



Doing Business in Czech Republic

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Franchising

Franchising is not so widespread in the Czech Republic as it is in other countries. It was not until 1991 that the first franchising systems entered the Czech market and the development in this field has been relatively slow. The main causes for the slow development in this area were the lack of legal regulation for franchising as well as the lack of awareness among Czech businessmen with regards to the same. At present, there are about 90 franchising systems in the Czech Republic, with nearly 1500 operational units, mainly in the field of boarding services. It is anticipated that newly developed banking products (specialised credits) would further contribute to the further development of franchising within the Czech Republic.

Corporate Forms

Business in the Czech Republic is primarily regulated by the Commercial Code. The Code allows for non-residents to make business under the same conditions and in the same scope as Czech residents. At the same time, the Commercial Code also provides to foreign legal incorporations the same rights and legal framework as provided to them in the country of their incorporation. In principle, foreign entrepreneurs do not face any obstacles in the conduct of business in the Czech Republic.

Partnerships

It is possible to conduct private business in the Czech Republic in various forms. In principle, one may choose to conduct the business as a partnership or choose to incorporate a company.

In the case of a partnership, one may choose to conduct business independently. In this case, a sole proprietorship would be established. If one chooses to conduct business together with other persons, he can choose to either form a partnership or an IPA.

Company Incorporation

In the incorporation of a company, there are various forms, which the company can take. These are :

- Limited partnership (KS)
- General commercial partnership (VOS)
- Private limited liability company (SRO)
- Joint-stock company (AS)
- European company (SE)
- European Economic Interest Grouping
- Cooperative (being no business company)

These companies can only be incorporated according to the Czech laws and, with exception of the SRO and AS, only for the purpose of doing business. Companies, which are already incorporated, may also found organisational units. These would however lack legal personality.

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Business companies, non-resident entities (except those from the EEA) and other entities stipulated by the law must be registered in the Commercial Register. The Commercial Register is a public list of entrepreneurs maintained by the register courts (at present by regional courts). The Commercial Register is also accessible to general public in the Internet.

In the late 2005, there were more than a quarter of million business companies registered in the Czech Republic. The main differences between particular types lie in the existence of registered capital, the amount of the registered capital and the extent of the liability of the company members. Except for several specific institutions such as banks and foreign insurance companies, there is no mandatory form, which a company would have to take in order to conduct business within the Czech Republic.

Private Limited Company (SRO)

The most popular corporate form is undoubtedly the private limited liability company. This form is popular due to the relatively low registered capital needed for incorporation (200.000 CZK) and to the fact that the members of such a company are not personally liable for the obligations of the company.

It is also possible for an individual to incorporate a SRO when he is entitled to conduct business on the basis of a trade authorisation and without the requirement to incorporate a company.

The SRO is the only business corporate structure in which it is sufficient to have one founder individual. All other corporate forms require at least 2 founders and also usually require members.

An exception to this general rule is the case of the AS, where the law allows for a single founder, when the founder is a corporate entity. Nevertheless, it is not excluded that such a company would be deemed to be a one-member SRO.

This legal restriction can be actually circumvented. The shares concentrated in the hands of a single person is however no reason for invalidity of the company or for a court to order for the company to be wound up.

All business companies are obliged to keep accounting books. Their financial statements and annual report must be audited and published in a determined manner.

Employment

Employment Regulations

Employment is regulated primarily by the Labour Code and secondarily by other legal regulations. Labour law consists mainly of mandatory regulations, which do not leave much room for exceptions.

Employment Contracts

Employment relations are established by an employment contract or by appointment. It is mandatory for an employment contract to contain details about the type of work, place of work and date of commencement of work. It is up to the contractual parties to include further details in the contract.

It is common for parties to agree on a probation period in an employment contract. The probation period cannot exceed 3 months. In the course of the probation period, both the employer and the employee have the right to terminate the employment by the service of 3 days' notice in advance, with or without cause.

The employment can be terminated by mutual agreement, by immediate discharge (which is rather exceptional) or by the service of notice of at least 2 months in advance. While the period of notice is the same for the employer and employee, the employer is however somewhat restricted in the legal causes of notice. This can sometimes bring about practical problems and complicate the business.

Trade Unions

Employees are entitled to form trade unions, to elect an employees' council and to elect a deputy for the field of safety and health protection at work. The employer is statutorily obliged to conduct discussions with such unions in relation to various issues and has relatively extensive disclosure obligations towards the unions.

Employment of Foreigners

Special regulations apply to employment of foreigners. To employ a non-EU foreigner, an employer needs a permit from the responsible job centre. The job centre monitors the labour markets and provides for various safeguards to ensure that jobs, which can be taken up by Czech citizens are not lost to such foreigners. A labour permit and the permit of stay is then required on the part of the foreigner. An invalid permit is a special cause for the termination of an employment. A much more benevolent approach is applied to employment of EU citizens. EU citizens are only required to inform the competent job centre as to their employment.

Labour-law disputes are resolved in the Czech Republic before trial courts. Special labour courts do not exist.

Property

Hire-purchase schemes and credits

Hire-purchase schemes and credits are popular means for Czech entrepreneurs to finance their business activities. In 2005, financial institutions lent in total about 600 billion CZK to business companies and the this figure is on the increase.

In the field of hire-purchase schemes, the finance lease is still the most popular form. When this product appeared on our market for the first time, the demand skyrocketed. Thereafter, the market gradually stagnated and entrepreneurs are now slowly beginning to incline towards operative leases. Although operative leases still do not account for more than 10 % of the hire-purchase market, it has shown a significant growth recently and is likely to play a more important role in the hire purchase market in the future.

Real Estates

Real estates can be acquired both by individuals and legal persons. The agreement to transfer real-estate property must be in written form. To acquire the ownership title, it is necessary to make a relevant entry into a special register, namely, the ca-

daster of real estates, which is run by the cadastral authorities. Small structures do not have to be registered in the cadaster. Registration is based on the agreement containing the registration clause.

In principle, residents can acquire real estate properties in principle without limitation. Certain conditions (such as a permit of stay for EU citizens, place of business on the territory of the Czech Republic or the acquisition alternatives, as specified for other persons) apply for non-residents, who want to acquire real property in the Czech Republic.

Taxes

There are in general two types of taxes in the Czech Republic, namely direct and indirect taxes. Direct taxes include income tax, real estate tax, real estate transfer tax, inheritance tax and gift tax and road tax. Corporate income tax is imposed at the rate of 24 %. Individual income tax is progressive and ranges between 12 % and 32 %. Individual income tax is applicable both to employees and self-employed persons. Only income generated within the Czech Republic is subject to such income tax. The road tax is only imposed if the vehicles are used for business.

Indirect taxes constitute a bigger part of state budget revenues as compared to direct taxes. They include the value added tax (VAT) and excise duties. The laws regulating these taxes have been harmonised with EU regulations. At the moment, VAT is generally imposed at 19 %, and at a reduced rate of 5 %. Excise duties are imposed on spirits, beer, wine and semi-products, mineral products and tobacco products. The tax duty arises upon the manufacture or import of such products. The rate of taxation is calculated by applying the determined rate, according to the particular quantity of the product.

It should be noted that the tax regulations contain a large number of exceptions. These make the law somewhat incomprehensive and complex. This is one of the reasons why the so-called equal tax is very current at the moment.

The Czech Republic is also a party to many international conventions on elimination of double taxation and has entered into such agreements with all of its neighbouring countries.

Investments

The Czech Republic is undoubtedly an attractive place for foreign investors thanks to its strategic position, skilled work force, relatively low costs and other benefits. With accession to the EU, its attractiveness has grown even more. Income tax relief, subsidies and various supports (e.g. for training and retraining courses etc.) are still attracting a lot of direct foreign investments, predominantly from Europe. The Czech Republic has also concluded a lot of international treaties on protection and support of investments.

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