

**DOING
BUSINESS
IN**

THE CZECH REPUBLIC



foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms. It is designed to give some general information to those contemplating doing business in Czech Republic and is not intended to be a comprehensive document. You should consult us, therefore, before taking further action. HLB Proxy and HLB International cannot be held liable for any action or business decision taken on the basis of information in this booklet.

**HLB Proxy
June 2011**

contents

| | |
|---|----|
| FOREWORD | 3 |
| ABOUT HLB INTERNATIONAL | 5 |
| GENERAL INFORMATION | 6 |
| INVESTMENT FACTORS | 8 |
| ENTREPRENEURIAL ENVIRONMENT | 10 |
| GOVERNMENT INCENTIVES | 15 |
| EMPLOYMENT REGULATIONS | 17 |
| SOCIAL & HEALTH INSURANCE | 18 |
| TAXATION | 19 |
| PERSONAL INCOME TAX | 20 |
| CORPORATE INCOME TAX | 22 |
| INHERITANCE, GIFT, ROAD, REAL ESTATE AND REAL ESTATE | |
| TRANSFER TAX | 25 |
| INTERNATIONAL TAX ISSUES | 26 |
| VALUE ADDED TAX (VAT) | 27 |
| EXCISE DUTIES | 29 |
| ENERGY TAXES | 29 |
| TAX ADMINISTRATION | 30 |
| AUDIT | 31 |
| CONSOLIDATION | 32 |
| ACCOUNTING | 33 |
| CONTACTS | 35 |

about HLB International

Formed in 1969, HLB International is a world-wide network of independent professional accounting firms and business advisers. The network comprises member firms in over 100 countries who, collectively, have 1,900 partners plus 14,000 staff in over 500 offices. Member firms provide clients with a comprehensive and personal service relating to auditing, taxation, accounting and general and financial management advice.

Up-to-date information and general assistance on international matters can be obtained from any of the partners of HLB Germany listed in this booklet or from the Executive Office in London.

**HLB International
Executive Office
21 Ebury Street
London SW1W 0LD
UK**

**Telephone +44 (0)20 7881 1100
Fax +44 (0)20 7881 1109
Email: mailbox@hlbi.com
Website: www.hlbi.com**

HLB International is a world-wide network of independent professional accounting firms and business advisers, each of which is a separate and independent legal entity and as such has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International organisation but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International organisation, and vice versa.

general information

LOCATION

The Czech Republic is located in the centre of Europe and has shared borders with Germany, Austria, Poland and the Slovak Republic.

KEY FACTS

| | |
|--------------|-------------------------|
| Area | 78,866 km ² |
| Population | 10.5 million (approx.) |
| Labour force | 4.896 million (approx.) |
| Capital | Prague |
| Language | Czech |
| Currency *) | Czech Crown (CZK) |

**) Despite the fact the Czech Republic is a EU-member state, it is not member of the EURO-Zone.*

The date of EURO introduction has not been determined yet.

The Czech koruna (CZK) is fully convertible. All international transfers (e.g. profits and royalties) related to an investment can be carried out freely and without delay.

CONSTITUTION

Following the Velvet Revolution of 1989, Czechoslovakia promoting democracy, changed to a market economy. From 1993 the previous Czechoslovakia split into two separate countries – Czech Republic and Slovak Republic.

The Czech Republic is a parliamentary democracy. The parliament consists of two Houses, a House of Representatives and a Senate. The President, elected by Parliament, is the head of state.

LEGAL SYSTEM

In 1989 a new legal system in the Czech Republic was set up. The legal system is based on written laws. Compared to common law, of which a substantial binding part is created by judicial (court) decisions, the source of continental law mainly takes the form of written and binding acts, orders, bills and directives to be adopted and issued by competent legislative bodies, i.e. parliament, government and municipalities. Judicial rulings serve mainly as a subsidiary and supportive source for the purpose of interpreting the written codified laws.

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

EU AND OTHER MEMBERSHIPS

The Czech Republic became a full member of the European Union on 1 May, 2004. For more than seven years the country has enjoyed the business and trade benefits of being part of one large market governed by principles such as the free movement of goods, services, capital and persons.

The borderless importing and exporting of goods within the European market, no matter where the goods were manufactured, serves as one of the main benefits of the EU. Individuals and companies resident or registered permanently outside the Czech Republic may now even provide certain services without the need to establish any corporate presence (be it a company or other Czech entity) in the Czech Republic.

The Czech Republic is a member of NATO (1999) and also a member of the General Agreement on Tariffs and Trade (GATT), of the OECD and of the United Nations.

BUSINESS HOURS AND PUBLIC HOLIDAYS

8 a.m. - 6 p.m.

Opening hours vary depending on the type of business and locations. Most offices and businesses are closed all day on Sunday. Some major stores are open on Sunday and in the bigger cities there are an increasing number of hypermarkets open around the clock.

Public holidays are:

January 1st , May 8th, July 5th, July 6th,
September 28th, October 28th and
November 17th.

Other holidays are:

Easter Monday, May 1st, December 24th,
December 25th and December 26th.

investment factors

SPECIAL FEATURES

The Czech Republic is one of the most successful transition economies in terms of attracting foreign direct investment.

The Czech Republic is fortunate to be located very close to the so-called “European Banana” – Europe’s industrial backbone. This area is considered the best choice for investments in transport and logistics because of its perfect location with regard to consumption and production zones. This, together with its EU membership, makes the country a perfect gateway to the single European market of 455 million consumers.

INVESTMENT PROTECTION

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

The Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions. Existing legislation guarantees the protection of all forms of property, including patents, copyrights, trademarks and semiconductor chip layout design. Trademark law and copyright law are compatible with EU directives.

REPATRIATION OF PROFITS

No limitations exist on the distribution and expatriation of profits by Czech subsidiaries to their foreign parent companies.

There are some obligations and special rules regarding the tax treatment for dividends payments from the Czech Republic. Detailed information is given in the tax part of this booklet.

EDUCATION

The Czech Republic combines an outstanding level of general education with strong science and engineering disciplines. According to a 2005 OECD study, the country ranked first among European countries in terms of the percentage of the population that has achieved at least upper secondary education. Technical education in the Czech Republic has a long tradition and enjoys a strong reputation around the world. The availability of technically educated graduates at a fraction of the cost of western labour creates a perfect environment for both manufacturing and R&D-oriented companies.

STABLE ECONOMIC PERFORMANCE

Since the Velvet Revolution in 1989, the Czech economy has grown steadily and the standard of living has been increased substantially. International risk-rating institutions rank the Czech Republic in the long-term with an “A” rating. This high rating is one of the best in Central and Eastern Europe. The rating is based above all on low average inflation (1.5 percent average in 2010), the relatively low amount of gross foreign debt, the stable growth of gross domestic product (2.3% in 2010) and a wage level increase linked to productivity.

The Czech Republic is recovering from the economic crisis, which started in 2008, very well and is among the best European countries in this respect.

The biggest advantages of Czech Republic are a stable macroeconomic balance, low inflation, its own currency (CZK) and a healthy and profitable bank sector.

BASIC ECONOMIC INDICATORS

| Czech Republic | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|
| GDP per capita (in USD) | 14,430 | 15,256 | 16,423 | 17,921 | 18,508 | 18,084 | 18,258 |
| GDP (%) | 4.5 | 6.3 | 6.8 | 6.1 | 2.5 | -4.1 | 2.3 |
| Unemployment rate (%) | 8.3 | 7.9 | 7.1 | 5.3 | 4.4 | 6.7 | 9.6 |
| Inflation rate (%) | 2.8 | 1.9 | 2.5 | 2.8 | 6.3 | 1 | 1.5 |
| CZK/EUR | 31.904 | 29.784 | 28.343 | 27.762 | 24.942 | 26.445 | 25.29 |
| CZK/USD | 25.701 | 23.947 | 22.609 | 20.308 | 17.035 | 19.057 | 19.111 |

entrepreneurial environment

Amendatory acts to the Civil Code and the Civil Procedure Code have improved the procedures of the Commercial Register organisation. They have introduced five-day (for complicated cases ten-day) periods for entries to the Commercial Register.

Most business activities (whether carried out by a branch, an a.s., or an s.r.o.) require the issuance of a trade license by either the business license department of the district or the municipal office in the district or municipality in which the registered office of the branch or legal entity is located (the "Office").

The type of trade license required depends on the scope of business of the branch or legal entity. Certain activities, such as banking, insurance and broadcasting, require special licenses issued directly by the relevant state authority.

A new amendment to the Trades Licensing Act (since 2008) has significantly simplified administration, speeded up the issue of a trade licence and facilitated the opening of a business.

The completely new act on bankruptcy (since 2008) has strengthened the position of creditors, restricted interest in the protraction of bankruptcy and enabled vital parts of a company to continue in their activities.

At the same time a publicly accessible insolvency register was established, which increased the transparency of insolvency proceedings.

PRINCIPAL FORMS OF BUSINESS

It is possible to carry out a business activity in the area of Czech Republic under different types of business vehicles recognized by the Czech Commercial Code.

The typical entities or other business forms utilised by foreign investors are:

Limited liability company (s.r.o.)

Joint stock company (a.s.)

Unlimited partnership (v.o.s.)

Limited partnership (k. s.)

Cooperative (družstvo)

Societas Europea (evropská společnost)

European Economic Interest

Grouping (EEIG; evropské hospodářské a zájmové sdružení)

European cooperative company (evropská družstevní společnost)

Sole entrepreneur (fyzická osoba - podnikatel)

There is no mixed legal type of business companies as we can find within other EU countries.

A company is incorporated in the Czech Republic on the day when it is entered in the Commercial Register.

LIMITED LIABILITY COMPANY (s.r.o.)

It is a very popular legal form for small and medium-sized businesses in the Czech Republic.

Process of establishing

The company may be formed by one person or more persons (individuals, entities), but the maximum number of its members is 50. Members of the company are liable for the company's obligations (debts) up to the amount of their as yet unpaid investment contributions, as recorded in the Commercial Register. The registered capital must be no less than CZK 200,000 (approx. EURO 8 k; USD10 k). The amount of a member's investment contribution may not be less than CZK 20,000. Where a company is formed by one person, it may be entered in the Commercial Register only when its registered capital has been fully paid up. One or more executive officers („jednatel“) represent the company's statutory body. If there is more than one executive officer, each of them may act independently, unless the deed of association or the statutes provide otherwise. The supreme body is the general meeting which shall be convened by the company's executive officers at least once a year. The general meeting which approves ordinary financial statements must be convened no later than six months after the last day of the accounting period.

Audit

Financial statements are subject to an audit only if at least two of the following conditions are met in the current and previous period: (1) the net turnover exceeds CZK 80,000,000; (2) the gross assets of the company exceed CZK 40,000,000; (3) the company employs more than 50 employees

Pros and Cons

The main advantages of a limited liability company are:

- Fewer regulations than a joint stock company
- Less registered capital and reserve fund required than for a joint stock company
- It can have one sole owner being either an individual or a legal entity
- It does not require a Supervisory Board

The main disadvantages are as follows:

- Ownership interests are not publicly tradable and cannot be listed on the Stock Exchange
- Transfer of ownership interests is less flexible than transfer of shares in a joint stock company

JOINT STOCK COMPANY (a.s.)

Process of establishing

A joint stock company may be formed by one legal entity or by two or more individuals and or entities. Once a shareholder has fully paid up his investment contribution, he or she is not liable for the company's obligations (debts) during its existence. The minimum amount of registered capital required by the Commercial Code is CZK 2,000,000 (approx. EUR 80 k; USD 105 k).

The Board of directors represent the company's statutory body. The Board of directors is a collective statutory body (a minimum of three members) deciding all company matters. Unless the statutes provide otherwise, any member of the board of directors may act in the name of the company.

A share may be issued as a registered share (i. e. registered in shareholder's name) or as a bearer share. The transferability of registered shares may be restricted. Bearer shares are transferred without restrictions.

Audit

Financial statements are subject to an audit if any of the following conditions are met in the current and previous period: (1) the net turnover exceeds CZK 80,000,000; (2) the gross assets of the company exceed CZK 40,000,000; (3) the company employs more than 50 employees.

Pros and Cons

The main advantages are:

- Due to the high capital requirement it is generally regarded as a reliable form of business
- It is possible for its shares to be publicly traded on a stock exchange
- More flexible transfer of ownership through transfer of shares
- Exists independently of its shareholders, who are not liable for the debts and obligations of the Company

The main disadvantages are:

- More heavily regulated business type
- Higher administration requirements (e.g. both a Memorandum of Association and Articles of Association are requested)
- Larger reserve fund required

UNLIMITED PARTNERSHIP (v.o.s.)

An unlimited partnership is an entity in which at least two persons (individual, legal entities) carry on a business activity under a common commercial name and bear joint and several liability for the obligations (debts) of the partnership with all their property. This differs from the laws of some other countries, which do not regard a partnership as an entity and require a partnership to be formed only by individuals. The statutory body is formed by all its partners, unless the partnership agreement regulates the statutory body differently. The minimum amount of registered capital is not given, voluntary capital formation is possible. The transferability of investment contributions is not allowed.

LIMITED PARTNERSHIP (k. s.)

It can be only formed to carry on a business activity or activities. The partners may be both individuals and legal entities. During its existence a limited partnership must have at least one general partner („komplementář“) and one limited partner („komanditista“). The general partner is liable for the partnership’s debt with all his or her property. An investment contribution is mandatory, its amount cannot be less than CZK 5,000 (approx. EURO 200; USD 260) and must be agreed in the partnership agreement. Only general partners can form the statutory body. The partnership agreement may provide that only some of the general partners will be authorized to act for the partnership.

BRANCH OFFICE (organizační složka)

A Branch office of a foreign entity comes into being on its entry in the Commercial Register. The recorded name of the manager (head, director) in the Commercial Register, becomes the representative for the branch. A branch office within the Czech Republic is not treated as a legal entity. There is a legal obligation to maintain accounting records according to the Czech act on accounting. Other legal obligations are similar to those of the companies referred to above.

The principal advantage of a branch is that there are no requirements for capital. The disadvantage can be that it is not a separate legal entity in the Czech Republic. Thus the “parent company = foreigner founder of the branch” is liable for actions taken by the branch.

COSTS OF FORMING A COMPANY

The likely professional costs of forming a company is about 50,000 CZK (approx. EURO 2 k; USD 2.7 k). These costs exclude share capital costs and VAT.

OTHER OPERATIONS WITH LEGAL ENTITIES

Apart from forming a new legal entity there are other ways of acquiring a business in the Czech Republic.

Purchase of shares („share deal“)

An acquisition can have the form of the purchase of an enterprise or a part of it, by means of which the buyer acquires all the property, rights and liabilities relating to the operation of the business. The share purchase agreement („SPA“) must be approved by the General Meeting or the shareholders of the company.

Contribution to an existing Company

The acquisition of a share in a company can have the form of a monetary or non-monetary contribution to the equity of an existing company. The registration of such a contribution is made at a Commercial Court and, in the case of non-monetary contributions, an independent valuation submitted by an official valuer is required (with certain exceptions).

Transformation of Companies

Mergers, company demergers, the transfer of assets to a shareholder and change of the company's legal form are allowed under Czech law. Such transformations of companies can be undertaken as national or cross-border transactions with entities registered in other EU-member states or another country within the European Economic Area.

a) Merger

Both forms of merger, either by acquisition (one of the companies continues in its activities, while the others cease to exist) or by the formation of a new company (all of the original companies cease to exist) are possible.

A merger project, which is subject to the approval of the statutory bodies of entities taking part in the merger, is to be prepared for the purposes of the merger.

Mergers become legally effective on the day of their record in the Commercial Register, however from the taxation and accounting point of view, the companies are considered a single entity from the merger date, which in fact precedes all steps and decisions in relation to the merger.

Similar provisions are applicable for both domestic, as well as cross-border mergers.

b) Transfer of assets to a shareholder

The transfer of assets to a shareholder is a legal form of company transformation whereby the shareholder owing more than 90% of the company's registered capital may transfer the assets of the company to itself, provided it has obtained the consent of the General Meeting.

c) Demerger

A company can be demerged through

- (i) demerger by the formation of new companies,
- (ii) demerger by acquisition,
- (iii) by different kinds of spin-off actions.

d) Change of legal status

When the legal status of a company is changed, it does not cease to exist and only its internal legal position and structure change.

Educated graduates at a fraction of the cost of western labour creates a perfect environment for both manufacturing and R&D-oriented companies.

government incentives

Investment projects in the Czech Republic may be financed from three main public sources:

- 1) Local investments incentives
- 2) Structural funds
- 3) Cohesion fund and EU Central Funds

LOCAL INVESTMENTS INCENTIVES

The Czech Republic has been offering investment incentives since 1998. Investment incentives are available to all manufacturing investments with some exceptions (e.g. mining, production and distribution of electricity, gas and water, repairs of motor vehicles and other).

When eligibility criteria and specific conditions are met the following incentives are available:

• **Income tax relief over a five-year period**

Tax incentives are offered in two forms. They can apply to new companies established as special-purpose vehicles for a specific investment project. In such a case, the new company can obtain corporate tax relief for up to five years. If, on the other hand, the investment is made as an expansion or modernisation project within an existing Czech company, such a company may receive partial tax relief for up to five years.

• **Training, retraining and job creation grants**

The size of a job creation subsidy depends upon the unemployment aid in the region where the investment is made. This ranges from zero - in areas with unemployment below the national average - to a maximum of CZK 50,000 per employee in regions with unemployment more than 50 percent over the average. Retraining grants reach 25 percent (35 percent for medium

business or 45 percent for small business) of the total training and retraining costs.

• **Transfer of land in the State's possession at reduced prices**

Another form of incentives granted by the Czech government is through allocating selected government owned properties for further development. There are various brownfield and greenfield sites available.

Conditions for granting investment incentives are:

- The investment must be for the launch of a new production facility or the expansion of an existing one.
- The investor must invest at least CZK 100 million (approx. EUR 3.9 million) within three years. This limit is reduced to CZK 60 million and CZK 50 million for projects in regions with a high unemployment rate.
- At least one half of the investment must come from the investor's own equity.
- At least 60 percent of the total investment must be made into machinery and equipment.

CZECHINVEST

CzechInvest, the Investment and Business Development Agency, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programmes. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the Czech Republic.

CzechInvest is exclusively authorized to file applications for investment incentives at the competent governing bodies and prepares draft offers to grant investment incentives. Its task is also to provide potential investors current data and information on the business climate, investment environment and investment opportunities in the Czech Republic.

CzechInvest's services (all CzechInvest's services are free of charge):

- comprehensive services for investors
- full information assistance
- handling of investment incentives
- business properties identification
- supplier identification
- aftercare services
- Business infrastructure development
- Access to structural funds

OPERATIONAL PROGRAMMES

There are plenty of other Operational Programmes (approx. 15 aid programmes) run by the Ministry of Industry and Trade. Detailed information is available on the web site of the Ministry of Industry and Trade (www.mpo.cz)

employment regulations

THE LABOUR CODE

The Labour Code is a key part of the law governing mutual relations between employers and employees. Under the Labour Code, all employers in the Czech Republic are obliged to conclude a written employment contract with their employees. It is mandatory for the employment contract to contain e.g. the type of work, the place where he or she will perform his or her work and the day when the employee will start working.

Probationary periods cannot be longer than 3 months and must be agreed in writing. During the probationary period, the contract may be cancelled by either the company or by the employee for any reason. Cancellation must be in writing and delivered at least 3 days before the termination date.

The employment contract usually also covers matters like the gross monthly wage and the length of the probationary period. In the case of work within the EU, an employee will be subjected to the legislation of the member state where the work (job) is performed as regards: the length of working time and rest periods; the length of annual leave; the minimum wage; work safety and equal treatment.

WAGES & HOLIDAYS

Wages in the Czech Republic are paid in Czech crowns and in cash, unless agreed in the employment contract to the contrary. The minimum monthly wage for 2011 is set by government regulations at CZK 8,000 (EUR 330, USD 480). The average monthly wage for 2010 is CZK 23,951 (EUR 990, USD 1,430). The minimum annual leave is four weeks. Supplementary leave of one week is standard with well-established companies. Holiday pay is calculated on the basis of the employee's average monthly remuneration.

WORK PERMITS

The citizens of EU countries, and their family members, are not considered foreigners by the Czech Employment Act, and enjoy the same position as the citizens of the Czech Republic. They can perform work without a work permit here. In addition the citizens of Norway, Lichtenstein, Switzerland and Iceland, and their family members, enjoy the same legal status as the citizens of the Czech Republic. An employer must maintain a registry of EU/EEA and Swiss citizens and their family members, as well as all foreigners whom it employs or who are sent to it by a foreign employer to perform work.

All non EU residents must have work permits (pracovní povolení) and resident permits (povolení k pobytu). Work permits are issued for a minimum period of one year.

social & health insurance

Everybody working in the Czech Republic is liable to Czech social and health insurance payments. It is only in the case of short-term secondments that non-Czech nationals may be exempt from contributions to the Czech system. The system covers all employed and self-employed persons.

The general health insurance is provided by nine health insurance funds, which are independent entities under private law. People can freely choose their fund and their health care provider. Social insurance is governed by the Czech Social Security Administration (ČSSZ) which is a governmental body, and is also in charge of collecting social security insurance contributions.

MAXIMUM BASE OF ASSESSMENT

The maximum annual base of assessment for the calculation of social and health insurance payments is the same for both employees and entrepreneurs. It represents 48 times the average salary in the national economy. The maximum base of assessment for 2011 is in the amount of CZK 1,781,280 (EUR 74,000; USD 107,000). After the income cap is reached, no further contributions have to be made for the rest of the year. Therefore, the effective tax rate decreases from 21 % to 15 % after reaching this limit.

CROSS-BORDER EMPLOYMENT

Non-Czech nationals may be exempt from contributions to the Czech system of social and health insurance. This exemption can be claimed under EU provisions or a bilateral social security agreement. The EU provisions on social security coordination establish common rules and principles and ensure at the same time that the application of the different national legislations does not adversely affect persons exercising their right to move and to stay within member states.

The Czech Republic has already concluded 14 social security agreements (e.g. with USA, Japan, Canada, Israel).

CONTRIBUTION RATES

The total amount of general health and social insurance in the Czech Republic is 45 % of the gross employee's salary, social insurance is 31.5 % of it and health insurance amounts to 13.5 %.

The statutory social and health insurance premiums payable by employers and employees are very high in the Czech Republic and complicated to calculate. There are differences in health duties calculations between small companies with up to 25 employees (calculated by Social Insurance Authority) and large companies over 25 employees (calculated by company).

| | Social insurance | | | Health insurance | Total |
|----------|------------------|----------|--------------|------------------|-------|
| | Pension | Sickness | Unemployment | | |
| Employer | 21.5 | 2.3 | 1.2 | 9 | 34 |
| Employee | 6.5 | - | - | 4.5 | 11 |
| Total | 28 | 2.3 | 1.2 | 13.5 | 45 |

taxation

GENERAL

The Czech tax system primarily differentiates between direct and indirect taxes. These groups consist of:

DIRECT TAXES

- Personal income tax (PIT)
- Corporate income tax (CIT)
- Inheritance and Gift tax
- Road tax
- Real estate and Real estate transfer tax

INDIRECT TAXES

- Value added tax (VAT)
- Excise duties
- Tax on natural gas and several other types of gases
- Tax on solid fuels
- Tax on electricity

The most important taxes from the above lists are in the term of tax collection value added tax, excise duties, personal and corporate income tax. Nevertheless, social and health security contributions are the biggest source of state revenues.

personal income tax

All individuals who have their tax residence in the Czech Republic are taxed to tax on their worldwide income regardless of where it is received. Tax non-residents are liable to Czech income tax on income arising in the Czech Republic - work, activities through a permanent establishment, business, technical or other consultancy services, dividends, interest, licence fees and rents.

TAX RESIDENCE IN THE CZECH REPUBLIC

The Czech tax residence of a foreign individual is determined according to their place of residence or their "habitual stay" in the Czech Republic. The Czech Income Taxes Act considers the place of residence to be the place where the taxpayer has his abode and the circumstances indicate his intention to live there permanently. The "habitual stay" means staying in the Czech Republic for at least 183 days in the relevant calendar year, either continuously or intermittently, each "commenced" day of such stay is included in the period of 183 days. Therefore, the timing of the dates of arrival in, and departure from, the Czech Republic should be considered.

TAXATION PERIOD AND TAX RATE

The taxation period for individuals is a calendar year. A flat tax rate of 15 % is in operation in the Czech Republic. The effective tax rate is usually higher because of the special taxation method of "super gross", however, after reaching the maximum assessment base the rate decreases back to 15 %. Furthermore, reference should be made with regard to any relevant Double taxation agreements, which may override these rules.

TAX DEDUCTIONS

Individuals can lower their tax obligation using deductible items. These can be applied in the annual reconciliation in case of employees or in the tax return. If an employee wants to apply any deductions in the annual reconciliation made by the employer, he/she must submit the necessary documentation to the employer by the 15th of February. The tax base can be lowered by gifts, interest on loans for household needs, blood donation, life insurance, pension insurance or membership fees for labour unions.

TAX DISCOUNTS

The final tax liability of an individual can be reduced by some tax discounts: a personal allowance, for children, for taxpayers with partial disability pensions, for taxpayers with full disability pensions, for taxpayers with severe health disabilities and for students. Some of these discounts can be applied monthly, some of them only in an annual reconciliation or in a tax return.

TAXATION OF RESIDENT EMPLOYEES

The Czech tax law considers an employee to be a person who is obliged to obey the employer's orders, and therefore, it covers both legal as well as "economic" employers. The tax base for income from employment is a so-called super gross wage which is a gross wage increased by the amount corresponding to obligatory social insurance and general health insurance paid by the employer. The gross wage is, in principle, increased by the actual contributions rate amounting to 34 %. The income over the maximum base of contribution assessment (i. e. 1, 78 Million CZK in 2011) is not increased because no further contributions are to be paid. Most benefits and incomes connected with the employment (e. g. car for private purposes, accommodation above a mandatory limit,

transport to the place of work, every bonus) are added in the tax base. Nevertheless, there are some exemptions – e. g. some educational costs, refund of travel expenses, meal allowances.

ECONOMIC EMPLOYER

An “economic” employer is a Czech employer that has foreign individuals working for it without a Czech employment contract. Such individuals are typically employed by a foreign company. In such cases, the economic employer is obliged to act as a payroll agent and must transfer the appropriate income tax payments to the Financial Authority.

CROSS-BORDER EMPLOYMENTS – TAXATION OF NON-RESIDENT EMPLOYEES

Incomes of a Czech tax non-resident from an employment performed in the Czech Republic are basically subject to Czech personal income tax. Nevertheless, reference should be made with regard to any relevant Double taxation agreements, which usually state (in Article 15) the criteria for taxation only in the state of residence. These cumulative criteria are following:

- The employee does not stay longer than 183 days during a calendar/tax year or twelve-month period in the Czech Republic,
- the employer is not resident in the Czech Republic and
- the employer does not maintain a permanent establishment in the Czech Republic.

The taxation method is the same as by Czech tax residents. The tax base amounting to the super gross wage is applied even if employees participate in a foreign contributions system. The most important difference is in the ability to claim tax deductions and discounts. Tax non-residents (essentially any non-Czech citizens) do not qualify for them automatically. Only the

basic tax discount per taxpayer can be provided by the law. The other deductions and discounts are provided only if 90 % of the worldwide income of a tax non-resident is sourced from the territory of the Czech Republic.

BOARD MEMBERS AND MANAGING DIRECTORS

Incomes from work performed by partners and executives in limited liability companies and limited partners in limited partnerships or remuneration paid to members of boards are taxed like incomes from an employment using the super gross concept. Therefore, this kind of income is increased by the actual contributions rate amounting to 9 % for members of boards and 30,5 % for executives, even if they do not participate in the Czech contributions system. Shares in profits are subject to the same taxation method.

Nevertheless, shares in profits received by non-resident members of boards are taxed in a different manner – they are subject to a withholding tax amounting to 15 %. Furthermore, reference should be made to any relevant Double taxation agreements, which may override these rules.

TAXATION OF FREELANCERS

The tax base for income acquired by business activities and incomes of freelancers is the difference between revenues and expenses without using the super gross concept as in case of the incomes of employees and board members. In some cases, even for rental income, it is possible to calculate expenses using a determined percentage (from 30 to 80 percent). In such cases it is not necessary to prove the real expenses to the tax administrator.

corporate income tax

Corporate income tax is levied on corporate entities, including joint-stock companies, limited liability companies, general partnerships and limited partnerships. The last two entities are considered for tax purposes transparent and therefore taxed at their partners' level.

Legal persons with a registered office or a place of management in the territory of the Czech Republic are subject to tax liability, which is related to their worldwide income. Non-residents are subject to tax only on income from resources in the territory of the Czech Republic. The taxation period for corporate income tax is generally a calendar year or a business year, which shall start on the first day of a month except January and run for twelve successive months.

TAX BASE AND RATE

The tax base results from accounting profit, which is calculated according to Czech accounting laws and practice. However, final tax liability is calculated using a tax base with adjustments made for tax non-deductible expenses, tax depreciations and losses, items not recorded in the accounts etc.

In general, tax deductible costs are only costs incurred in order to generate, assure and maintain taxable incomes. Representation costs, gifts, thin capitalisation interest, remuneration of board members, shortages and damages, creation of accounting reserves, differences between accounting and tax depreciations etc. are costs, that are tax non-deductible.

The tax rate which is applied on taxable profit amounts to 19 %. Shares of profits, dividends, settlement shares, royalties, interest and other incomes are subject to a withholding tax amounting to 15 % unless the relevant double tax treaty or legislation of the European Union stipulates something else.

TAX DEPRECIATION RULES

Depreciation of tangible (purchase price more than 40,000 CZK) and intangible (purchase price more than 60,000 CZK) assets are tax deductible under conditions stated in Czech corporate income tax law. Otherwise, the accounting rules are used (e. g. for assets with purchase price lower than 40,000 CZK or 60,000 CZK). Tax depreciation is allowed to the legal owner of assets only.

Companies can choose between accelerated or linear depreciation at prescribed rates, nevertheless they cannot switch the selected method after the start of depreciation. Depreciation cannot be interrupted in the case of intangible assets. The statutory depreciation rates rely on depreciation groups which the assets are classed into. The depreciation periods are 3 years (e.g. PCs, tools), 5 years (e.g. cars, industrial machinery), 10 years (e.g. big industrial machinery), 20 years (e. g. small buildings), 30 years (e. g. factory buildings, warehouses) and 50 years (administrative buildings and hotels).

CARRYING FORWARD LOSSES

Tax losses may be carried forward and offset against profits made in the following five tax periods given the fulfilment of certain conditions. The basic condition is, the non-applied tax loss may not be deducted from the tax base if the composition of the persons directly participating in the capital or control of the company has significantly changed.

THIN CAPITALISATION

The maximum allowable related party debt-equity ratio is 4:1 (6:1 for banks and insurance companies). Limitation of tax deductibility of expenses in connection with debt-equity ratio is not related only to interest but to the whole area of financial expenses (e.g. different types of bank fees and charges, expenses connected

with assurance, processing of credits, fees for guarantees, etc.).

Tax deductibility of financial expenses is not limited only to the situation of non-satisfaction of the debt-equity ratio. Financial expenses whose interest rate is variable according to the results (profit or loss) of the business are also tax non-deductible.

TRANSFER PRICING RULES

Related party transactions must take place at usual market prices. Expenses exceeding the usual price can be adjusted by the tax authority and the differences between the actual charged price and the usual market price can be considered tax non-deductible. Furthermore, this would also lead to an assessment of additional taxes and related penalties. Nevertheless, there is no obligation to have transfer pricing documentation in the Czech Republic, but taxpayers have to be able to prove that the arm's-length principle was adhered to in every related party transaction. According to the Guidelines of the Czech Ministry of Finance, the OECD Transfer Pricing Guidelines and the concept of the EU Transfer Pricing Documentation can be used in proving this fact.

TAXATION OF BRANCHES OF FOREIGN CORPORATIONS

Trading branches are usually taxable on actual profits as is recorded in their accounting records, in the same manner as Czech companies (corporate income tax). Non-trading branches of foreign companies may be liable to corporate income tax on anticipated profits. The basis on which anticipated profits are calculated must be negotiated in advance with the local Financial Authority.

TAXATION OF PERMANENT ESTABLISHMENT

A permanent establishment (PE) is usually taxable on its profits from resources in the territory of the Czech Republic. The Czech corporate income tax law considers a PE to be a fixed place of business (e. g. office, mine, workshop) or a performance of services (e. g. advisory, management services) by means of employee or other persons in the Czech Republic over a substantial period of time (so called "service PE"). PE is usually interpreted by the Czech tax authority only in accordance with the Czech national law and the particular double tax treaty, disregarding the OECD Model and the OECD commentary.

The method of taxation of a permanent establishment is either in the same manner as for Czech companies or may be liable to corporate income tax on anticipated profits. The basis on which anticipated profits are calculated must be negotiated in advance with the local Financial Authority, unless the relevant double tax treaty does not stipulate something else.

TAXATION OF INVESTMENT FUNDS

Czech legislation differentiates between a domestic investment fund and a mutual fund. Nevertheless, both of them are liable to a preferential corporate income tax amounting to 5 %. The most important tax difference between the above mentioned funds is the person of taxpayer. While an investment company is the taxpayer in case of a mutual fund, the investment fund is the taxpayer on its own. Investors of in both types of funds are generally liable to a 15% withholding tax, but the actual facts of each case have to be analysed.

TAXATION OF REAL ESTATE INVESTMENTS

Real estate investments are taxed under the same conditions as every other corporate investor and the rules for business incomes are applicable as well as for rentals or leasing payments. There are no special legal rules for the taxation of income from the transfer of shares in a real estate project company (i. e. special purpose vehicle). Therefore this income would not be taxed as an income from a sale of a real property and would not be subject to the real estate transfer tax.

TAXATION OF SHAREHOLDERS

Income from dividends and shares in profit, as well as from transfers of shares in a company, paid by a subsidiary to its parent company is exempted from income tax in Czech Republic provided conditions of the EU Parent/Subsidiary Directive are met.

On satisfaction of certain conditions the said tax exemption is also applicable to income flowing to tax residents in the Czech Republic from their participation in subsidiaries being tax residents of states, with which the Czech Republic has concluded effective double taxation agreements. Should the mentioned directive not be applied, income tax amounting to 15 % will be withheld, unless the relevant double tax treaty stipulates something else.

TAXATION OF ROYALTIES AND INTEREST

Royalties (licence fees) and interest arising to a company, which is a tax resident of another EU member state are tax exempt under the EU Interests Licence Directive provided its conditions are met. This exemption has legal effect in the Czech Republic as of 1st January 2011. Should the mentioned directive not be applied, income tax amounting to 15 % will be withheld, unless the relevant double tax treaty stipulates something else.

LIQUIDATION

Profits arising on liquidation are taxed as corporate income at the normal corporate income tax rate. Distribution of liquidation proceeds to shareholders is subject to withholding tax in the same way as dividends.

inheritance, gift, road, real estate and real estate transfer tax

INHERITANCE AND GIFT TAX

Both inheritance and gift tax are levied on the transfer of property by inheritance and donation. These transfers are exempt from taxation in the Czech Republic if they are carried out among close relatives (firstly husbands, children, parents, siblings, uncles, aunts, nieces, nephews). Otherwise, the tax rates depend on the value of transferred property and they vary from 7 % to 40 %.

ROAD TAX

Vehicles registered and used for business purposes in the Czech Republic are subject to road tax. Its taxpayer is the user of vehicle, but it could be e. g. an employer as well, if travel expenses are reimbursed to employees for using their private cars. The tax base depends upon the engine cylinder capacity or the maximum permitted weight and the number of axles.

REAL ESTATE TAX

The tax payer is, in the case of real estate tax, the owner of land or a building located in the Czech Republic. The tax base depends on the size of the real estate, its location, kind and the purpose which is used for. The municipalities set a special municipality's coefficient every year which can dramatically influence the final tax liability.

REAL ESTATE TRANSFER TAX

Real estate transfer tax amounting to 3 % is levied on transfers of immovable property located in the Czech Republic. The tax base comes either from the purchase price or the appraised value, depending on which of them is higher. The taxpayer is the seller and the buyer is considered to be a guarantor of the tax.

international tax issues

DOUBLE TAX TREATIES

The Czech Republic has signed a number of double tax treaties with more than 77 countries according to the records as at April 1, 2011 following the OECD model. The purpose of these treaties is the avoidance of double taxation on income earned in those countries. The OECD Commentary and the OECD Model Tax Convention on Income and on Capital are not binding on the Czech tax and judicial authorities, only the wording of the relevant international treaty.

TAX INFORMATION EXCHANGE

The Czech Republic participates in the international tax information exchange based on OECD double tax treaties, bilateral memorandums and any EU regulation, which was implemented to Czech tax law. The Czech government has already signed a number of memorandums of understanding with more than 15 countries according to the records as at April 1, 2011 and the tax information exchange increases every year.

value added tax (VAT)

As the Czech Republic has been a member state of the European Union from 1st May 2004, the Czech VAT law is based on the principles of the common system of VAT given by the VAT Directive. VAT is generally due on a supply of goods or services with the place of supply in the Czech Republic carried on by a taxable person in the course of economic activities. The taxable supply usually means goods or services provided for a consideration. However, certain transactions carried out for no consideration represent also a taxable supply, e.g. private use of business assets and provision of gifts.

REGISTRATION

VAT registration is obligatory for a person who has a registered seat, place of business, or establishment in the Czech Republic (hereinafter Czech entities), if their turnover exceeds CZK 1 million in twelve consecutive calendar months. Even if the threshold is not exceeded, Czech entities can choose a voluntary registration. Entities that have no seat, place of business, or a fixed establishment in the Czech Republic are obliged to register for Czech VAT once they make a taxable supply in the Czech Republic on which they have to account for a VAT. There is no registration threshold and these entities cannot register voluntarily.

VAT RETURNS

The taxable period of Czech entities can be a calendar quarter or a month. If the annual turnover of a Czech entity is higher than CZK 10,000,000, VAT returns have to be submitted on a monthly basis. Should the annual turnover be lower than CZK 2,000,000, VAT returns must be submitted quarterly. If the annual turnover is higher than CZK 2,000,000 but lower than CZK 10,000,000, the tax payer can choose a monthly taxable period. Otherwise, the taxable period is a calendar quarter.

Entities with no seat, place of business, or a fixed establishment in the Czech Republic submit VAT returns quarterly.

TAX RATES

VAT in the Czech Republic is charged at two rates:

- The standard rate of 20 % on the sale of goods and services
- The reduced rate of 10 % on the transfer of certain residential houses, on the sale of certain goods such as food products, pharmaceuticals used for health care, nappies, printed books and periodicals etc. and certain services such as waterway, accommodation, air transport of passengers, certain cultural activities etc.

According to the current governmental plan the reduced rate shall be increased to 14.5 % as from 1st January 2012 and as from 1st January 2013 to 17.5 %. The standard rate should be decreased as from 1st January 2013; therefore, there should be only one VAT rate in the future.

RECOVERY PROCEDURE

VAT can be recovered by businesses on all goods and services. However there are certain exceptions, when VAT is not deductible (restaurant expenses etc.). Also specific conditions must be met (e.g. a deadline date to send application by 30th June of the following year and the minimum amount claimed should exceed CZK 1,000 for the calendar year). An institute of VAT tax representatives (tax agents) does not exist from 2005 in the Czech Republic. Representation before Financial Authorities is permitted generally by the Administration of Taxes Act (tax advisers, jurists, representatives acting on behalf of power of attorney).

INTRASTAT

With respect to EU legislation, an Intrastat system of collecting intra-Community trade information is also used in the Czech Republic. The obligation to file Intrastat reports arises on exceeding the stated threshold for arrival (CZK 8 million) or dispatches (CZK 16 million).

VAT GROUPING

The VAT Act amendment introduces the option of VAT grouping. A VAT group generally consists of related entities with an address, a place of business or a branch in the Czech Republic. VAT grouping should simplify administrative procedures related to filing VAT returns within group companies and minimise non-recoverable VAT. Group companies that register as a single VAT entity by 31 October of the current year become a VAT group effective 1 January of the following year. The VAT group is then treated, for VAT purposes, as a single entity, i.e. only transactions with nongroup members are subject to VAT. VAT grouping is not compulsory.

excise duties

Excise duties are fiscally one of the most important sources of state revenues. They are fully harmonised with the EU regulations in this area and separate from VAT. Excise duties are levied on gasoline, tobacco and alcohol. Tax payers are all persons that are obliged to pay the tax by the releasing of goods into free circulation. The tax base is the volume of particular goods.

energy taxes

Taxes on electricity, solid fuels and natural and other gases were introduced in the form of three separate acts four years ago, so they represent the newest taxes in the Czech Republic. They are fully harmonised with EU legislation in this area and the customs authorities are responsible for their collection. At the moment, energy taxes form a small part of total state revenues because the tax rates are still relatively low.

tax administration

ORGANIZATIONAL STRUCTURE

The central body of the Czech Tax Administration is the General Financial Directorate (GFD) established in 2011. GFD manages the administration of all taxes and Financial Directorates whose decisions it examines. Furthermore, GFD provides analytical, conceptual and legislative activities related to the tax legislation, tax administration and direct management of the automation of the tax agendas.

The Financial Directorates are bodies of tax administration having regional competencies and are superior to the Tax Offices. Tax Offices especially conduct the administration of taxes, tax payments and advance payments, conduct proceedings on tax delinquency within their field of activity and provide the international assistance in the Tax Administration.

CONDITIONS OF TAX ADMINISTRATION

As of January 1, 2011, a new tax administration act entered into force which represents the biggest change in the Czech tax administration system in its modern history. The new act adopts the previous decisions of Czech courts and reflects the changes in the organizational structure of the Czech Tax administration.

According to this new act, taxes cannot be assessed or assessed additionally more than three years after the end of the taxation period in which the obligation to file the tax return originated, the tax authorities have to provide a taxpayer with written reasons justifying their decisions, additional tax will not be due until the appellate procedure has been completed etc.

MERGERS AND ACQUISITIONS

Mergers and the other forms of transformations mentioned in the first part of this booklet generally treated as a tax neutral operation. Tax-effective set-up is not available in the course of a merger. Tax-effective reserves, provisions and losses of a company, which ceases to exist, may be utilized by its successor under certain conditions, that are:

- all the companies involved have legal forms set by law (e.g. limited liability company, joint stock company),
- the merger cannot be tax driven, i. e. the main purposes of the merger is not "avoiding tax liability,
- losses can be applied only up to the amount of the tax base of the surviving entity that relates to the same activity undertaken by the dissolved company.

Audits in the Czech Republic are regulated by the Act on Auditors, effective from 14th April 2009. The enactment of this Act has made the legislation fully conformant with the EU directive on audit services.

Responsibility for regulation of the auditing profession in the Czech Republic has been delegated to the Chamber of Auditors (KAČR). The new Act has also established the Audit Public Oversight Council, which plays an important role, amongst others, especially in relation to audits of public interest entities.

Audits in the Czech Republic are carried out according to International Auditing Standards (ISA). Certain differences in the application of ISAs in the Czech legal system are determined by Application clauses issued by KAČR. The Code of Ethics issues by KAČR is based on the IFAC Code of Ethics. The aforementioned differences in the application of auditing standards and the Code of Ethics are however not of a significant nature.

Quality inspections are performed on a regular basis (3 years for auditors performing audits of public interest entities, 6 years for other auditors) by the Supervisory Committee of KAČR, monitored by the Audit Public Oversight Council.

According to the Anti-Money Laundering Act, the auditor is, amongst other obligations, obliged to identify the person with whom the auditor enters into a contract of an amount exceeding an equivalent of EUR 1,000. The auditor is obliged to notify the Ministry of

Finance of any “suspicious business” This Act complies with the EC directives.

The accounting Act regulates the obligation to have annual financial statements audited by a statutory auditor as follows:

- A) joint stock companies
That have exceeded at least one of the following criteria for the current and previous periods:
- 1) turnover of CZK 80 million (EUR 3.2 million, USD 5 million)
 - 2) total assets (gross-without adjustments for depreciation and impairments) of CZK 40 million (EUR 1.6 million, USD 2.5 million)
 - 3) average number of employees of 50.
- B) all banks and regulated financial institutions
C) foundations and certain other non-profit organizations
D) other businesses that have, for the current and previous periods, met or exceeded at least two of the three criteria stated in letter A) above.
- All consolidated financial statements and annual reports that include audited financial statements must also be audited.

consolidation

Companies in the Czech Republic must prepare consolidated financial statements if their group has met or exceeded at least two of the following criteria:

- 1) turnover of CZK 700 million (EUR 28 million, USD 43.7 million)
- 2) total assets (gross) of CZK 350 million (EUR 14 million, USD 21.9 million)
- 3) average number of employees of 250

Banks, insurance companies and listed companies are obliged to prepare consolidated financial statements.

All companies with listed shares or bonds within the EU have to use IFRS for their consolidated financial statements and the annual report. Other companies may use IFRS for their consolidated financial statements and the annual report.

A continuing company and a new company established by a merger should submit an audited opening balance.

accounting

GENERAL

Legal persons with a registered office in the territory of the Czech Republic and foreign persons doing business in the territory of the Czech Republic (e.g. through a branch office) are obliged to keep accounting records from their establishment (i.e. since the date of incorporation in the Commercial Register).

Sole traders registered in the Commercial Register are obliged to keep accounting records from the day of entry in the Commercial Register.

Sole traders not registered in the Commercial Register are liable to keep accounting records when their turnover exceeds the amount of CZK 25 million. Sole traders whose turnover is less than this amount are not subject to the Accounting Act and use only a "tax evidence" system.

The accounting period is of twelve months and mostly is the calendar year. Companies can adopt a different financial yearend, provided they inform the Financial Authority at least three months in advance. In case of business combinations and on transfer from a calendar year to a business year the accounting period may be either shorter or longer than twelve months.

All companies incorporated in the Czech Republic with listed shares or bonds in any European Union country are required to prepare their financial statements in accordance with IFRS.

ACCOUNTING LEGISLATION AND PRINCIPLES

- The framework for accounting in the Czech Republic is given in the Accounting Act.
- Accounting records must be kept in the Czech language and in the Czech currency
- The Act on Accounting stipulates general principles and conditions for preparing of accounts (true and fair view, going concern,

matching principle, ban on compensation) and its qualitative characteristics (comprehensibility, completeness, accuracy, etc.) These definitions more or less correspond to the definitions stated in the conceptual framework of IAS/IFRS.

- Accordingly, the Act on Accounting regulates general principles for compilation and publication of the financial statements, methods of evaluation, stocktaking of assets and liabilities, accounting records filing and sanctions for non-adherence to the act.

- Detailed accounting guidance is given in the Ministry of Finance Provisions on Accounting and Czech Accounting Standards. There are separate accounting rules for businessmen (entrepreneurs), banks, insurance, municipalities, non-profit organization, political parties and other.

STATUTORY FINANCIAL STATEMENTS & ANNUAL REPORTS

Financial statements must be drawn up and submitted, together with the income tax return, to the Financial Authority within first three months of the next financial year. This deadline is extended to six months for all companies with a compulsory audit or which use the services of a registered tax adviser.

Financial statements must contain a balance sheet, a profit and loss statement and notes. The accounting unit may include with the financial statements its cash flow statement and a statement on changes in shareholders' equity. A by-law to the Act on Accounting for business entities stipulates a different scope for the financial statements of non-audited companies and companies that require statutory audit (so called full-scope financial statements).

All companies must file the financial statements with the Commercial Register.

Additionally, all companies requiring a statutory audit must prepare an annual report, make it publicly accessible and file with the Commercial Register. Since 2001, entities controlled by another party must prepare a "Report on relationships with related parties"(a form prescribed in section 66a of the Commercial Code).

These reports are also subject to a review by the auditors.

ESSENTIAL DIFFERENCES BETWEEN THE CZECH ACCOUNTING STANDARDS (CAS) A IAS/IFRS

(This is only a comparison with CAS for entrepreneurs and the most significant and the most frequent differences):

- CAS fails to include correction of errors and changes in accounting policies retrospectively (IAS 8), however, only prospectively (records in costs/revenues of the current period);
- CAS has no accounting standard for accounting for long-term contracts (IAS 11);
- For evaluation of tangible fixed assets as to the balance sheet date CAS apply exclusively evaluation by the historical price contrary to IAS 16 or IAS 40;
- CAS fail to apply accounting for financial leases according to IAS 17 (tangible fixed assets are recorded and depreciated only by an owner in fact);
- CAS fail to apply the concept of a functional currency (IAS 21), accounts are kept solely in CZK
- Differences in the methods of recognition, evaluation and depreciation of goodwill in case of business combinations (IFRS 3).

HLB Firms In the Czech Republic

HLB Czech Republic International
contact partners:

Mr Ladislav Dědeček

Email: dedecek.ladislav@proxy.cz

Mrs Ditta Hlaváčková

Email: ditta@proxy.cz

Web: www.proxy.cz

PRAGUE

PROXY, a.s.; PROXY-AUDIT s.r.o.
Plzeňská 3217/16
150 00 Praha 5
Czech Republic

Tel: +42(0) 296 332 411
Fax: +42(0) 296 332 490

Email: office@proxy.cz
Web: www.proxy.cz

**Mr Ladislav Dědeček
Mrs Šárka Adámková**

ČESKÉ BUDĚJOVICE

PROXY, a.s.; PROXY-AUDIT s.r.o.
Náměstí Přemysla Otakara II/36
370 01 České Budějovice
Czech Republic

Tel: +42(0) 386 100 011
Fax: +42(0) 386 100 022

Email: officecb@proxy.cz
Web: www.proxy.cz


**Mrs Ditta Hlaváčková
Mr Miroslav Mrázek**



Audit & Tax Services

Plzeňská 3217/16, 150 00 Praha 5, Czech Republic

Telephone: +42(0) 296 332 411, Fax: +42(0) 296 332 490, Email: office@proxy.cz

A member of  International. A worldwide network of independent accounting firms and business advisers