Tax

Helena Navrátilová, Kocián Šolc Balaštík law firm

Corporate income tax

Taxable profits of resident companies, permanent establishments and branches of non-resident companies are subject to corporate tax at the rate of 24%. A reduced 5% rate applies to the tax base of investment funds and unit trusts. The tax depreciation period for buildings is either 30 or 50 years, depending on the class of the building. Land is not depreciable.

Capital gains

In general, any capital gains are included in the regular corporate tax base and taxed at 24%. However, a loss on a sale of land cannot be used to reduce the corporate tax base, as the acquisition costs of land are deductible from corresponding sales revenue up to the amount of such revenue only.

Capital gains recorded by a Czech holding company on sale of shares in a company holding real property are included in the regular tax base and subject to 24% tax. In most circumstances a Czech holding company cannot use the tax loss on sale of the shares in the subsidiary holding real property.

The Czech Republic cannot tax the capital gains of a non-resident other than upon the sale of shares in a Czech company to a Czech tax resident. However, if the Czech Republic has no tax treaty with the state of residence of the seller or the shares are attributable to a permanent establishment of the seller located in the Czech Republic or, for example, a tax treaty gives the Czech Republic the relevant taxing rights, capital gains on a sale of shares in companies whose assets predominantly consist of real property may be taxed in the Czech Republic.

In any event, taxation of capital gains will depend on the legal form of the company. Special rules apply to general partnerships (v.o.s.) or limited partnerships (k.s.). Special tax rules apply also to taxation of capital gains by individuals.

Lease of real property

A finance lease of buildings must be made for a minimum of eight years. Both finance and operating lease costs must be duly accrued. For lease instalments to be tax-deductible, certain conditions must be satisfied under tax legislation. For example, where a building is sold upon termination of a finance lease, the purchase price cannot be higher than the residual tax value (based on straight line depreciation) whilst upon termination of an operating lease, the purchase price cannot be lower than the residual tax value (based on straight line depreciation) at the time of the sale.

Property tax

Property tax is relatively low and in most circumstances, therefore, has no impact on investment or other business decisions. Compliance requirements are easily manageable.

Property transfer tax

Property transfer tax at a rate of 3% is charged on the higher of the sales price and a price established by a licensed valuer in accordance with applicable law on the valuation of property. The seller has a duty to submit a tax return and pay tax within the statutory time period. The buyer acts as guarantor of the tax payment. Certain transfers of real property are exempt from property transfer tax, such as a non-cash contribution made on particular conditions.

VAT

Transfers of buildings, as well as transfers of buildings by way of financial leasing, become tax exempt three years after acquisition or issue of approval. If a transfer of buildings is taxable, VAT will be applied at the reduced rate of 5% to residential buildings and, in all other cases, at the standard rate of 19%. Amendments to Czech VAT Act (VATA), currently in the process of being drafted and due to become effective in 2008, are likely to narrow the class of buildings taxed at the VAT reduced rate. Transfers of land are VAT exempt, save for transfers of building land, which are taxed at the standard rate.

Services in connection with construction, reconstruction and repair to residential buildings are currently taxed at the reduced rate, although the proposed VATA amendments are likely to narrow the class of buildings that will continue to be taxed at the reduced rate. Under Decision no. 2006/774/EC, the Council has granted the Czech Republic an exemption whereby renovations and repairs to residential buildings may be taxed at the reduced rate until the end of 2010. This exemption does not apply to materials forming a substantial part of the value of the services provided. Leases of real property are VAT exempt, save for the lease of parking spaces, safes, permanent plant and/or equipment installations and short-term rentals (non-stop for up to 48 hours) all of which are taxed at the standard rate. In some circumstances, a VAT payer may (if it so decides) pay VAT on rental income.

If a person/entity which has established its business or has a fixed establishment in the Czech Republic renders taxable supplies, it becomes liable for VAT if it has a turnover exceeding CZK 1m in the 12 preceding months (although it may become liable for VAT on other grounds, as set out in Czech VATA).

For further details, please contact:
Helena Navrátilová, Kocián Šolc Balaštík law firm *tel:* +420 224 103316 *fax:* +420 224 103234
email: hnavratilova@ksb.cz