



GLOBAL EXPANSION GUIDEBOOK CORPORATE

Czech Republic



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INTRODUCTION

Welcome to the 2024 edition of DLA Piper's *Global Expansion Guidebook – Corporate*.

GLOBAL EXPANSION GUIDEBOOK SERIES

To compete and be successful today, companies need to develop and scale their businesses globally. Each country presents its own set of unique laws, rules and regulations and business practices that companies must understand to be successful. In order to help clients meet the opportunities and challenges of expanding internationally, we have created a handy set of global guides that cover the basics companies need to know when going into and doing business in new countries. The *Global Expansion Guidebook* series reviews business-relevant corporate, employment, intellectual property and technology, executive compensation, and tax laws in key jurisdictions around the world.

CORPORATE

The *Global Expansion Guidebook – Corporate* has been created based on our research, our experience and feedback we have received from clients in both established and emerging businesses that have expanded internationally. We hope it will be a helpful resource for you.

The *Global Expansion Guidebook – Corporate* covers corporate basics in 54 key jurisdictions across the Americas, Asia Pacific, Europe and the Middle East. We touch on a wide range of corporate issues for companies expanding internationally, including establishing a corporate presence and choice of entity, liability considerations, tax presence and tax filings, capital requirements, the formation process, director, officer and shareholder requirements, registration processes, office lease processes and possible exit strategies.

With more than 600 lawyers, DLA Piper's global Corporate group is one of the largest in the world, with one of the widest geographical footprints of any global law firm and experience across the legal areas companies need as they expand internationally. With both global experience and local knowledge, we partner with our clients wherever they do business to find solutions and manage their risk in relation to their challenges and objectives.

While this guide provides high-level guidance, it is not a substitute for legal advice, and we encourage you to seek advice regarding the specific matters that concern you. If you wish to speak to any of our contributors, you may find their contact details at the end of the guide.

We hope you find this guide valuable, and we welcome your feedback.

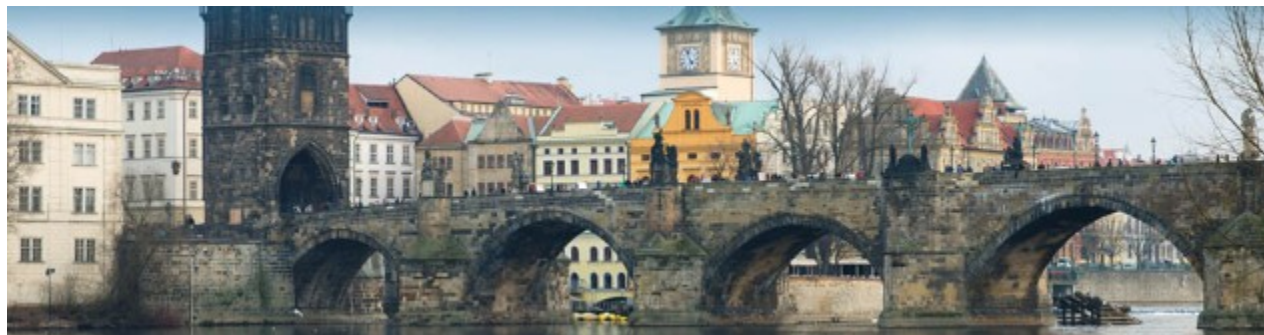
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CZECH REPUBLIC



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FORM OF ENTITY

Unlimited partnership (*veejná obchodní společnost, v.o.s.*)

A company in which at least 2 partners run their business under a common business name and are liable for all the partnership's debts to the full extent of their assets. Company does not need to have any registered capital. Monetary contributions of the shareholders to the company are voluntary. Each partner has a right to manage a partnership within the guidelines agreed by partners. 1 or more partners may, however, be entrusted with management responsibilities. All decisions are made jointly by all partners, unless articles of association stipulate that a majority vote is sufficient. Transfer of ownership interest is currently forbidden (may be inherited or may pass to a successor in title if permitted by the memorandum of association).

Limited partnership (*komanditní společnost, k.s.*)

A company with 1 or more partners who are liable for the debts of the company to the full extent of their assets (unlimited partners), and 1 or more partners who are liable for the debts of the company up to the amount of their unpaid capital contributions (limited partners). A limited partner must contribute to the registered capital of a company in the amount provided for in the partnership contract. Unlike unlimited partners, limited partners are able to transfer their ownership interests. The limited partner must provide a monetary contribution.

Limited liability company (*společnost s ručením omezeným, s.r.o./spol. s r.o.*)

Separate and distinct legal entity. Managed by 1 or more managing directors who are responsible for making major business decisions and overseeing general affairs of a corporation as well as the day-to-day operations of a stock corporation. One of the most common types of company in the Czech Republic. Registered capital consists of contributions by shareholders who are jointly and severally liable for the debts of a company up to the amount of the sum of their unpaid contribution to the registered capital. The company is liable for its debts to the full extent of its assets. A supervisory board may also be established; however, it is not mandatory.

Joint stock company (*akciová společnost, a.s.*)

Separate and distinct legal entity. Registered capital consists of shares with a certain nominal value. It is liable for its debts to the full extent of its assets. The governance system may be 2-tier with a board of directors (*pedstavenstvo*) and supervisory board (*dozorí rada*) or single-tier with an administrative board (*správní rada*). The

company may issue registered or bearer shares. Bearer shares can be, however, issued only as dematerialized shares registered by the securities depository.

ENTITY SET UP

Limited liability company

- Unlimited number of shareholders allowed (limited only by the number of shares since 1 share must at least correspond to CZK1 unless articles stipulate otherwise).
- Taxed on its earnings at a corporate level, and shareholders are taxed on any distributed dividends.
- Minimum stated capital: none prescribed; however, 1 share must at least correspond to CZK1.
- Single-tier management (or 2-tier board system, if supervisory board is set up), depending on the size of the company. Management is responsible for the day-to-day management; the supervisory board, if established, supervises management and grants its consent (in some cases mandatory) to certain business and transactions.
- Typical charter documents include:
 - Articles of incorporation
 - Organizational resolutions by managing directors, if applicable, the supervisory board and AGM /EGM and
 - List of shareholders.
- Share of each shareholder is registered with the Czech commercial register; share certificates may be issued.
- Depending on the size (established by the balance sheet total, turnover and number of employees), annual financial statements must be audited by an auditor and filed with the Czech commercial register.

Joint stock company

- In theory, unlimited number of shareholders.
- Taxed on its earnings at a corporate level, and shareholders are taxed on any distributed dividends.
- Minimum stated capital: CZK2 million or EUR80,000.
- Governance system may be 2-tier with a board of directors (*predstavenstvo*) and supervisory board (*dozorci rada*), or single-tier with an administrative board (*správní rada*); the first arrangement is more common.
- Typical charter documents include:

- Articles of incorporation and
- Organizational resolutions by the management board, supervisory board and AGM/EGM.
- Shares must be either registered shares or, if bearer shares, then issued only as dematerialized shares registered by securities depository.
- Depending on the size (established by the balance sheet total, turnover and number of employees), annual financial statements must be audited by an auditor and filed with Czech commercial register.

MINIMUM CAPITAL REQUIREMENT

Limited liability company

There is a minimum of CZK1.

Joint stock company

There is a minimum of CZK2 million or EUR80,000.

LEGAL LIABILITY

Limited liability company

Shareholders of a limited liability company are generally not liable for the debts of a company if the sum of their contributions to the registered capital have been fully paid up.

Joint stock company

Shareholders of a stock corporation are generally not liable for the debts of a corporation aside from their financial contribution to the corporation.

TAX PRESENCE

A stock corporation or limited liability company is taxed at 2 levels: First, the company pays a corporate income tax on its corporate income; then, a company distributes profits to shareholders, who then pay income tax on those dividends (to be withheld by the company upon payment).

Companies are obliged to add value-added tax (VAT) to the prices of their goods or services and to invoice their customers accordingly.

INCORPORATION PROCESS

Limited liability company

Filing an application with a local court (registration court) for registration, together with the articles of association in the form of a notarial deed, which contains the appointment of the first managing directors, and a confirmation by a local bank that the stated capital has been paid. The online template of the articles of association published by the Ministry of Justice can be used. If the stated capital does not exceed CZK20,000, the confirmation by bank is not required. It is no longer necessary to obtain a trade license before the company is formed, therefore the trade license can be dealt with after registration in the Commercial Register.

Joint stock company

Filing an application with a local court (companies registry) for registration, together with articles of association in the form of a notarial deed, which contains the appointment of the first members of the management board and the supervisory board, and a confirmation by a local bank that the stated capital has been paid. It is no longer necessary to obtain a trade license before the company is formed; therefore the trade license can be dealt with after registration in the Commercial Register.

BUSINESS RECOGNITION

Well regarded and widely used. Joint stock company and limited liability company are the most commonly used forms of a corporate entity in Czech Republic.

SHAREHOLDER MEETING REQUIREMENTS

Shareholders are required to hold at least 1 annual meeting to vote on certain items, such as approval of financial statements, payment of dividends or coverage of losses and election of auditors. Meetings are required for usual decisions on appointment of members of the board of directors, supervisory board (as well as revocation of any appointment) and changes to the articles of association. Physical meetings are held or *per rollam* decision-making is chosen.

BOARD OF DIRECTOR MEETING REQUIREMENTS

Requirements depend on the respective articles of association. Any time a management decision is required, however, it can be (and usually is) quite informal.

ANNUAL COMPANY TAX RETURNS

Must annually file tax returns with tax authorities.

BUSINESS REGISTRATION FILING REQUIREMENTS

Initial registration as well as annual filings are required. Changes in recorded data of commercial register require registration.

BUSINESS EXPANSION

No need to change as business expands, unless any such expansion is not covered by articles of association. It is also possible to open up branches of a Czech entity in order to expand in Czech Republic. An autonomous branch office engages in business activities independently; a dependent branch office can make out invoices only in the name of the head office company. As a consequence, while an autonomous branch office is required to register, the dependent branch establishment does not have to be entered in the commercial register. It is only necessary for the business activity that is being practiced to be notified at the responsible trade office.

EXIT STRATEGY

Sale of shares, a resolution on dissolution which is passed by the shareholders, exit by a shareholder upon disapproval with a certain adopted decision of a general meeting, agreement with other shareholders. A dissolution resolution by shareholders starts the liquidation proceedings. The liquidation process takes at least 6 months. At the end of the liquidation process, there is the ending and deletion of the company in the commercial register.

ANNUAL CORPORATE MAINTENANCE REQUIREMENTS

Annual accounts must be filed with the Czech commercial register in the Collection of Deeds (*sbírka listin*).

The auditing of the annual financial statements is mandatory for large and medium-sized companies.

DIRECTOR / OFFICER REQUIREMENTS

Limited liability company

At least 1 managing director and at least 1 member of the supervisory board, if formed, are required. A legal entity can become a managing director. In such a case, a specific (natural) person who is acting on behalf of this legal entity must be listed in the commercial register. A managing director cannot be a member of the supervisory board.

The law sets out 3 grounds for ineligibility to be a member of an elected body. They are based on a decision of a Czech or foreign public authority prohibiting the person from holding office, and on grounds related to insolvency proceedings or conviction for selected criminal offences. A register of excluded persons is established to facilitate the identification of obstacles to the performance of a member of an elected body. It contains reasoning of such obstacle as well as its period and personal information of the excluded person.

Joint stock company

At least three members of management board and at least three members of supervisory board required, unless articles of association prescribe otherwise. A legal entity can become a member of management board.

Again, a specific (natural) person who is acting on behalf of this legal entity, must be listed in the commercial register. A member of supervisory board cannot be simultaneously a member of a management board. Provided the joint stock company is employing over 500 employees, 1/3 of the seats in the supervisory board is elected by company's employees.

In the single-tier governance system, at least three members of the administrative board are required, unless articles of association prescribe otherwise.

The law sets out three grounds for ineligibility to be a member of an elected body. They are based on a decision of a Czech or foreign public authority prohibiting the person from holding office, and on grounds related to insolvency proceedings or on grounds of conviction for selected criminal offences. A register of excluded persons is established to facilitate the identification of obstacles to the performance of a member of an elected body. It contains reasoning of such obstacle as well as its period and personal information of the excluded person.

LOCAL CORPORATE SECRETARY REQUIREMENT

Not applicable for this jurisdiction.

LOCAL LEGAL OR ADMIN REPRESENTATIVE REQUIREMENT

Not applicable for this jurisdiction.

LOCAL OFFICE LEASE REQUIREMENT

Since an address must be filed with the commercial register within the incorporation and throughout the term of the company, title to the address (at least consent of owner of the premises or a lease agreement) must be obtained.

OTHER PHYSICAL PRESENCE REQUIREMENTS

Depending on business activities conducted in Czech Republic. Local office is usually required from a trade licensing perspective.

SUFFICIENCY OF VIRTUAL OFFICE

Yes, generally possible. However, a company still needs a registered office address. An address must be filed with the commercial register.

PROVISION OF LOCAL REGISTERED ADDRESS BY LAW FIRM OR THIRD-PARTY SERVICE PROVIDER

Allowed and widely used, at least on temporary basis.

PROVISION OF LOCAL DIRECTOR OR CORPORATE SECRETARY BY LAW FIRM OR THIRD-PARTY SERVICE PROVIDER

No local directors required. Provision of director services by a 3rd-party service provider is common.

NATIONALITY OR RESIDENCY REQUIREMENTS FOR SHAREHOLDERS, DIRECTORS AND OFFICERS

In most cases, no, except for certain areas of business where, for regulatory purposes, a majority of shares cannot be held by foreigners.

RESTRICTIONS REGARDING APPOINTMENT OF NOMINEE SHAREHOLDERS OR DIRECTORS

None with respect to the shareholders.

Please note that any member of a management board or a supervisory board is fully liable, whether acting as nominee or not. Directors must meet certain requirements under the Czech Business Corporations Act.

SUMMARY OF DIRECTOR'S, OFFICER'S AND SHAREHOLDER'S AUTHORITY AND LIMITATIONS THEREOF

Limited liability company

Managing directors are elected by shareholders' meeting and are the highest authority in management of a corporation. Managing directors may be dismissed at any time, without stating any reasons (irrespective of any employment agreement). Managing directors can request an order on business management from shareholders; however, they must always act with due care.

Managing directors represent a company towards 3rd parties and run the company. Their authorization has unlimited external legal effect and, thus, even binds the company if internal restrictions of their representational powers are violated.

Joint stock company

Members of management board are elected by shareholders and are the highest authority in the management of a corporation. Members of management board may be dismissed at any time, without stating any reasons. Members of management board can request an order from shareholders on business management; however, they must always act with due care.

PUBLIC DISCLOSURE OF IDENTITY OF DIRECTORS, OFFICERS AND SHAREHOLDERS

Identity of the ultimate beneficial owner of a company (as defined in the Czech AML Act) shall be registered with the commercial register. The term "ultimate beneficial owner" refers to a natural person that is able to exercise, either directly or indirectly, a controlling influence in a company, meeting the qualification requirements under the Czech AML Act (eg, a person with more than 25 percent of the capital contribution or voting rights in a

company). If the ultimate beneficial owner cannot be determined (typically in a case of publicly listed joint stock companies), there is a presumption that the ultimate beneficial owner is a member of a statutory body of a company. Details of the ultimate beneficial owner are not disclosed; however, they can be in certain cases ascertained from the commercial register due to the disclosure requirements referred to in the below paragraphs.

Limited liability company

Identity of managing directors (and members of supervisory board, if any) is publicly disclosed; identity of shareholders is also disclosed in the commercial register.

Joint stock company

Identity of members of management board and supervisory board is publicly disclosed; identity of shareholders is not publicly disclosed (unless there is only 1 shareholder; in that case, identity of that single shareholder is to be disclosed in the commercial register).

MINIMUM AND MAXIMUM NUMBER OF DIRECTORS AND SHAREHOLDERS

Limited liability company

There must be a minimum of 1 shareholder, no maximum number and at least 1 managing director.

Joint stock company

There must be a minimum of 1 shareholder and no maximum number. For members of the management board, the minimum number is 1, while there is no maximum number.

MINIMUM NUMBER OF SHAREHOLDERS REQUIRED

1 shareholder is sufficient.

REMOVAL OF DIRECTORS OR OFFICERS

Limited liability company

Removal of members of the supervisory board, as well as managing directors, requires a vote by the shareholders' meeting. It is possible to recall a managing director, as well as a member of the supervisory board, at any time. Managing director, as well as a member of the supervisory board, can resign from the position. Recall or resignation must be recorded in the commercial register.

Joint stock company

Removal of members of management, as well as the supervisory board, requires a vote by shareholders' meeting. It is possible to recall board members at any time. Board members can resign from their position. Recall or resignation must be recorded in the commercial register.

REQUIRED AND OPTIONAL OFFICERS

Limited liability company

Required are managing directors and, as the case may be, a supervisory board; in addition, a holder of special power of representation (so-called *prokurista*) may be appointed (by way of proxy granting by the company with approval of shareholders).

Joint stock company

Required:

- Management board and a supervisory board or
- An administrative board.

In addition, a holder of special power of representation (so-called *prokurista*) may be appointed (by way of proxy granting by the company with approval of shareholders).

BOARD MEETING REQUIREMENTS

Limited liability company

Requirements depend on respective articles of association. Any time a management decision is required, however, it can be (and usually is) quite informal. If a company has more than 1 director, a resolution requires an approval of majority.

Joint stock company

Requirements depend on respective articles of association. Any time a management decision is required, however, it can be (and usually is) quite informal.

QUORUM REQUIREMENTS FOR SHAREHOLDER AND BOARD MEETINGS

Limited liability company

Not applicable for a single shareholder. For a shareholder meeting, presence of shareholders with at least 50 percent of all votes (each shareholder has 1 vote for each CZK1 of its contribution, unless otherwise stated in articles of association) is required. Resolutions are passed with the simple majority of the votes cast by the present shareholders, except for important decisions, eg, change of articles (2/3 majority of the votes cast by all shareholders). Requirements can be regulated in articles of association.

Joint stock company

Not applicable for a single shareholder. For a shareholder meeting, presence of shareholders with shares of nominal value or number that exceeds 30 percent of the registered capital is required, unless otherwise is stated in the articles of association. Resolutions are passed with the simple majority of the votes cast by the present shareholders, except for important decisions where higher quorums are required. For management and

supervisory board meetings, typically a majority of respective body must be present during such meeting; alternatively, all directors must execute written resolutions. Requirements can be regulated in the articles of association.

MUST A BANK ACCOUNT BE OPENED PRIOR TO INCORPORATION, AND MUST THE BANK ACCOUNT BE LOCAL?

Yes, a Czech bank account is required for incorporation and payment of monetary contributions of shareholders. Monetary contributions must be paid to that bank account, and the bank must provide a confirmation that stated capital is available. Without such confirmation, the commercial register will not register a new company. The only exception applies to a limited liability company with stated capital not exceeding CZK20,000.

AUDITING OF LOCAL FINANCIALS. IF SO, MUST THE AUDITOR BE LOCATED IN LOCAL JURISDICTION, AND MUST THE COMPANY'S BOOKS BE KEPT LOCALLY?

Limited liability company

Yes; only "small" companies with limited liability are exempt from the mandatory audit.

Joint stock company

Yes; only "small" joint stock companies are exempt from the mandatory audit.

REQUIREMENT REGARDING PAR VALUE OF STOCK

Limited liability company

The statutory minimum par value per share is CZK1.

Joint stock company

The statutory minimum par value of stock is not prescribed.

INCREASING OF CAPITALIZATION IF NEEDED

Limited liability company

More usual are debt-to-equity swaps, ie, capitalization of receivables with set-off against contribution to equity, without effect of increasing share ownership of a shareholder in the company. Alternatively by increase of registered capital subject to approval of shareholders' meeting.

Joint stock company

Increase of registered capital subject to approval of shareholders' meeting.

SUMMARY OF HOW FUNDS CAN BE REPATRIATED FROM YOUR JURISDICTION (IE DIVIDENDS OR REDEMPTION)

Funds can be repatriated from Czech Republic abroad via dividends.

RESTRICTIONS ON TRANSFERABILITY OF SHARES

Limited liability company

Shares are generally transferable. However, articles of association can restrict the transfer (ie, by implementing approval requirements).

Joint stock company

Shares can generally be transferred between shareholders via written agreement and endorsement of registered shares. Articles of association may limit (but not exclude) transferability; approval requirements may be implemented.

OBTAINING A NAME AND NAMING REQUIREMENTS

Limited liability company

Name has to be distinct and must show the legal form. Name must not be misleading or create a misunderstanding. Name must include a reference to the legal form of a limited liability company in Czech, therefore either "*společnost s ručením omezeným*," or any abbreviated form like "s.r.o." or "spol. s r.o."

Joint stock company

Name must not be misleading or create a misunderstanding. Name must include a reference to legal form of a joint stock company in Czech, therefore either "*akciová společnost*" or an abbreviated form "a.s."

SUMMARY OF "KNOW YOUR CLIENT" REQUIREMENTS

Czech "know your client" requirements are based on European provisions. Most applicable law is the Anti-Money Laundering Act.

Thereunder, transactions are subject to different identification measurements and reporting duties, with penalties resulting from non-compliance. These vary from simple proof of identification (for individuals) – respectively a physical/electronic record of the company – to simple or enhanced due diligences depending on the risk. For instance, politically exposed persons (PEPs) are always subject to enhanced due diligences.

APPROVAL REQUIREMENTS FOR AMENDING CHARTER DOCUMENT

Limited liability company

The shareholders resolve on amendments. The resolution must have a majority of 2/3 of the votes of all shareholders. The resolution needs to be in the form of notarial deed.

Joint stock company

Shareholders resolve on amendments. The resolution must have a majority of 2/3 of present shareholders' votes. The resolution needs to be in the form of notarial deed.

LICENSES REQUIRED TO CONDUCT BUSINESS IN JURISDICTION

It depends on the kind of business to be run. Before starting their business operations, business operators must obtain necessary trade licenses from trade licensing office (*živnostenský úřad*). Basic is a free trade license with certain subcategories, obtained upon notification to the office. In some sectors, qualified trade or other business licenses are necessary (eg. pharmacies, property developers, estate agents, brokers, security firms, pubs and hotels and banks).

PROCESS OF PURCHASING AND UTILIZING A SHELF COMPANY

Shelf companies can be purchased from 3rd-party service providers. Purchase of a company requires a share purchase.

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