



GLOBAL  
EMPLOYER  
GUIDE

# CZECH REPUBLIC





## Basic Country Facts

### Full Name

- Czech Republic

### Capital

- Prague

### Main Languages

- Czech (96%)
- Slovak
- German
- Polish
- Romany

### Population

- 10.65 million

### Monetary Unit

- Czech koruna

### Internet Domain

- .CZ

### International Dialing Code

- +420

### Currency

- Czech koruna

# STATUTORY LABOR REQUIREMENTS

## Probation Period

- An employment agreement may include a trial, or probationary, period of up to:
  - three consecutive months following the date of commencement of the employment relationship in cases of non-managing employees
  - six consecutive months following the date of commencement of the employment relationship in cases of managing employees

## Annual Leave

- The basic annual leave period is four weeks (20 working days) for all categories of employees employed in the private sector; however, in many cases this period is voluntarily extended by the employer to five weeks.

## Public Holidays

- New Year's Day (1st January)
- Restoration Day of the Independent Czech State (1st January)
- Good Friday (10th April)
- Easter Sunday (12th April)
- Easter Monday (13th April)
- Labor Day (1st May)
- Victory in Europe Day (8th May)
- Saints Cyril and Methodius Day (5th July)
- Jan Hus Day (6th July)
- St. Wenceslas Day (28th September)
- Independent Czechoslovak State Day (28th October)
- Struggle for Freedom and Democracy Day (17th November)
- Christmas Eve (24th December)
- Christmas Day (25th December)
- 2nd Day of Christmas (26th December)



## Maternity Leave

- A female or male employee is entitled to 28 weeks' maternity/paternity leave to care for the female employee's newly born child.
- If the female employee has given birth to two or more children as a result of a single pregnancy, the female or male employee is entitled to 37 weeks' maternity/paternity leave.
- The maternity leave cannot be shorter than 14 weeks and cannot be terminated earlier than six weeks following the birth of the child.

## Paternity Leave

- The father of a newborn child is entitled to a special leave of up to seven calendar days, which must start within the first six weeks following the birth of the child.
- In this situation, employees are not entitled to a salary or salary reimbursement; they are entitled to a benefit from the social security authority

## Sick Leave

- Thus, as of 1 July 2019, the employee will receive a salary reimbursement from the employer (the salary reimbursement is based on a significantly capped salary) for an entire period of the first 14 calendar days of the sick leave.
- From the 15th calendar day of sickness of the employee, the employee receives a sickness payment from the Czech Social Security Office.

## Work Hours

- Normal weekly working hours are 40 hours per week. The length of normal weekly working hours of certain categories of employees (e.g., on a two-shift, three-shift or continuous work schedule) is reduced by the Code.
- The employer is obliged to schedule working hours and determine the start and end of shifts.
- Generally, the maximum length of a shift must not exceed 12 hours

## Overtime

- For overtime work, employees are entitled to their salary for the work performed, and in addition either:
  - a premium of at least 25% of their average earnings, or
  - instead of the premium for overtime work, unpaid time in lieu up to the amount of overtime hours

## Notice Period

- This notice period is a minimum of two months for both the employer and employee.
- Notices of termination must be given in writing and delivered to the other party; otherwise they are null and void.
- If a notice of termination has been given, the employment relationship ends with the expiration of the notice period.
- Generally, the notice period begins on the first day of the calendar month following delivery of the notice of termination and ends on the last day of the appropriate calendar month



## Severance

- An employee is entitled to a severance payment when his/her employment is terminated in one of the following situations (under Sections 52 (a), (b) and (c) of the Code):
  - if the employer or a portion of the employer's organization is dissolved
  - if the employer or a portion of the employer's organization is relocated
  - if the employee is made redundant due to a decision of the employer or the respective body to change the employer's tasks or technical set-up, to reduce the number of employees for the purpose of raising work productivity, or to make other organizational changes
- In these situations, an employee is entitled to a severance payment in the following amounts:
  - one of his/her average monthly earnings if the employment relationship lasted for a period of less than one year
  - two times his/her average monthly earnings if the employment relationship lasted for a period of at least one year, but less than two years

## 13th Month

- It is not mandatory by law
- Many companies chose to give a 13th month bonus

## Income Tax

- Generally, Czech tax residents are liable to declare and pay tax in the Czech Republic on their worldwide income, that is employment income, income from self-employment, rental income, investment income and capital gains, and other taxable income.
- Tax non-residents are generally taxed only on income considered Czech-source income.
- For 2019, the personal income tax (PIT) rate is 15%.
- There are no local taxes on income in the Czech Republic.
- From 1 January 2013, in addition to standard 15 percent flat rate, a 7 percent solidarity tax increase is imposed on annual gross income (sum of gross employment income and taxable self-employment income/or reduced by the actual tax loss from self-employment income) exceeding 1,569,552 Czech Koruna (CZK) (amount applicable for 2019).
- In the case of employees on Czech payroll, the solidarity tax increase is applied monthly on income exceeding 1/12 of the above annual threshold as an advance payment.
- Other income except for employment and self-employment income is taxed at 15 percent.

Income Tax Rates	
Personal Income Tax	
Solidarity Tax	



## Social Security

- Social security taxes are obligatory for an individual employed by a Czech company. Most secondees working in a Czech company are obligated to pay Czech social security and health insurance unless the European Union (EU) regulation or social security treaty states otherwise.
- Social security contributions provide funding for three separate funds: pensions, unemployment benefits, and sickness (together with other benefits). Entrepreneurs can choose whether to contribute to the sickness fund.
- Health insurance covers medical care. An individual can choose the licensed company to which one will pay health insurance contributions.
- Mandatory contributions are calculated from the individual's gross remuneration, including most of one's benefits and allowances. Income that is subject to income tax is generally subject to contributions into the social security and health insurance system.

### Social Security Contribution Rates

- The contribution rates for the employer are 25% (lowered to 24.8% from 1 July 2019) for social security and 9% for health insurance. The contribution rates for the employee are 6.5% for social security and 4.5% for health insurance.
- The maximum annual cap for the assessment base for calculation of contributions into the social security system is 48 times the average monthly wage per year (i.e. CZK 1,569,552 for 2019). This cap applies to both employees and entrepreneurs.

- As of 2013, there is only a cap for social security contributions. The limit for the payment of insurance premiums for public health insurance was cancelled.

Social Security Contributions Rates		
Contribution	Employer (%)	Employee (%)
<b>Social Security</b> <ul style="list-style-type: none"> <li>• Pensions</li> <li>• Unemployment Benefits</li> <li>• Sickness</li> </ul>	25%	6.5%
<b>Health Insurance</b>	9%	4.5%



## Deductible Expenses

- Generally, with the exception of employment income, necessary expenses incurred in earning income are deductible from income.
- Normally, deductions will be based on the actual expenditure incurred; however, for certain categories of income, a fixed percentage of gross income may be claimed as a deduction (e.g. lump-sum deductions of 80% for agricultural income or craft activities, 60% for a limited number of trading and entrepreneurial activities, 40% for activities pursuant to the special statutory provision, 30% for renting a property).

### Personal Deductions

- Personal tax base and tax deductions are generally available for Czech tax residents. Tax non-residents should have at least 90% of worldwide income from Czech sources to utilize them.
- Donations provided to certain organizations or individuals for the purpose of financing science, education, culture, etc. are deductible for an individual up to a maximum of 15% of the tax base, provided the total value of the donations exceeds 2% of the tax base or is at least CZK 1,000. Blood donation is also considered a form of charitable donation, which is valued at CZK 3,000 per one blood collection.
- For interest paid on a mortgage, a deduction is applicable at up to CZK 300,000 per year under several strict conditions.



- For private contributions paid on private life insurance, a deduction is applicable at up to CZK 24,000 per year under certain conditions.
- For private contributions paid to a private pension insurance fund, a deduction is applicable at up to CZK 24,000 per year under certain conditions.

### Business Deductions

- Deductible expenses for an entrepreneur are generally the same as those permitted under the corporate income tax system (see the Deductions section in the Corporate summary). For example, fixed assets can be depreciated in accordance with statutory rates.
- Czech legislation also allows entrepreneurs to deduct travel expenses (within statutory limits), insurance costs, and research and development (R&D) expenditure.



## Deductible Expenses

### Charitable Contributions

- Donations provided to certain organizations or individuals for the purpose of financing science, education, culture, etc. are deductible for an individual up to a maximum of 15% of the tax base, provided the total value of the donations exceeds 2% of the tax base or is at least CZK 1,000.
- Blood donation is also considered a form of charitable donation, which is valued at CZK 3,000 per one blood collection.

### Mortgage interest deduction

- For interest paid on a mortgage, a deduction is applicable at up to CZK 300,000 per year under several strict conditions.

### Life insurance premiums

- For private contributions paid on private life insurance, a deduction is applicable at up to CZK 24,000 per year under certain conditions.

### Private pension insurance

- For private contributions paid to a private pension insurance fund, a deduction is applicable at up to CZK 24,000 per year under certain conditions.

# Immigration

- Employment visa is required for all non EU nationals seeking employment in the Czech Republic
- The two Types of employment permits are an employee card and EU Blue card
- Employee Card:
  - The permit is valid for a maximum of 2 years and it can be renewed
  - Applicants are required to submit an employee contract of at least 15 hours a week and with a salary above the legal minimum wage
  - Employers that wish to hire foreign employees must firstly report the vacancy to the Labor Office. If the vacancy has not been fulfilled within 30 days of being declared, it automatically goes into the register of vacancies available for foreigners
- EU Blue Cars:
  - The blue card is issued to workers with higher professional or university education who have an employment contract for at least one year, for the statutory weekly work hours, and who have an agreed upon gross monthly or annual salary amounting to at least a 1.5 multiple of the gross annual salary in the Czech Republic announced in a Ministry of Labor and Social Affairs communication.
  - The blue card is valid for the term of employment set in the employment contract plus 3 months, but to a maximum of 2 years.
- An application for an EU Blue Card is to be filed by a foreign national at an embassy, or when locally present, at the Ministry of the Interior (Department for Asylum and Migration Policy) offices in the territory of the Czech Republic.
- If you have resided in the Czech Republic on the basis of a long-term visa or a long-term residence permit, or if you hold a Blue Card from another EU Member State, you can apply for the Blue Card in Czech Republic at the right office.



Type of Visa/ Permits	Documentation	Validity	Eligibility
<b>Employee Card</b>	<ul style="list-style-type: none"> <li>• Visa application</li> <li>• 2 photos passport</li> <li>• Proof of sufficient financial means</li> <li>• Employment contract</li> </ul>	Maximum 2 years	<ul style="list-style-type: none"> <li>• Employees wanting long term employment</li> <li>• Applicants are required to submit an employee contract of at least 15 hours a week and with a salary above the legal minimum wage</li> </ul>
<b>EU Blue Card</b>	<ul style="list-style-type: none"> <li>• Bachelor or Master's Degree</li> <li>• Valid Passport</li> <li>• Application Form</li> <li>• Proof of Health</li> <li>• Insurance</li> </ul>	Maximum 2 years	<ul style="list-style-type: none"> <li>• High-skilled workers</li> <li>• Employees who have an agreed upon gross monthly or annual salary amounting to at least a 1.5 multiple of the gross annual salary in the Czech Republic announced in a Ministry of Labor and Social Affairs communication.</li> </ul>



## Value Added Tax (VAT)

- VAT is generally charged at 21% on supplies of goods and services within the Czech Republic. Certain supplies (e.g. groceries, accommodation, construction works related to social housing) are taxed at a rate of 15%, and a second reduced rate of 10% is applicable for specified categories of goods (some medicaments, books, newspapers and as of 1 January 2020 also support of heat and cold).
- From 1 May 2020, the second reduced VAT rate of 10% is applicable also for drinking water, catering services, soft drinks and draft beer, shoe and clothing repairs, hairdresser services, e-books, etc.
- Exports are generally exempt from VAT with a credit. Some supplies are exempt without a credit, including the lease of real estate (with certain exceptions), financial and insurance services, education, health, and welfare.

VAT Rates	
General Rate	21%
Reduced Rate	15% 10%

## Withholding Tax

### Dividends

- Dividends paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under an applicable tax treaty
- A 35% rate applies where the dividends are paid to a resident of a tax haven
- Dividends paid to a resident that do not qualify as exempt are subject to a 15% withholding tax

### Interest

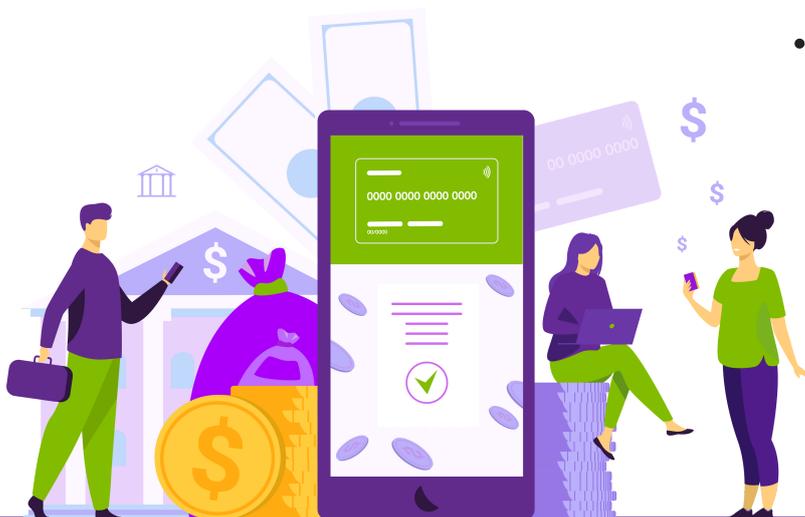
- Interest paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under an applicable tax treaty
- A 35% rate is levied on interest paid to a resident of a tax haven

### Royalties

- Royalties paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty or an exemption applies under the EU interest and royalties' directive.
- A 35% rate applies where royalties are paid to a resident of a tax haven

### Technical Service Fees

- Income paid to a nonresident for technical services provided in the Czech Republic is subject to a 15% withholding tax
- A 35% rate applies if it is made to a resident of a tax haven



## Withholding Tax

<b>Dividends</b>	<ul style="list-style-type: none"><li>• Dividends paid to a nonresident are subject to a 15% withholding tax</li><li>• A 35% rate applies where the dividends are paid to a resident of a tax haven</li><li>• Dividends paid to a resident that do not qualify as exempt are subject to a 15% withholding tax</li></ul>
<b>Interest</b>	<ul style="list-style-type: none"><li>• Interest paid to a nonresident are subject to a 15% withholding tax</li><li>• A 35% rate is levied on interest paid to a resident of a tax haven</li></ul>
<b>Royalties</b>	<ul style="list-style-type: none"><li>• Royalties paid to a nonresident are subject to a 15% withholding tax</li><li>• A 35% rate applies where royalties are paid to a resident of a tax haven</li></ul>
<b>Technical Service Fees</b>	<ul style="list-style-type: none"><li>• Income paid to a nonresident for technical services provided in the Czech Republic is subject to a 15% withholding tax</li><li>• A 35% rate applies if it is made to a resident of a tax haven</li></ul>

## Termination

- The Code, which came into effect as of 1 January 2007, constitutes the principal legislative act governing employment relationships in the Czech Republic. Under the Code, an employment relationship may be terminated by agreement; by termination notice; by immediate cancellation; or by termination during the trial period. These circumstances of termination are explained in more detail below. An employment relationship concluded for a fixed term may also be terminated by the expiry of the agreed term.
- If an employer and employee agree to terminate an employment relationship, the employment relationship ends on the day agreed on.
- During the trial period, either the employer or employee may cancel the employment relationship in writing for any reason or without giving a reason.
- A fixed-term contract ends with the expiration of the employment term.
- On termination, an employee is entitled to receive his/her statutory or contractual (if longer) notice period; payment in lieu of any accrued but unused holiday entitlement; and, if applicable, a severance payment.



## Statutory Benefits

- These are mandatory benefits as prescribed by law
- Statutory benefits include annual leave, public holidays, maternity leave, paternity leave, sick leave, notice period and severance pay
- It also includes social security benefits such as pensions, unemployment benefits and sickness.
- It also includes health insurance benefits.

### Statutory Benefits

Annual leave

Public Holidays

Maternity Leave

Paternity Leave

Sick Leave

Notice Period

Severance Pay

Pensions

Unemployment benefits

Sickness benefits

Health Insurance

## Payments and Invoicing

- The tax return has to be submitted by 1 April of the following year, or 1 July if the return is prepared and submitted by a certified tax adviser or by a solicitor. In the latter case, a power of attorney in respect of the tax adviser must be submitted to the tax authority by 1 April upon which the deadline for submission of the tax return is automatically prolonged by 3 months (to 1 July).
- The deadlines for final tax payments are the same as for the tax return. The tax payment is transferred to the appropriate account of the tax authority under a unique tax identification number of the individual.
- In the case of foreigners, the tax identification number is generated by the tax authority upon registration.

## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Czech Republic ranked 41st in the World in 2019 in terms of ease of doing business.



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