitual place of residence in the Czech Republic; and Czech citizenship.

As of 1 January 2021, progressive personal income tax rates of 15% and 23% apply to all types of taxable personal income. The higher rate applies to the total tax base that is in excess of the maximum assessment base for social security purposes (i.e. CZK 1,935,552 in 2023) per year. Investment income (e.g. dividends and interest income) from received foreign sources may be included in the separate tax base subject to the flat tax rate of 15% (without the possibility to be reduced by losses from other categories of income).

The taxable period for individuals is a calendar year.

There is currently no special tax regime available for expatriates.

11.5.2 Taxable income and tax base

Czech tax legislation recognizes 5 basic types of income: employment income; entrepreneurial income (income earned by self-employed persons); investment income (dividends, interest); income from the lease of movable and immovable property; and other income (e.g. capital gains and non-exempt gratuitous income).

Each of the above types of income constitutes a separate partial tax base that must be aggregated in order to calculate the total annual tax base. Generally, each partial tax base is calculated as the difference between gross income and related expenses with the exception of employment income and certain categories of

investment income from which no expenses can be deducted. The annual tax base does not include Czech-sourced income subject to a final withholding tax at the source, e.g. Czech-sourced dividends, profit-sharing distributions, and interest from private bank accounts. Losses from self-employment activities or rental income may under certain conditions be offset against other types of income with the exception of employment income. Losses from investment income or capital losses are generally not deductible for personal income tax purposes.

Unused losses from either self-employment activities or income from the lease of movable and immovable property may be carried forward for a maximum of 5 years.

11.5.3 Tax exemptions

Czech tax legislation provides for a variety of tax exemptions, mainly on gains from sales of personal property (not included in one's business property) if owned by the seller for a period of time longer than specified by law. Typically, gains from the sale of a dwelling (flat or house) are exempt from income tax if the seller resided in the dwelling for at least 2 years immediately preceding the sale; gains from the sale of other real estate (including land) are exempt if owned for longer than 5 years (or 10 years if the real estate was purchased on 1 January 2021 or later). Gains from the sale of securities are exempt if a 3-year holding test is fulfilled and gains from the sale of business shares in companies are exempt if a 5-year holding test is met. The sale of private cars, ships, and planes is exempt from taxation if owned by the seller for more than one year.

In addition to the above-mentioned tax exemptions for capital gains, Czech tax legislation provides for specific tax exemptions applicable to certain employment benefits provided as benefits in-kind, for example education of employees, catering and non-alcoholic drinks, free use of certain recreational, healthcare, school, sports and cultural facilities, and others.

11.5.4 Personal tax deductions

The following deductions from the taxable income of an individual apply or may apply:

(a) a general tax allowance of CZK 30,840;

(b) a dependent spouse tax allowance of CZK 24,840 (if the spouse lives with the taxpayer and does not earn income in excess of CZK 68,000);

(c) a disability tax allowance of CZK 2,520/5,040/16,140 depending on level of disability;

(d) a student tax allowance of CZK 4,020;

(e) an allowance of CZK 17,300 for placing a supported child in a preschool facility;

(f) a tax allowance of up to CZK 1,500 for the costs of a suspended debt enforcement procedure.

In addition, a taxpayer may reduce the final tax liability by CZK 15,204 (for a first child), CZK 22,320 (for a second child) and CZK 27,840 (for a third and each subsequent child) annually per dependent child. If the total tax is lower than the respective child allowance, the taxpayer earning annual taxable employment or self-employment income of at least six-times the minimum wage is entitled to receive a special tax bonus equal to the difference between the child allowance and the tax liability.

Donations to entities and government bodies based in the Czech Republic, other EU member states, Iceland, and Norway for the purpose of financing science, education, culture, sport, charity, and recovery from natural disasters, and further to individuals who operate schools or medical facilities and facilities for the protection of abandoned animals or threatened species are deductible up to 15% of the individual's tax base (for tax periods from 2020 to those ending on or before 28 February 2023 increased to 30%), after the deduction of other allowances (e.g. tax losses). The minimum value of a tax-deductible deduction is CZK 1,000 or 2% of the individual's tax base.

Under specific conditions, an individual's tax base can be further reduced by the annual amount of paid mortgage interest from loans to finance housing needs, private life insurance contributions, and supplementary pension insurance premiums. Limits for those deductions as stipulated by Czech legislation must be carefully observed.

Czech tax non-residents qualify for a general tax allowance only. EU/EEA residents are required to fulfil specific conditions in order to qualify for the same range of tax allowances as available to Czech tax residents.

11.5.5 Personal income tax return

The following individuals are required to file a Czech income tax return. Generally, such individuals may be required to make advance payments on their future income tax liabilities:

(a) All individuals earning taxable income exceeding CZK 50,000 per annum (which is not exempt from tax or subject to final withholding tax) or loss-making individuals earning less than CZK 50,000;

(b) All individuals earning other types of Czech-sourced taxable income exceeding CZK 20,000 per annum in addition to employment income subject to monthly payroll tax withholdings (excluding tax-exempt income and any Czech-sourced income subject to final withholding tax);

(c) All employees earning employment income (not subject to final withholding tax) from more than one employer at the same time;

(d) All expatriates assigned to the Czech Republic by a foreign employer with a permanent establishment in the Czech Republic (not registered as a payroll tax withholding agent);

(e) All self-employed persons (entrepreneurs) that do not use the personal lump sum tax regime.

Personal tax returns must be filed and the income tax liability must be paid within three months of the end of the tax period (or within four months if the tax return is submitted electronically). However, the standard three-month deadline is automatically extended by an additional three months if a power of attorney granted by the taxpayer to a registered tax advisor/advocate to file the tax return is submitted to the tax authority within three months from the end of the tax period.

Generally, individuals with an annual income tax liability of more than CZK 30,000 are obliged to pay quarterly or semi-annual tax advances in respect of their future income tax liability. The amounts and frequency depend on the previous year's tax liability. Individuals earning income from one or more successive employments (that is, subject to monthly payroll tax withholdings made by the employer on behalf of the individual) are not obliged to pay tax advances by themselves.

All individuals with tax-exempt income exceeding CZK 5 million per tax period are required to report this fact to the relevant tax authorities within the statutory deadline for filing a personal income tax return.

11.5.6 Lump sum tax regime

Under certain circumstances, individual entrepreneurs earning self-employment income only may elect to be subject to personal income tax using the so called "lump-sum-tax regime", that may be beneficial to certain categories of sole entrepreneurs under specific conditions, one of them being that their annual taxable income is less than CZK 2 million. The election for participation in this lump-sum-tax regime must be made by 10 January of the current tax year. These individuals are neither obliged to file Czech income tax returns, nor annual reports on social security and public health insurance contributions, while they settled their tax (and social security/public health insurance) by means of one lump sum payment on a monthly basis.

11.5.7 Payroll tax

All employees of Czech companies and Czech branch offices of foreign companies registered in the Commercial Register (including expatriates assigned to work at the branch office) and economic employees hired by a Czech company based on the international hire out of labour scenario are subject to monthly payroll tax withholdings made by the company/branch office/economic employer from their taxable remuneration. Unless they earn any other income subject to Czech taxation and unless their employment income exceeds the annual threshold for a solidarity surcharge tax, they should generally meet their Czech income tax obligations from employment income by means of monthly payroll tax withholding and annual tax reconciliation carried out by the employer. Payroll tax is withheld by the employer from the salary of the employee and subsequently paid to the appropriate tax authority. The employer is obliged to keep payroll records and is responsible for tax registration and for the correct calculation and payment of tax. Payroll tax withholding rules in respect to the solidarity surcharge tax apply in a similar way.

11.6 SOCIAL SECURITY AND HEALTH INSURANCE

Individuals subject to Czech social security and public health insurance systems (typically employees who have concluded an employment contract with a Czech employer or foreign employees assigned from abroad who fall under the Czech system based on either the EU Regulation on social security or other international agreement on social security coverage) must mandatorily participate in the state social security system and public health insurance system. These employees, along with their employer, pay social security (including old-age pension, sickness, and unemployment insurance) and health insurance contributions calculated as a percentage of an assessment base that is deducted by the employer from their salary.

The assessment base is usually equal to the total employment income subject to personal income tax and is not concurrently exempt from such tax, and which has been accounted for by the employer for the benefit of the employee. The income accounted for by the employer for the benefit of the employee means any benefit provided by the employer to the employee in monetary or non-monetary form, or in the form of an advantage eventually credited to an employee, or it rests in any other form of performance provided by the employer on behalf of the employee.

The maximum assessment base must be observed by the employer while running payroll records. The maximum assessment base is 48 times the amount of the average wage for social security. For public health insurance, the maximum assessment base has been cancelled with effect from 2013. Once the employee reaches the maximum assessment base, neither they nor the employer are further obliged to pay social security in that particular year. The decisive period is the calendar year, and the total assessment base is calculated on the amount of monthly assessment bases.

The 2023 maximum assessment base for social security contributions amounts to CZK 1,935,552 (approx. EUR 80,000). The aggregate mandatory insurance rates applicable in 2023 are 33.80% for employers (24.8% – social security and 9% – health insurance) and 11% for individuals (6.5% – social security and 4.5% – health insurance).

The total payments of social security and health insurance (both the employee's and employer's portion) are to be transferred to the relevant social security authorities and health insurance companies no later than by the 20th day of the calendar month following the month for which the contributions are paid.

With respect to social security and health insurance contributions, all responsibilities remain with the employer, while employees generally have no obligations.

Self-employed persons subject to the Czech social security and health insurance systems contribute by themselves, and the amounts of contributions are calculated from the assessment base corresponding to their tax base determined from their entrepreneurial income.

The second pillar of the Czech pension system, also called the "Savings for Old Age Pension", allowing individuals subject to the Czech mandatory social security system to voluntarily apply for and participate in the second pension pillar until reaching the statutory retirement age, has been cancelled. The third pillar of the pension system, also referred to as "Supplementary Pension Savings", which replaced the previous supplementary pension insurance with state contributions, represents a completely voluntary system for all individuals older than 18 years and, as such, it has remained unchanged.

11.7 VALUE ADDED TAX

11.7.1 General principles

The Czech VAT Act follows the general principles of the EU VAT Directive (a recast of the Sixth VAT Directive). Czech VAT is generally charged on supplies of most goods and provision of services at a standard rate of 21%. A reduced rate of 15% applies for certain supplies, including the following: food and non-alcoholic beverages; selected medical goods; aids for the disabled; buildings for residential living (with some exceptions); work on medical goods; repairs of medical devices; provision of medical care; social care; and care for children, the elderly, sick, and disabled persons unless they are tax exempt. A second reduced VAT rate of 10% applies to pharmaceuticals and selected medicals; printed books; newspapers and magazines in which advertisements do not exceed 50% of the printed area; for food for infants and small children up to three years of age; for selected food (for gluten-free diets and phenylketonuria); domestic passenger transport; supply of heat and water supplies; audiobooks and e-books; accommodation services; catering services that include draught beer; cleaning and home care services; labour-intensive services (e.g. hairdressers); and entry to most cultural and sporting events.

VAT law explicitly provides for VAT-exempt supplies without the possibility to refund VAT incurred in connection with the provision of these supplies. VAT-exempt supplies are typically services of financial institutions, basic postal services, services rendered by insurance companies, radio and television broadcasting, the long-term lease of land and/or selected real estate (unless the lessor opts to charge VAT under specific conditions), lotteries and other games of chance, healthcare services, social welfare, and educational services.

VAT payers may ask the Czech Ministry of Finance for a binding ruling as to whether a VAT rate proposed by a taxpayer for a particular supply of goods or services is in compliance with legislation. The fee for this request is CZK 10,000.

Most cross-border services and certain supplies of goods rendered between two VAT liable entrepreneurs are subject to the reverse-charge mechanism. This means the obligation to charge VAT is transferred to the recipient of the service and applies in the country in which the recipient is registered. Exceptions to this general rule may apply and must be carefully reviewed on a case-by-case basis.

Furthermore, a local reverse-charge mechanism is applicable between entities VAT-registered in the Czech Republic in respect to a wide variety of taxable supplies, including: supplies of gold; emission allowances; construction and assembly services; transfer of emission allowances; supplies of mobile phones and other selected IT equipment; deliveries of selected agricultural raw materials; supplies of raw and semi-finished metals; etc. Regarding some of these commodities, the reverse charge is applicable based on the threshold invoiced.

11.7.2 Registration duty

Entities having a registered office or a place of business in the Czech Republic are considered a Czech entity for VAT purposes.

Czech entities (or Czech self-employed individuals) must register for VAT if turnover for the rendered taxable supplies exceeds CZK 2,000,000 within any 12 consecutive calendar months. The VAT registration application must be submitted within 15 days after the end of the calendar month during which this turnover was exceeded. Registration with immediate effect may also be required due to intra-community trade.

Czech entities (or Czech self-employed individuals) carrying out taxable activities and not reaching the decisive turnover for obligatory VAT registration are allowed to register for VAT voluntarily.

Czech entities (or Czech self-employed individuals) that do not qualify as an obligatory VAT payer because their turnover for rendered taxable supplies does not exceed CZK 2,000,000 within any 12 consecutive calendar months, and that purchase goods and services from persons residing in other EU member states or provide services to persons residing in other EU member states must register as an identified person for VAT purposes having limited compliance duties with respect to Czech tax authorities. Identified persons cannot, however, claim VAT recovery.

Foreign and EU entities or individuals that do not have a registered office or place of business in the Czech Republic, including those having just their fixed establishment in the Czech Republic, are obliged to register with immediate effect for Czech VAT, if they render a taxable supply within the Czech Republic subject to Czech VAT, unless the cross-border reverse charge mechanism applies. There is no VAT registration threshold for these entities or individuals, i.e. in such case VAT registration is obligatory if a taxable supply of any value is rendered. They can also register voluntarily.

Group VAT registration enables registration of a group of related companies under one VAT identification number. For VAT purposes, such a group is treated as a single VAT payer, and supplies between the group companies are generally not subject to VAT.

11.7.3 VAT recovery

Generally, VAT incurred by a VAT payer (i.e. a registered entity or individual) for the purpose of performing its own economic activities can be recovered. Input VAT incurred solely in relation to effected VAT-exempt supplies cannot be recovered. Every VAT payer should allocate its purchases to one of the following three categories of taxable supplies: (i) purchases associated with full VAT recovery entitlement, i.e. used fully for economic activities subject to Czech VAT or to specific supplies outside the scope of Czech VAT or/and to certain VAT-exempt supplies allowing for full VAT recovery; (ii) purchases associated with partial VAT recovery entitlement, i.e. used only partially for economic activities subject to Czech VAT or to specific supplies outside the scope of Czech VAT or to certain VAT-exempt supplies allowing for full VAT recovery; and (iii) purchases with no VAT recovery entitlement, i.e. used to provide the majority of VAT exempt supplies or to carry out non-business activities. Subsequently, in accordance with the mentioned allocation, the VAT payer must reduce the VAT recovery entitlement by means of the VAT return.

An adjustment of VAT recovery is required in respect to certain purchased long-term assets (both tangible and intangible) where the purpose of use is changed. In both cases, complex rules apply to the adjustment process over a five-year period (a 10-year period for real estate or its technical appreciation) with effect from the year in which the long-term assets are acquired.

VAT incurred on items used for business entertainment purposes is not recoverable.

11.7.4 VAT refund

EU companies registered for VAT in other EU member states are entitled to a refund of Czech VAT. These companies must file an application electronically through the web-portal in their home country.
Non-EU businesses can, in certain circumstances, obtain a refund of Czech VAT incurred on goods and services. The refund will only be made on the basis of reciprocity (currently applicable to entities from United Kingdom, Norway, Macedonia, and Switzerland only).

11.7.5 VAT compliance

Registered Czech VAT payers (both Czech and foreign entrepreneurs) are obliged to file VAT returns on a monthly basis if their annual turnover exceeds CZK 10 million, or if they are newly registered for VAT in the Czech Republic, or on a quarterly basis if their annual turnover is less than CZK 10 million and relevant notification (upon change of the VAT period) is submitted by the end of January of the following calendar year. However, the change to a quarterly VAT period cannot be used by newly registered VAT payers for the first 2 calendar years of their registration. VAT returns must be filed, and any VAT liability must be paid within 25 days of the end of the taxable period (i.e. the calendar month of quarter) at the latest.

As of 1 January 2016, VAT tax payers registered in the Czech Republic are obliged to file a control statement, i.e. the VAT transaction/sales matching report on a monthly basis (applicable to all legal entities and individuals with monthly VAT periods) or on a quarterly basis (applicable to individuals with quarterly VAT periods). Based on this amendment to the VAT legislation, most Czech VAT taxpayers are obliged to submit a VAT transaction report along with their ordinary VAT return and supply the tax administrator with selected data shown on their VAT documents (involving both the obligation to declare/pay Czech VAT and/or the entitlement to claim a VAT refund). If this duty is not satisfied, a lump-sum fine of up to CZK 50,000 per report may be imposed by the Czech tax authorities.

Excess VAT recovery is refunded automatically by the tax authorities within 30 days of being assessed (if no VAT inspection/audit occurs).

In addition to the VAT returns, VAT payers involved in intra-community trade must file an EC Sales List providing details of sales of goods and services to VAT payers in other EU countries. The EC Sales List should generally be filed within the same filing deadlines that apply to VAT returns.

VAT payers must also file a monthly Intrastat report providing details of goods sold/relocated to and from other EU countries. The threshold for filing is CZK 12 million for arriving transactions and CZK 12 million for dispatched transactions. The Intrastat reports must be filed to the Customs Office on a monthly basis.

VAT returns, VAT transaction/sales matching reports, EC Sales Lists, and Intrastat reports can only be filed electronically. This electronic filing duty applies to all Czech VAT payers including individuals.

11.8 EXCISE TAXES

Excise taxes are imposed on entities producing or importing certain types of goods, including fuels and lubricants, alcohol and spirits, and tobacco products. The tax is generally based on the quantity of goods sold/imported expressed in specific units.

11.9 TRANSFER TAXES

11.9.1 Real estate acquisition tax

Real estate acquisition tax was abolished in 2020 with retroactive effect on all real estate property transfers effected as of 1 December 2019.

11.9.2 Gift and inheritance tax

Gift and inheritance taxes were replaced by income tax as of the 2014 tax period. Gifts classified as income for no consideration (gratuitous income) and unearned income are subject to personal income tax at progressive rates of 15% and 23% for individuals with a variety of exemptions available to persons qualifying as direct relatives (e.g. parents, children, grandparents, spouses) and secondary relatives (e.g. siblings, aunts, uncles, nephews, nieces, etc.) and at a flat rate of 19% for legal entities. Supplies for free resulting from inheritance are exempt from income tax for both individuals and legal entities.

Gifts (or other supplies for free) received in connection with employment and self employment activities usually do not qualify for a tax exemption.

11.10 PROPERTY TAXES

11.10.1 Road tax

Generally, all trucks and trailers with a maximum authorised weight exceeding 12 tons used for business purposes in the Czech Republic are subject to the Czech road tax. Other vehicles including motorbikes, personal cars, buses, and trucks with weight up to 12 tons are not subject to Czech road tax. The road tax is calculated on an annual basis and depends on the engine capacity and number of axles of the vehicle. Road tax liability must be paid by 31 January of the following year, along with a filing of a road tax return by the same deadline.

11.10.2 Real estate tax

Real estate tax is generally payable by every owner of land or buildings located in the Czech Republic. Generally, real estate taxes are calculated according to the size of the property rather than based on its market value. Consequently, real estate taxes in the Czech Republic are not as significant as they may be in other countries.

The tax base for land depends on the area of land occupied (residential land) or price of land (agricultural land). The tax on buildings depends on the size and number of above-ground floors of the building. Yearly rates range from (i) CZK 0.20 to CZK 5 per square metre for residential land; or from (ii) 0.25% to 0.75% multiplied by the area in square metres and the average price of land for agricultural land; or from (iii) CZK 2 to CZK 10 per built-up square meter for buildings multiplied by a coefficient from one to five depending on the type and location of property (for example, the yearly real estate tax for a 100-square meter apartment in Prague without a parking space or adjoining land would be CZK 1,200).

A real estate tax return generally must be filed by 31 January of the relevant calendar year (with certain exemptions) if any changes to the real estate (including a change in ownership) occurred since 1 January of the previous calendar year.

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