



Doing Business in the Czech Republic 2026

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Forvis Mazars in the Czech Republic presentation and figures

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260+
professionals



10
partners



€ 16.3 m.
turnover



1
office in Prague



Key figures about the Czech Republic



Time zone: Central European Time UTC+1 during winter;
Central European Summer Time UTC+2 during summer

Population: 10.91 million inhabitants (end-2024)

Language: Czech

Capital: Prague, 1.40 million inhabitants

Other major cities: Brno, Ostrava, Plzen, Liberec, Olomouc ...

Currency: Czech crown – Koruna – CZK

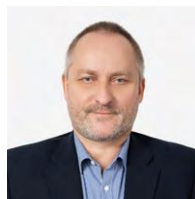
Foreign Direct Investment: EUR 213.7 billion (2024)

Forvis Mazars in the Czech Republic presentation and figures

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Country profile



Economic overview

The Czech Republic currently offers **the most industrialised and developed economy of the Central and Eastern European countries**. The Czech Republic was the first country in the CEE zone to be admitted to the OECD (1995). It became a member of the EU in 2004. The country has **solid economic growth** based on innovation and skills, **a stable political system**, a healthy banking sector, as well as **a modern and flexible labour market**.

In 2020, Czechia reached 93% of the average GDP per capita of the EU-27. The performance of the Czech economy has therefore more than doubled compared to the 90s.

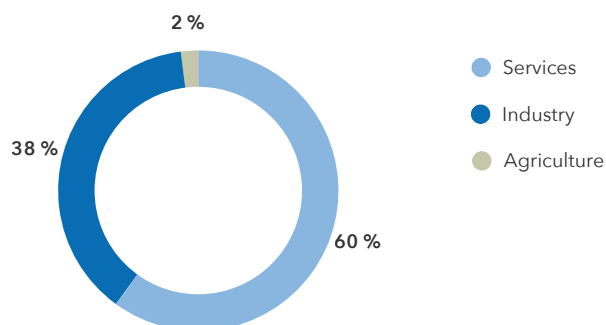
GDP per capita PPP	90% of EU-27 average (2023)	GDP structure	Services 60% Industry and construction 38% Agriculture 2%
GDP	EUR 332 billion (2025)	Currency	1 EUR = 24.7 CZK (2025 average)
GDP growth	2.4% (2025) 1.2% (2024) 0.1% (2023) 2.9% (2022)	Current account balance/GDP	+1.7% (2024)
Average gross m. salary Minimum m. salary	43 941 Kč (EUR 1 765) 20 800 Kč (EUR 835)	Household savings rate	18% (2025)
Unemployment rate (ILO)	2.9% (2025)	Government debt	EUR 130 billion (2024)
Annual inflation rate	2.5% (2025) 2.4% (2024) 10.7% (2023)	Government debt/GDP	43.3% (2024)
Export/GDP	68.9% (2024)	Fiscal deficit/GDP	-2% of GDP (2024) -3.3% of GDP (2023)

Economic trends

The most industrialized country in Europe

Despite continued tertiarisation, the Czech economy remains highly industrialised. **Industrial production and construction represent 38% of GDP and 40% of jobs in the country.** This figure ranks the Czech Republic first in Europe in terms of industrial sector importance. The tertiary sector generates 60% of GDP and employs 56% of the active population. The rest is represented by agricultural production.

GDP per sector



Growth, stability and openness to international markets

During the pre-Covid decade, the Czech Republic showed one of the strongest GDP growth rates in Europe due to its good economic health. However, during the course of 2020, the Czech economy recorded a 5.6% drop in GDP, in line with the EU members' average. The economy returned to growth in 2021.

The Czech Republic is one of the most open economies in the European Union, with exports

of goods and services representing around 69% of GDP. Almost 90% of these exports are directed towards European markets, reflecting the country's strong integration into the EU single market.

Another key strength is the stability of the Czech koruna. In 2025, EUR/CZK traded in a narrow range of around CZK 24–25, according to the Czech National Bank. Combined with low public debt (around 43% of GDP) and excellent sovereign credit ratings (AA / Aa3), this provides a stable financial environment and low borrowing costs.

Financial rating

Agencies	Notation 2025	Comparable
Moody's	Aa3	Belgium, UK, Taiwan
Standard & Poor's	AA-	Ireland, Israel, Estonia, Slovenia
Fitch	AA-	Belgium, South Korea, UK

Source: Czech National Bank

Economic trends

One of the lowest unemployment rates in Europe

The Czech Republic has one of the **tightest labour markets in the EU**. The **employment rate (20–64) reached 82.9% in 2025**, placing the country among the top performers in Europe. The workforce is **highly qualified**, with over **93% of the working age population having at least upper secondary education**.

Unemployment remains around 3%, consistently among the lowest in the European Union, and labour shortages persist, with vacancies closely matching the number of job seekers.

Despite steady wage growth, **labour costs remain competitive**. The **average hourly labour cost is around EUR 18**, compared with an **EU average of EUR 33.5 (2024)**. This combination of **high productivity, skills and cost competitiveness** continues to make the Czech Republic an attractive destination for foreign investors.

Source: Czech National Bank



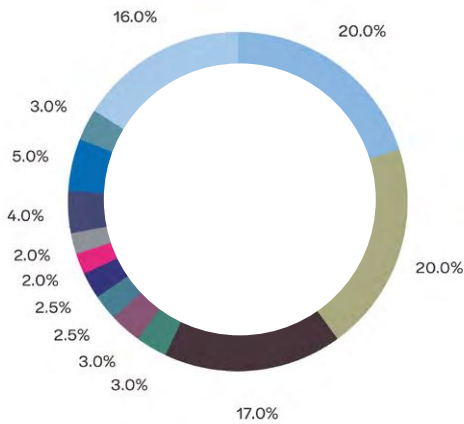
Trade exchanges

A highly open, export driven economy

The Czech Republic is one of the most open economies in Europe. Exports of goods and services account for around 69% of GDP, confirming the country's strong integration into European and global value chains.

Commercial exchanges

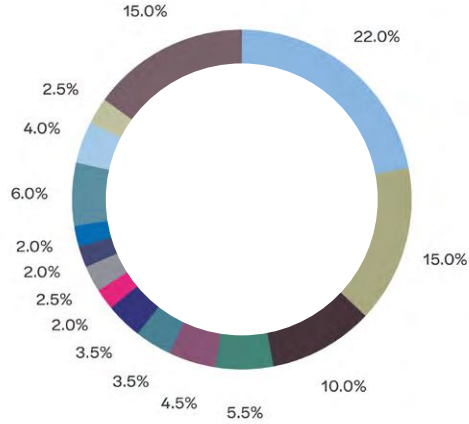
Structure of exports (2024)



- Motor vehicles and parts
- Electrical machinery & electronic equipment
- Machinery & mechanical appliances
- Articles of iron & steel (manufactured metal products)
- Plastics & plastic articles
- Furniture & lighting equipment
- Optical, medical & precision instruments
- Iron & steel (basic metals)
- Rubber & rubber products
- Chemicals & chemical products
- Food products
- Non-metallic mineral products
- Other manufactured goods

Commercial exchanges

Structure of imports (2024)



- Electrical machinery & electronic equipment
- Machinery & mechanical appliances
- Motor vehicles and parts
- Mineral fuels (incl. crude oil & natural gas)
- Plastics & plastic articles
- Pharmaceutical products
- Iron & steel (basic metals)
- Articles of iron & steel (manufactured metal products)
- Optical, medical & precision instruments
- Furniture & lighting equipment
- Rubber & rubber products
- Food products
- Chemicals & chemical products
- Non-metallic mineral products
- Other goods

Main customers (2024)

	1. Germany	32.0%
	2. Slovakia	7.6%
	3. Poland	7.4%
	4. France	4.8%
	5. Austria	4.2%
	6. UK	4.0%
	7. Italy	3.9%
	8. Netherlands	3.2%

Main suppliers (2024)

	1. Germany	20.0%
	2. China	17.0%
	3. Poland	8.0%
	4. Slovakia	5.0%
	5. Italy	4.0%
	6. France	3.0%
	7. Netherlands	2.6%
	8. Austria	2.5%

Main investors (2024)

	1. Netherlands	16.0%
	2. Luxemburg	15.0%
	3. Germany	14.0%
	4. Austria	10.0%
	5. France	7.0%
	6. Switzerland	4.0%

Source: Czech Statistical Office, 2024

Promising sectors

Automotive

The Czech Republic is the **largest vehicle manufacturing hub in Central and Eastern Europe**, producing more vehicles than Poland, Hungary and Romania combined.

The automotive sector employs **over 180,000 people** directly and accounts for **around 26% of total industrial production** and **approximately one quarter of Czech exports** (including vehicles and components).

Car manufacturers present in the Czech Republic – **Škoda Auto, Toyota Motor Manufacturing Czech Republic, Hyundai, Iveco, SOR, Tatra and Avia** – produced **around 1.45 million passenger cars in 2024 and 2025**, representing **around 7–8% of total European vehicle production**.

The Czech automotive industry benefits from a **dense, highly skilled network of Tier-1 and Tier-2 suppliers**, deeply integrated into European value chains and increasingly oriented towards **electromobility and advanced technologies**.



26% of industrial production
24% of exports
180,000+ direct jobs
1.45 million vehicles per year

Electrical & Electronics

The Czech Republic accounts for **around 30% of global electron microscope production**, making it a **world leader** in this high tech niche, concentrated mainly in the Brno region.

The Czech electrical engineering and electronics industry is rooted in **over a century of industrial tradition**, combining deep technical know how with a highly skilled workforce.

Today, the electrical engineering and electronics sector represents **around 15% of total Czech industrial production**, ranking as the **second-largest industrial sector** in the country.

Electronics and electrical engineering attract **roughly one quarter of manufacturing-related foreign direct investment**, reflecting strong investor confidence.

Informations & Communication Technology

The Czech Republic is recognised as one of **Europe's most mature ICT and digital-services ecosystems**, combining strong digital skills, advanced technology adoption and a robust innovation framework.

The country is one of the **most successful European locations for the relocation and outsourcing of ICT, digital and strategic business services**, hosting the **highest density of strategic service centres in Central and Eastern Europe**.

The Czech IT and business services sector employs **around 200,000 people (2025)** across more than **380 service centres**, delivering increasingly **advanced, technology-driven and knowledge-based services**, including AI, automation, software development and analytics.

Czech universities educate **approximately 25,000 ICT students**, producing **around 4,500 ICT graduates annually**, supported by a network of **18+ universities and faculties** with strong engineering and computer science programmes.

The Czech Republic is the birthplace of internationally recognised digital companies such as **AVG, AVAST and Seznam.cz**, underlining its long standing strength in software development and technology innovation.



200,000 ICT & business services jobs
380+ strategic service centres
25,000 ICT students
18+ universities offering ICT programmes

The Czech Republic hosts major global players such as **Siemens, Bosch, Panasonic, Honeywell, ABB, Mitsubishi Electric, Daikin, STMicroelectronics, Foxconn, Hitachi and Bang & Olufsen**, many of whom operate **both production facilities and R&D centres** in the country.



15% of industrial production; 2nd largest industrial sector
17,000+ companies (3,000+ core manufacturers)
160,000 employees

Promising sectors

Mechanical Engineering

The Czech Republic has a **century-long industrial heritage** in metallurgy and mechanical engineering, forming one of the historical pillars of its industrial base, despite the restructuring of the 1990s, and it is supported by strong know how, advanced production capabilities and continuous foreign investment.

Mechanical engineering and metal industries account for **around 10–12% of Czech industrial production**, maintaining a solid position within the country's diversified industrial structure.

The sector has attracted major international investors such as **ArcelorMittal (now Liberty Steel), Evraz and other global industrial groups**, contributing to its modernisation and integration into European supply chains.

The sector relies on a **highly qualified workforce**, supported by strong technical education and a long tradition of engineering excellence.



10–12% of industrial production
Strong engineering talent base
Large network of SMEs and industrial companies

Agri-food

The agri food industry remains an important component of the Czech economy, combining a **strong agricultural tradition** with a modern and evolving food processing sector.

The Czech Republic is a highly **receptive and integrated market**, with a significant presence of **foreign investors, international retail groups and global suppliers** across the value chain.

The food and beverage industry accounts for **around 7% of GDP**, and plays a significant role in employment and regional development.

The sector is dominated by a **large number of SMEs**, combined with **strong industrial players**, particularly in meat processing, dairy and beverages.



≈100,000–110,000 employees
10,000+ companies
8% of total employment (economy wide)



Promising sectors

Aerospace

With **more than 100 years of aviation tradition**, the Czech Republic has developed a strong reputation in aircraft manufacturing, engineering and innovation.

Over its history, the country has produced **more than 32,000 aircraft and 37,000 aircraft engines**, positioning it among the established global aerospace players.

The Czech aerospace industry covers the **entire value chain**, from aircraft design and manufacturing to engines, avionics, maintenance (MRO) and advanced R&D. The country is among the few worldwide capable of producing a complete aircraft domestically.

The sector comprises **over 100 specialised companies** and employs approximately **10,000 highly skilled professionals**, supplying leading global manufacturers such as **Airbus, Boeing and GE Aerospace**.

Aerospace R&D is supported by dedicated clusters and innovation hubs, particularly in **Prague and Brno**, including the **Czech Aerospace Cluster** and the **Brno Space Cluster**, with active participation in European Space Agency (ESA) programmes.



100+ companies
≈10,000 employees
≈€1bn sector revenue

E-commerce

The Czech Republic is one of the most advanced e-commerce markets in Central and Eastern Europe, characterised by high consumer adoption and a dense network of online retailers.

Online shopping is widely embedded in consumer behaviour, with a large majority of internet users regularly purchasing goods and services online.

E-commerce accounts for **around 15–20% of total retail sales**, placing the Czech Republic among the most digitally advanced retail markets in the region.

The Czech market stands out for its exceptionally high number of online stores per capita, creating a dynamic and competitive environment largely driven by local players.

The market benefits from strong digital infrastructure, widespread internet usage and a growing role of **mobile commerce and digital payments**.



≈€7–8 billion annual turnover
≈15–20% share of retail sales
≈50,000 e shops
High online shopping penetration
(70%+ of internet users)

To sum-up: why choose the Czech Republic?

- A strong industrial base: the most industrialised economy in Central and Eastern Europe
- A dense and skilled supplier ecosystem: highly qualified manufacturers and subcontractors across all key industrial sectors
- A strategic location in the heart of Europe
- A highly open, export-driven economy
- Political and economic stability

Establishing an entity

Both individuals and legal entities may engage in business activities in the Czech Republic under one of the following available legal forms.

Generally, there is **no limitation on the level of foreign participation** in a Czech legal entity. Foreigners/foreign companies can establish both joint ventures and wholly owned subsidiaries in the Czech Republic.

The types of companies include a joint-stock company, a limited liability company, a limited partnership and an unlimited partnership.

Joint-stock and limited liability companies are the most common types used for business purposes; both of these legal forms must fulfil the minimum capital requirements.

A joint-stock company can be set up by one or more legal entities or individuals. The minimum registered capital requirement is CZK 2 million or EUR 80 000.

A limited liability company can be set up by one or more legal entities or individuals. The minimum contribution to the registered capital of a limited liability company is CZK 1.

There is no restriction on “chaining” of sole-member companies (a situation where a limited liability company with a sole shareholder is the sole founder or sole shareholder of another limited liability company).

Besides companies, **business may be conducted by means of the following legal forms: a co-operative, a branch, a silent partnership, a European Company (Societas Europaea) and a European Economic Interest Grouping. An association can also do business, but only as part of its secondary activity.**

Business can also be conducted directly in the Czech Republic by a foreign entity. The foreign entity may register a branch (of a legal entity) which does not form a separate legal entity, and thus any actions by the branch are seen as actions of the entity registering the branch. A registered branch may generally undertake the same scope of business activities as a Czech legal entity.

The authorisation of a foreign entity to carry out business activities in the Czech Republic takes effect on the date that such an entity or its branch is registered in the Commercial Register and corresponds to the scope of business activities of such an entity or branch registered in the Commercial Register. Companies, co-operatives, as well as branches and foreign non-EU or non-EEA sole proprietors are required to be registered in the Commercial Register.

Prior to being registered in the Commercial Register, a Czech legal entity or a branch of a foreign entity must follow certain procedures which include, in particular, **obtaining a trade licence or other business authorisation, appointing statutory representatives and satisfying the minimum capital requirements** (if applicable).

Special authorisation may be needed to carry out activities in certain areas that are not governed by the general trade licensing regime. Such industries that are subject to regulation by special legislation include, inter alia, certain financial services (such as banks, securities brokers, insurance companies, investment funds, investment companies/unit trusts and pension funds), telecommunications, utilities, pharmaceuticals, broadcasting, gaming and employment mediation (recruitment, executive searches, etc.).

Once the company is registered in the Commercial Register, it is necessary to open a business (bank) account, which has to be published and used for all tax liabilities payments.

All entities established in the Czech Republic have their own **databox** created by the Czech government. **This databox is used for sharing all official documents as a unique government communication channel (in the Czech language).**

Foreign business restrictions

The Czech Republic does not apply any restrictions on entrepreneurs based in the EU area.

Foreign investors especially appreciate the Czech Republic's unique central location in Europe, its infrastructure, economic stability and flexible labour force.

Czech law, investment protection treaties and the Treaty establishing the European Community (in relation to EU Member States) guarantee the right to repatriate profits abroad.

Bilateral investment promotion and protection agreements have been signed with a wide range of countries (a list of bilateral agreements is available at www.mfcr.cz).

Investment incentives

The Czech Republic offers a well established system of investment incentives embedded in its legal framework. The system is governed by the **Act on Investment Incentives (Act No. 72/2000 Coll.)**, which has been discussed with and approved by the European Commission and is fully compliant with EU state aid regulations.

In addition to national incentives, companies established in the Czech Republic may also be eligible for financial support from EU Structural and Investment Funds.

Further information is available at www.mpo.cz or from **Forvis Mazars**.

Incentives under the Act on Investment Incentives

Investment incentives are available for **manufacturing industries, technology centres, business support services centres or manufacturers of special medical products, chips** or businesses dealing with **e-mobility or energy saving**.

Eligible Czech entities may receive:

- corporate income tax relief for **10 taxable periods**
- financial support for **newly created jobs** in selected regions
- financial support for the **training and retraining of employees** in selected regions
- financial support for **strategic investments** (including the production of medical device protective aids) in selected regions
- **transfer of land with technical infrastructure** at a specially reduced price
- **exemption from immovable property tax** in selected industrial zones for **5 years**

The total amount of state aid granted under the Investment Incentives Act may reach up to **40% (large enterprises), 50% (medium sized enterprises) or 60% (small enterprises)** of the eligible investment costs, depending on the investment location and applicable regional aid limits.

State aid is generally not available in the Prague region.

Taxation

Corporate taxes and other direct taxes

Corporate Income Tax (CIT)

The Czech Republic applies a **flat corporate income tax (CIT) rate of 21%**, effective from 1 January 2024. This rate applies uniformly to **Czech companies and Czech permanent establishments (branches) of foreign entities**, which are taxed under the same rules as domestic companies.

The corporate tax base is generally derived from the **accounting profit or loss**, adjusted for **tax deductible and non-deductible items** in accordance with Czech tax legislation.

Tax losses may be carried forward and offset against future taxable profits for up to **five subsequent taxable periods**.

Since **2020**, tax losses may also be **carried back for up to two preceding taxable periods**. The **maximum carry back amount** is limited to **CZK 30 million per taxable period** (approximately **EUR 1.2 million**).

Czech tax law **does not allow group taxation or tax consolidation**.

Dividend Withholding Tax

Dividends distributed by a Czech company to both **resident and non resident shareholders** are subject to a **final withholding tax of 15%**, unless a **reduced rate or exemption** applies under an applicable **double tax treaty**.

A **special withholding tax rate of 35%** applies to dividends paid to recipients that are **tax residents of jurisdictions** outside the EU or with which the Czech Republic has **no double tax treaty or no agreement on the exchange of tax information**.

Exemption under the EU Parent Subsidiary Directive:

Dividends paid by a Czech subsidiary are **exempt from withholding tax** if paid to a qualifying **parent company** in another **EU Member State**, provided that the parent company holds **at least 10%** of the Czech subsidiary's share capital for an **uninterrupted period of at least 12 months**.

Since 2009, this exemption has also been extended to parent companies resident in Iceland, Norway and Switzerland.

Treaty Based Exemption for Non EU Parent Companies:

Dividends may also be **fully exempt from withholding tax** when paid to a **non-EU parent company**, provided that **all** of the following conditions are met:

- the parent company is a **tax resident in a country with which the Czech Republic has an applicable tax treaty**;
- the parent company has one of the **qualifying legal forms** specified in Czech tax legislation;
- the **substantive conditions equivalent to the EU Parent-Subsidiary Directive** are satisfied (including minimum participation and holding period); and
- the parent company is subject in its home jurisdiction to a **corporate income tax comparable to Czech CIT**, at a **statutory rate of at least 12%**.

Anti Abuse Restrictions:

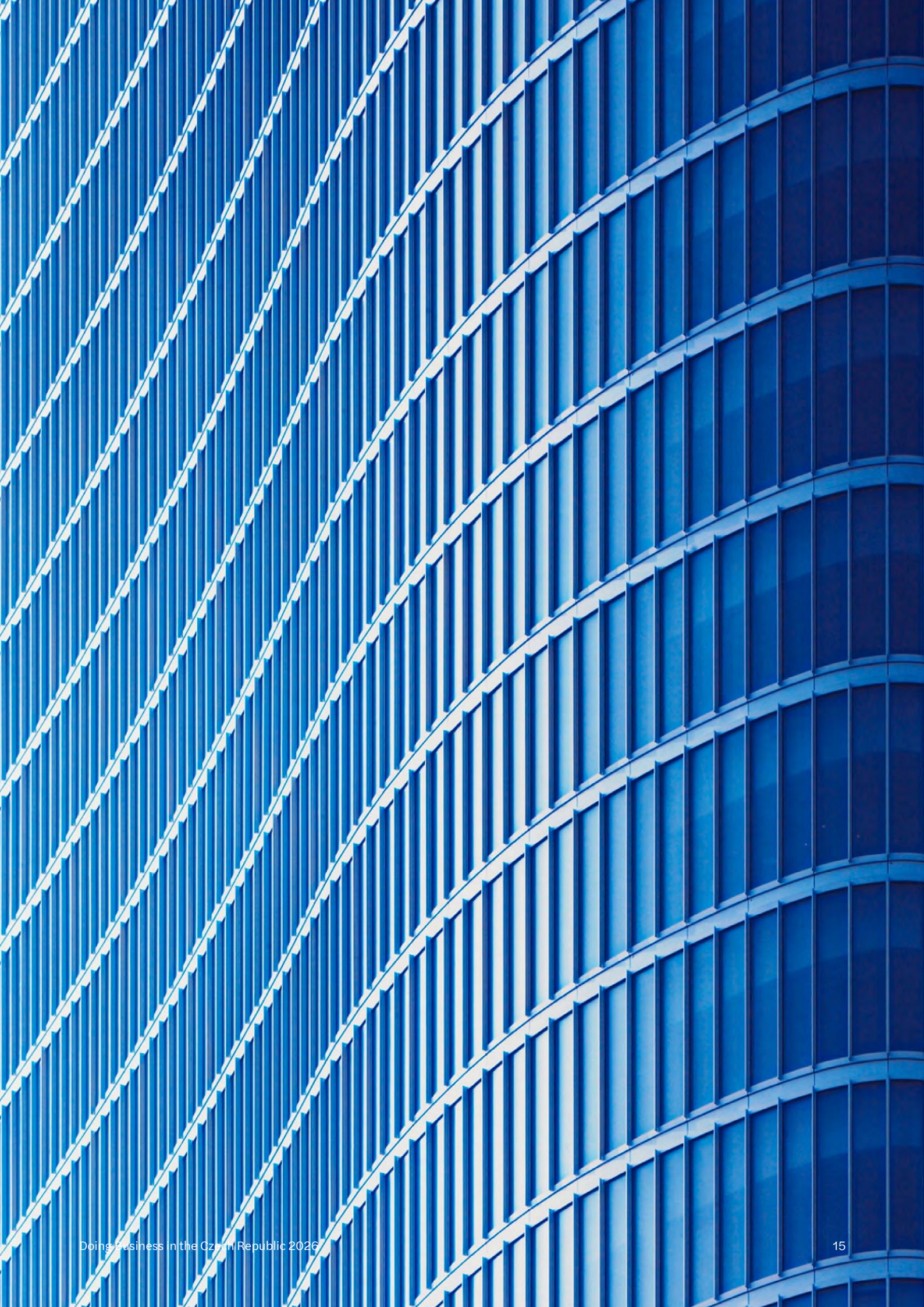
The dividend withholding tax **exemption does not apply** if **either** the Czech subsidiary **or** the recipient parent company:

- is **fully exempt** from corporate income tax or a similar tax;
- may **elect** an exemption or comparable relief from corporate income tax; or
- is subject to corporate income tax (or a comparable tax) at an **effective rate of 0%**.

Interest and Royalties Withholding Tax

Interest and royalty payments made by a Czech entity to non resident recipients are subject to a **15% withholding tax**, unless:

- a **reduced rate or exemption** applies under an applicable double tax treaty; or
- the payment qualifies for exemption under the **EU Interest and Royalties Directive**.



Taxation

A **special withholding tax rate of 35%** applies where the recipient is a **tax resident of a jurisdiction:**

- outside the EU; and
- with which the Czech Republic has **neither a double tax treaty nor an agreement on the exchange of tax information.**

Interest and royalty payments may **be exempt from withholding tax** if paid to a qualifying associated company within the scope of the **EU Interest and Royalties Directive**. The exemption is not automatic; To apply the exemption, the Czech payer must obtain a **binding ruling (decision)** issued by the **Czech tax authorities**, based on a **written application** submitted in advance.

Pillar Two (Global Minimum Tax)

The Czech Republic has implemented **EU Directive (EU) 2022/2523 (“Pillar Two”)** through the **Act on Top Up Taxes for Large Multinational Groups and Large Domestic Groups**. The Act was published in the Collection of Laws and entered into force on 31 December 2023. The Czech implementation closely follows the EU Directive and does not materially deviate from the agreed international framework.

Pillar Two applies to **multinational enterprise groups** with a presence in the Czech Republic that meet the following threshold:

- consolidated revenue exceeding EUR 750 million;
- achieved in at least two of the four fiscal years preceding the relevant fiscal year;
- determined based on the accepted accounting standard used by the ultimate parent entity.

The Czech Republic has implemented a **Qualified Minimum Domestic Top Up Tax (QMDTT)** as part of its Pillar Two framework to ensure that any **top-up tax attributable to Czech entities is collected at the local level.**

In 2026, Czech entities of in-scope international groups will submit their first Pillar Two filings, covering the 2024 period.

Significant amendments to the Czech **R&D tax allowance** took effect from **1 January 2026**, primarily impacting the **amount of the allowance (calculation method)** and the **deadline for claiming it**. Supporting requirements, including the **obligation to maintain separate records for wage costs**, remain unchanged.

The key changes are:

- The **increase of the R&D allowance rate** from **100% to 150% of eligible R&D expenses.**
- An allowance cap was introduced at CZK 50 million, applying to the **aggregate eligible expenses of all taxpayers within the same “allowance group”** (i.e. the controlling entity and entities it controls directly or indirectly, either individually or jointly).
- The deadline for claiming the R&D allowance is **extended from three to five years.**
- The previous requirement that the claim could be deferred only due to a low tax base or a tax loss **has been abolished**, providing greater flexibility for taxpayers.

Other direct taxes

Road motor vehicles used in connection with business as well as trucks with a maximum gross weight exceeding 3.5 tonnes, regardless of their use, are subject to a **road tax** if registered in the Czech Republic.

A **real estate tax** is applied in relation to **land and buildings**, with tax rates generally depending on the type of property, while the final amount of tax may also be influenced by local ratios (as applied by local authorities).

The **real estate acquisition (transfer) tax** was **abolished** on 25 September 2020 and is **no longer applicable in the Czech Republic.**

The **inheritance tax and gift tax** no longer exist. Income derived from **inheritance or gifts** is treated under the **personal or corporate income tax regime**, and is therefore generally subject to standard income tax rules and rates.

Taxation

VAT and other indirect taxes

Two VAT rates apply in the Czech Republic:

- **Standard VAT rate:** 21%
- **Reduced VAT rate:** 12%

The **12% reduced VAT** rate applies, among others, to:

- Foodstuffs and selected beverages (e.g. tap water, milk and milk-based beverages)
- Selected medical and sanitary goods and certain pharmaceuticals
- Certain newspapers and magazines (excluding those predominantly containing advertising)
- Child car seats
- Plants, seeds, live trees and other plants
- Drinking water supply and sewerage services
- Public transport
- Heat and cooling supplies
- Accommodation services
- Food serving and catering services, including the serving of selected beverages
- Social and health services
- Home care services for children, the elderly, the ill and persons with disabilities
- Admission to cultural and sporting events

Certain supplies are **exempt from VAT**:

Exempt without the right to deduct input VAT, including in particular:

- Financial and insurance services
- Lease or supply of immovable property
- Selected education, healthcare and social services

Exempt with the right to deduct input VAT, including in particular:

- Intra-Community supplies of goods
- Exports of goods outside the European Union
- Supplies and lending of books, e books and audiobooks

The **domestic reverse-charge mechanism** applies to selected supplies explicitly defined by the Czech VAT Act (e.g. certain construction works and specific goods). Under the reverse-charge regime, the obligation to **declare and pay VAT is transferred to the customer**, provided the customer is registered as a Czech VAT payer.

Mandatory VAT registration applies to:

- Czech established taxable persons; and
- Taxable persons established outside the Czech Republic but registered under the small business VAT regime in the Czech Republic.

The registration thresholds are:

- **CZK 2 000 000** turnover per calendar year (approx. EUR 82 000): VAT registration applies from **1 January of the following calendar year**;
- **CZK 2 536 500** turnover in the same calendar year (approx. EUR 104 000): VAT registration applies **immediately, from the day following the date the threshold is exceeded**.

VAT payers are generally obliged to file:

- VAT returns
- EC Sales Lists
- Control Statements (detailed records of selected transactions)

VAT reports are filed on a **monthly or quarterly basis**, depending on turnover and the nature of transactions, and must be submitted **electronically within 25 days** following the end of the relevant tax period. Any VAT liability is payable **by the same deadline**.

Taxation

Transfer pricing

In recent years, transfer pricing has become one of the most scrutinised areas of Czech corporate income taxation. The Czech Financial Administration has been placing significant emphasis on this issue, and a growing number of tax audits are now fully focused on transfer pricing. These audits are often lengthy and frequently result in substantial additional tax assessments.

During a tax audit, taxpayers are typically required to demonstrate that the prices applied in related-party transactions comply with the arm's length principle. In practice, this means providing robust evidence that intra-group transactions were conducted under conditions comparable to those that would have been agreed between independent parties.

The recommended scope and structure of transfer pricing documentation are set out in Guideline D-334 issued by the Czech Ministry of Finance. This guidance is generally aligned with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, ensuring consistency with internationally accepted standards.

Furthermore, the Czech government has announced its intention to introduce mandatory transfer pricing documentation requirements in the coming years. Although the specific parameters of this obligation have not yet been published, it is clear that compliance requirements in this area are expected to become even more stringent.

The Czech Financial Administration currently places particular emphasis on the following areas:

- **Alignment between functions performed and risks assumed:** a taxpayer should not bear risks in areas over which it has no control and where it is bound by the decisions of another related entity. If such risks are contractually allocated to the taxpayer, it should be appropriately compensated by the group.
- **Economic substance**, including the so-called benefit test, of management fees, royalties, and interest on intragroup loans.
- **Appropriate remuneration for DEMPE functions:** whether the taxpayer is adequately compensated for its contribution to the development, enhancement, maintenance, protection, and exploitation of intangible assets.
- **Compensation in the context of business restructurings:** whether the taxpayer has received arm's length compensation from related parties following a restructuring.
- **Compensation for "parent company instructions":** whether the taxpayer has been adequately remunerated where its independent commercial decisions were influenced or overridden by decisions of the parent company.



Taxation

Personal Income Tax / Social security system

The personal income tax base for employees is calculated as **gross employment income**.

(The former “super gross wage” concept, which included the employer’s social security and health insurance contributions, was abolished in 2021.)

For self employed taxpayers, the tax base equals **taxable income reduced by expenses**, which may be:

- **Actual (documented) expenses**; or
- **Lump-sum expenses**, ranging from **30% to 80% of income**, depending on the type of activity, **subject to statutory caps** for each income category.

In 2026, the following progressive tax rate is applied to the personal tax base, which consists of five partial tax bases (**employment, self-employment, capital gain, rental income, other income**):

Tax rate (%)	Tax base
15	up to 36 times the average wage (i.e. up to CZK 1 762 812 which is CZK 145 901 per month)
23	above 36 times the average wage

Introduced in 2021, the **Flat rate Tax regime** is available to **self employed individuals** with annual **self employment income up to CZK 2 million**, and who meet certain other conditions. The Flat rate Tax includes advance payments on **personal income tax**, and **social security and health insurance contributions**.

Annual income limit	Monthly flat rate payment (2026)
Up to CZK 1 000 000	CZK 9 984
Up to CZK 1 500 000	CZK 16 745
Up to CZK 2 000 000	CZK 27 139

For self-employed persons, the rates are applied to an assessment base generally equal to 55% of the tax base, i.e. income reduced by expenses.

The social security contributions are not paid on the income exceeding the maximum assessment base. In 2026, the maximum assessment base amounts to CZK 2 350 416.

Wage related taxes in Czech Republic	Minimum wage		Average wage in private sector	
Exchange rate CZK/EUR	in EUR	in CZK	in EUR	in CZK
24.693	907	22 400	1 983	48 967
Total wage cost	1 241	133.80%	2 653	133.80%
Social security contribution – employer	225	24.80%	492	24.80%
Health insurance – employer	82	9.00%	178	9.00%
Gross salary	907	100.00%	1 983	100.00%
Personal income tax before standard tax deduction*	136	15.00%	297	15.00%
Personal income tax after standard tax deduction**	32		193	
Employees’ contributions	105	11.60%	230	11.60%
Net salary	770	84.87%	1 560	78.65%

* The 15% tax rate is applied to the gross salary up to an annual income of EUR 71 389 (or EUR 5 949 monthly); the income above is taxed at 23%.

** Each individual is entitled to deduct a lump sum of CZK 2 570 (app. EUR 104) per month from his/her tax liability (the so-called “standard tax deduction”).

Taxation

Anti-avoidance rules

Thin capitalisation rules

Under Czech tax law, **interest expenses on loans or credits provided by related parties are not tax-deductible** if, during the taxable period, the **total amount of such loans exceeds four times the equity of the borrower** (a debt-to-equity ratio of four times the equity of the borrower if the borrower is a bank or an insurance company).

Excessive Borrowing Costs (interest limitation)

Under Czech law, **excessive borrowing costs are tax deductible only up to a statutory limit**, which is set at the higher of:

- 30% of tax EBITDA (i.e. tax profit before corporate income tax, net interest and depreciation); or
- CZK 80 million (approximately EUR 3.2 million) per taxable period.

The Czech Income Tax Act allows taxpayers to **carry forward disallowed borrowing costs** without time limitation. Such carried forward costs may be **deducted in future taxable periods** in which the taxpayer's excessive borrowing costs **do not exceed the applicable limit**.

Controlled Foreign Company (CFC) Rules

When determining its tax base, the controlling company **must take into account the so-called included revenues earned by the controlled foreign company**. These revenues typically comprise licence fees and royalty income, dividend income, income from the sale of ownership interests (shares), income from the sale of goods and the provision of services to or from related parties, as well as income from insurance, banking, financial leasing and other financial services.

The included revenues are incorporated into the tax base of the controlling company in proportion to its share in the capital of the controlled foreign company.

Exit taxation

Exit tax rules were introduced to **prevent companies from moving assets out of the Czech Republic to avoid taxation on future gains**. The tax is imposed on the **market value of transferred assets** at the time of exit, at the **standard corporate income tax rate (21%)**.

DAC6

The Czech Republic has implemented the DAC6 EU Directive, **requiring the reporting of certain cross-border arrangements where the implementation may result in a tax advantage**. The first reporting deadline was 31 January 2021.

DAC7

The Czech Republic has implemented the DAC7 EU Directive, **which requires operators of digital platforms within the EU to report information on sellers using their platforms**. The directive applies to platforms facilitating activities such as the rental of immovable property (both residential and commercial), the rental of means of transport, the provision of personal services, and the sale of goods. The first reporting period was 2023, with a first reporting deadline of 31 January 2024.

Hybrid Mismatch Rules

The Czech Republic has implemented **hybrid mismatch rules** in line with the **EU Anti-Tax Avoidance Directive** to neutralise tax advantages arising from **differences in the tax treatment of entities, financial instruments, or permanent establishments** across different tax jurisdictions (within the EU or with non-EU countries) that would exploit differences in the legal classification of entities or financial instruments to achieve **non-taxation or double deduction**.

Double Taxation Treaties

Relief from **international double taxation** is available under the **applicable double taxation treaty** concluded by the Czech Republic, either through the **tax credit method** or the **exemption method**.

If foreign tax cannot be fully credited under the applicable treaty limits, the **unused portion of foreign tax** may generally be treated as a **tax-deductible expense** in the **following taxable period**, in accordance with the Czech Income Tax Act.

Work permits and visas

Visas

EU citizens with a valid passport or national ID card do not need a visa to enter the Czech Republic or to stay there. If, however, their stay exceeds thirty consecutive days, they must register with the Czech Foreigners' Police. Non-EU citizens from particular countries may be obliged to apply for a visa before entering the Czech Republic and, even if there is no visa obligation for visiting the Czech Republic for tourist purposes stipulated for the citizens of a particular non-EU/EEA country, in most cases they need to have the relevant visa in order to be entitled to work here.

Work permits

EU and EEA citizens do not need a work permit to work in the Czech Republic.

UK citizens who newly arrive to work in the Czech Republic after 31 December 2020 are subject to the conditions which apply to non-EU/EEA citizens.

Non-EU/EEA citizens generally need to obtain a work permit (with certain exemptions, such as a spouse of an EU/EEA citizen, a holder of a degree from a Czech university, etc.). Nevertheless, the Czech employer has a reporting duty towards the Czech Labour Office regarding the employment of foreigners entitled to work without a work permit. Such a report must be filed no later than on the date of the commencement of employment. For the employment by Czech employers, the work permit has been replaced by an "Employee Card", or a "Blue Card", a dual permit combining the work and residence permit in one document. While the Employee Card represents the standard permit obtainable by all employees, the Blue Card has been designed for highly qualified employees who reach a certain minimum level of salary. The Czech legislation has also introduced such a dual permit, an "Intra Company Transfer Card", also for the employees and executives who are assigned by their foreign employers to perform their activity in a Czech company belonging to the same group.

There is also a special "digital nomad" immigration regime for nationals from Australia, Brazil, India, Israel, Japan, Canada, Mexico, New Zealand, Singapore, the United Kingdom, the United States of America, South Korea and Taiwan to work remotely for their foreign employer in the Czech Republic or work as self-employed IT professionals in the Czech Republic with a Czech trade licence. The Czech Republic has also introduced special fast track immigration regimes to help make it easier for highly skilled individuals, key and scientific personnel, and skilled workers for understaffed sectors to obtain the necessary permits to work in the Czech Republic.

Residence permits

EU/EEA citizens have to register at the Foreigner's Police if their stay in the Czech Republic exceeds thirty consecutive days. Alternatively, they can apply for a residence confirmation for an EU/EEA citizen, which is valid for a longer period.

UK citizens who first start to reside in the Czech Republic after 31 December 2020 are subject to the conditions which apply to non-EU/EEA citizens.

Nationals from non-EU/EEA countries must have a short-term (up to 90 days of stay) or long-term (up to six months of stay) residence visa covering the purpose of their stay from the beginning of their presence in the Czech Republic, which is issued by a Czech embassy in the country of their residence or in certain cases by any Czech embassy. The long-term residence visa can subsequently be extended and converted into a non-dual Employee Card issued by the Czech Ministry of Interior or into any of the above-mentioned dual permits in the case of employees, or into a long-term residence permit for individuals residing in the Czech Republic for a different purpose.

Audit and accounting

The area of accounting is governed in the Czech Republic by **Act No. 563/1991 Coll., on Accounting**, which also specifies entities with an obligatory statutory audit. The Act on Accounting is supplemented by the following regulations:

- Decree implementing the Act on Accounting for entrepreneurs using double-entry bookkeeping
- Decree on the implementation of the Act on Accounting for banks
- Decree on the implementation of the Act on Accounting for insurance companies
- Decree on the implementation of the Act on Accounting for health insurance companies
- Decree on the implementation of the Act on Accounting for accounting entities whose main activity is not business (non-profit making entities)
- Czech Accounting Standards.

The obligation to keep accounts in line with Czech accounting legislation applies to **accounting units**, namely legal entities having a registered office in the Czech Republic; foreign entities, if they are

doing business in the Czech Republic or carrying on another activity under specific legislation; organisational elements (establishments) of the state; natural persons - entrepreneurs specified in the law; trust funds and other investment funds.

Entities with securities traded on a regulated market within the European Union must use International Financial Reporting Standards as adopted by the EU (IFRS) for bookkeeping and the preparation of financial statements instead of Czech accounting rules. Consolidating entities and their subsidiaries can voluntarily use IFRS for bookkeeping and the preparation of their individual and consolidated financial statements based on the rules described in the law.

The amendment to the Accounting Act effective from 3 September 2025 modified the criteria regarding the classification of the accounting entities into micro, small, medium and large accounting units. This division has an impact on the different obligations when maintaining accounts, preparing the financial statements, or publishing financial information.

Category of accounting unit	Criteria to fulfil	Total net assets in TCZK	Total annual net turnover in TCZK	Average number of employees during accounting period
Micro	As at the balance sheet date it does not exceed at least two of the specified limits	11 000	22 000	10
Small	It is not a micro accounting unit and as at the balance sheet date it does not exceed at least two of the specified limits	120 000	240 000	50
Medium	It is neither a micro nor small accounting unit and as at the balance sheet date it does not exceed at least two of the specified limits	600 000	1 200 000	250
Large	As at the balance sheet date it exceeds at least two of the specified limits	600 000	1 200 000	250



Audit and accounting

A public-interest entity, among others, is always considered to be a large accounting unit. A public-interest entity is considered to be an accounting unit with its registered office in the Czech Republic that is an issuer of securities accepted for trade on the European regulated market, a bank or a savings and credit cooperative, an insurance or reinsurance company, a pension company, a health insurance company or a systemically important securities traders.

Financial statements under Czech accounting regulations are compiled at the balance sheet date which could be a calendar or business year and consist of:

- a balance sheet;
- a profit and loss statement;
- notes explaining and supplementing the information contained in the balance sheet and the profit and loss statement;
- for medium and large entities, a cash-flow statement and statement of changes in equity.

All legal entities must hold an **annual General Meeting of shareholders** where the financial statements are approved and the shareholders' decisions on the profit or loss and other topics are adopted. The shareholders are also responsible for preparing the **related parties report**, in which a comprehensive presentation of the controlled entity's position in the structure of the group of related parties must be provided.

Accounting units that are obliged to have their accounts verified by an auditor must also prepare an **annual report**.

The financial statements and the annual report must be published in the **Commercial Register**. Accounting units must archive financial statements and annual reports for at least ten years and other accounting records for five years. Documentation related to payroll must be archived for up to 45 years.

The following entities must have the regular or extraordinary financial statements verified by an independent auditor, who must be appointed by the General Meeting:

- a) large accounting units (except selected accounting units that are not public-interest entities);
- b) medium accounting units.

The audit profession in the Czech Republic is regulated by the Act on Auditors and all statutory auditors must be certified and registered by the Chamber of Auditors of the Czech Republic. The Public Audit Oversight Board is the independent institution which supervises the Chamber of Auditors of the Czech Republic and the activities of auditors.

The audit of accounts is carried out in accordance with the **International Standards on Auditing (ISA)** and application guidelines issued by the Chamber of Auditors.

Accounting units are allowed to keep their accounts not only in the Czech currency (CZK), but also in EUR, USD or GBP, provided that it is a functional currency, i.e. a currency that corresponds to the primary economic environment in which the accounting entity operates, based on International Accounting Standard 21 (IAS 21).

Even if the tax base and income tax are determined on the basis of results in a foreign currency, the tax amount will be converted into Czech currency for the purposes of payment and administration of the tax.

The introduction of a functional currency is possible from the first day of the accounting period. Conversely, a switch back to the Czech currency is not possible unless this foreign currency ceases to be a functional currency.

Consolidated financial statements are prepared for a group of companies that are linked by ownership; the aim is to report the outputs of several companies as if they were a single company.

A group of companies consists of a controlling entity (consolidating entity) and controlled entities, i.e., consolidated entities, which the Accounting Act classifies into small, medium, and large groups. Medium and large groups are required to prepare consolidated financial statements. For this classification, three criteria are examined: asset value, net turnover, and the average number of employees.

Audit and accounting

The Accounting Act also defines categories of groups of accounting units:

Category of group of accounting units	Criteria to fulfil	Total assets in TCZK	Net turnover in TCZK	Average number of employees during accounting period
Small	As at the balance sheet date it does not exceed at least two of the specified limits on a consolidated basis	120 000	240 000	50
Medium	It is not a small group and as at the balance sheet date it does not exceed at least two of the specified limits on a consolidated basis	600 000	1 200 000	250
Large	As at the balance sheet date it exceeds at least two of the specified limits on a consolidated basis	600 000	1 200 000	250

There are exceptions to the obligation to prepare consolidated financial statements, one of which is, for example, a group of companies within the Czech Republic that is also included in a higher consolidation unit within the EU. In this situation, there is no obligation to prepare separate consolidated financial statements for the Czech Republic. In this case, however, the company must ensure that the consolidated financial statements are translated into Czech and published.

An accounting entity does not have to be included in the consolidation, in particular if:

- it is not possible to obtain information about the controlled company;
- the controlling company holds shares in the controlled company solely for the purpose of sale;
- the controlling company controls only insignificant enterprises, and therefore its consolidated financial statements would not differ from the individual financial statements; or
- the controlling company does not have the possibility to exercise voting rights in the controlled company.

The consolidating accounting unit is not obliged to draw up consolidated financial statements if the consolidating accounting unit only controls such consolidated accounting units that are, both individually and collectively, immaterial, or if its consolidated accounting units may be excluded from consolidation based on the above-mentioned conditions.

The consolidating entity is required to notify the entities included in the consolidation in a timely manner that they will be consolidated. At the same time, it must provide them with information on the definition of the consolidation group and specify which accounting records and other documents these entities are required to provide to the consolidating entity for the preparation of the consolidated financial statements.

Pay transparency directive

In 2023, the European Union adopted **Directive (EU) 2023/970 on Pay Transparency**, introducing significant new obligations aimed at **strengthening the principle of equal pay for equal work or work of equal value between men and women**.

EU Member States, including the **Czech Republic**, are required to **transpose the Directive into national legislation by 2026**.

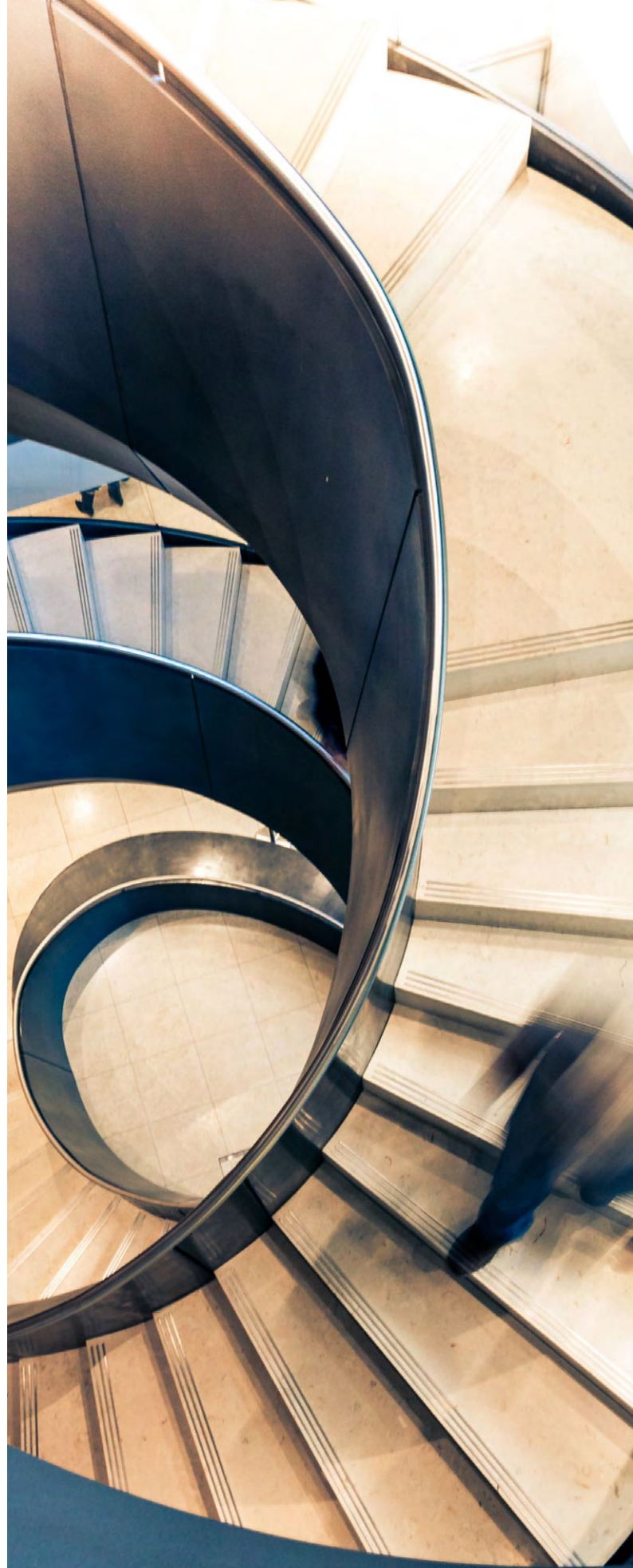
The Directive is designed for employers to:

- **reduce the gender pay gap;**
- promote **equal working and pay conditions;**
- **increase pay transparency** within organisations;
- strengthen **enforcement mechanisms** and **employee rights;**
- introduce **mandatory pay gap reporting** based on uniform rules.

The reporting obligation will be introduced **in stages, based on employer size:**

- **first wave** for employers with **more than 150 employees**; first reporting calendar year **2026**;
- **second wave** for employers with **100-149 employees**; first reporting calendar year **2030**.

Smaller employers are not subject to mandatory reporting but may still be indirectly affected through transparency and information obligations.



ESG reporting

In the Czech Republic, according to the **Accounting Act**, there is an obligation to prepare a sustainability report for defined large entities and businesses that are public interest entities (if they exceeded an average calculated number of employees of 500 for the accounting period). These companies must publish their sustainability report together with their annual reporting documents.

For companies with more than 1 000 employees and €450M net turnover first reports are expected for financial years ending in 2027 (published in 2028).

The sustainability report must be prepared in accordance with **European Sustainability Reporting Standards**. Companies must assess dual materiality and, based on the results, determine the areas that must be reported. Areas not included in the reporting must be described, including the reasons for their omission.

To successfully fulfill their reporting obligations, it is essential for companies to map all economic activities, compare them with those listed in the **EU Taxonomy Regulation** and adhere to the established rules and procedures for the calculation and disclosure of key indicators (turnover, capital expenditures (CapEx), and operating expenses (OpEx) related to identified sustainability activities) in the required division into eligible and alignment activities.





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