



EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání



Corporate Income Tax I

Corporate Income Tax (CIT)

- = also Corporation tax
- Universal income tax paid by all corporations in the Czech Republic
- 4th most relevant tax revenue in CZ

Taxpayers (1)

- Taxpayers (residency):
 - Tax resident has a residency (seat) in the CZ or making decisions from the CZ (home country = place of management)
 - Czech tax residents have to pay CIT in the Czech Republic from all incomes
 - Tax non-resident has a residency in other country (outland country)
 - Czech non-residents have tax liability limited on income from source in the Czech Republic

Taxpayers (2)

- Purpose of the business:
 - Business taxpayers (established with the purpose of making profit)
 - Non-business taxpayers (other purposes than making profit, e.g.: foundations, political parties, schools, hospitals...)

Tax Base of CIT

- Net income for period (revenues minus costs) is modified by these items:
 - Excluded incomes (e.g. loans)
 - Exempted (tax free) incomes (e.g. ecological incomes, dividend income within the EU between subsidiary companies)
 - Separate tax bases (dividends, other shares)
 - +/- tax reserves (provisions), adjusting entries of receivable
 - +/- accounting costs which are not considered as tax costs (e.g.: donations)
 - + items which are tax approved in case of payment (social security insurance)
 - +/- correction of tax base by accounting costs/revenues from previous tax period
- = TAX BASE

Tangible/Intangible Property

- For some categories of property we have to depreciate the market price by the tax depreciations
- It is not allowed to put the whole market price into the tax costs
- Two different categories: tangible and intangible property
- **Tangible:**
 - Movable property with market entry price over CZK 40 000 and its lifetime is more than 1 year
 - Buildings
 - Animals over CZK 40 000
 - Other tangible property
- **Intangible:**
 - Software
 - Know-how
 - Outputs of R&D
 - Other property

Value of Asset

- There are 3 different types:
 - Market entry price
 - Own costs (own goods made by company inself)
 - Appraised price (in case of gifts, heritage = appraised price by appraiser)
 - Increased value (=technical appreciation)

Technical Appreciation

- Technical appreciation – the legal definition:
 - Expenses to completed extension, outbuilding and other construction modifications, reconstruction and modernization.
 - Reconstruction = activity which leads to change of purpose or technical parameters.
 - Modernization = enlargement of availability or usability of property.
 - Over 40 000 CZK – we have to depreciate the technical appreciation.
 - Up to 40 000 CZ = tax cost.

Tax Depreciations

- Are approved as tax costs (not equal to accounting depreciations)
- Based on:
 - Annual base (tangible property)
 - Linear or regressive (tangible property)
 - Monthly base (intangible property)
- Up to entry price (100 %)
- It is possible to accelerate tax depreciations (we have to fulfill some conditions – from 1st to 3rd depreciation group, first owner of property, exemptions: cars but not trucks)
- The elementary condition is to have a property in our assets at the end of tax period (mostly till December 31) , than is 100 % of tax depreciation considered as tax cost
- If we have the property in our assets at the beginning of tax period but not at the end of tax period - 50 % of tax depreciation
- If we have the property in our assets during the tax period but not at the beginning and not at the end of tax period – 0 % tax depreciation

Depreciation group	Time of depreciation (years)
1 (PCs, furniture)	3
2 (motorcars, cargo tracks)	5
3 (boats, other special property)	10
4 (buildings from wood and plastics)	20
5 (most of buildings)	30
6 (administrative buildings, department stores, hotels...)	50

Linear Depreciation

Depreciation group	Rate in first year	Rate in other years	Rate for increased entry price
1	20	40	33.3
2	11	22.25	20
3	5.5	10.5	10
4	2.15	5.15	5
5	1.4	3.4	3.4
6	1.02	2.02	2

Regressive Depreciation

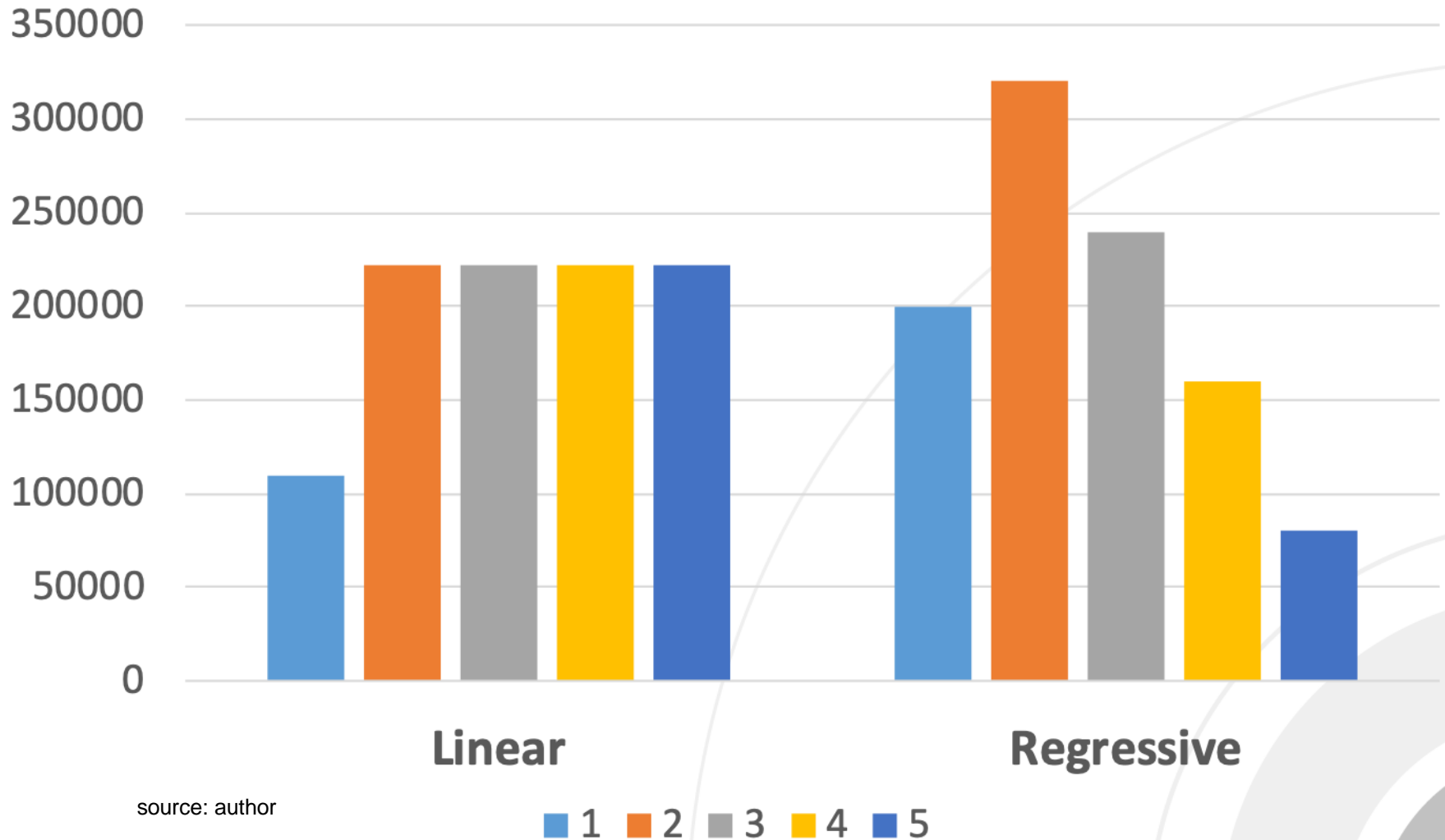
Depreciation group	Coefficient in first year	Coefficient in other years	Coefficient for increased entry price
1	3	4	3
2	5	6	5
3	10	11	10
4	20	21	20
5	30	31	30
6	50	51	50

source: author

Depreciated price

- Value of asset minus depreciations
 - Sum of depreciations during the time of depreciations

Methods of Depreciation



source: author

Calculation of Depreciation

source: author

	1	2	3	4	5
Linear	110 000	222 500	222 500	222 500	222 500
Regressive	200 000	320 000	240 000	160 000	80 000

Value of asset: CZK 1 000 000

Motor vehicle: 2nd depreciation group (5 years)

Linear depreciation rates: 11 % (1st year), 22.25 % (following years)

Regressive depreciation coefficients: 5 (1st year), 6-n (following years)

Linear depreciation: $VA \cdot \text{depreciation rate (in \%)}$

Regressive depreciation: $EP/\text{coefficient}_1$ (first year), $2 \cdot DP/\text{coefficient}_{n-t}$

VA = value of asset, DP – depreciated price, n – following years, t – sum of years we have already created depreciations

Accelerated Depreciation

- We can use accelerated depreciations if:
 - We are first owner of property
 - In the first year of depreciation (in first year only)
 - For the material property in 1st, 2nd and 3rd depreciation group
 - The rate is 10 percent points extra from entry price (most common rate)
 - or 15 and 20 pp (in some special cases)

Calculation of Accelerated Depreciation

- Asset value: CZK 1 000 000
- Depreciation group: 2nd
- Linear accelerated depreciation:
 - $1\,000\,000 * 0.21 (11+10 \%) = \text{CZK } 210\,000$
- Regressive accelerated depreciation:
 - $(1\,000\,000/5) + (1\,000\,000 * 0.1) = \text{CZK } 300\,000$

Intangible Property (1)

- The legal definition:
 - Founding expenses
 - Software
 - Licenses
 - Know-how
 - Other kind of similar property
 - Asset value exceed CZK 60 000
 - Lifetime of property is more than 1 year

Intangible Property (2)

- Tax depreciations are based on monthly base
- We can start with depreciation from the next month after purchasing property.

Depreciation of Intangible Property

Property	Time of depreciation in months
Audio-visual product	18
Software	36
Know-how, license	36
Other property	72

source: author

Calculation of Intangible Property Depreciation

- Software (36 m), entry price: CZK 100 000, date of purchase: February 20, 2018
- Depreciation/month: $100\ 000 / 36 = 2\ 777.77$
- Depreciations 2018: $10 * 2\ 777.77 = 27\ 778$
- Dep. 2019: $12 * 2\ 777.77 = 33\ 334$
- Dep. 2020: $12 * 2\ 777.77 = 33\ 334$
- Dep 2021: $2 * 2\ 777.77 = 5\ 554$

Technical Appreciation of Intangible Property

- In case we are increasing the value of our property
- Over 40 000 CZK
- Then we have to depreciate the value of property for at least:
 - Audio-visual product 9 months
 - Software, know-how, licenses 18 months
 - Other property 36 months

Financial Leasing (1)

- Leasing could be: operative and financial.
- Financial leasing has these conditions:
 - The period of rental is for property in 1st depreciation group at least 36 months
 - In 2nd depreciation group at least 54 months
 - In 3rd depreciation group 112 months
 - For immovable property we have to rent the property for at least 30 years

Financial Leasing (2)

- The financial leasing starts from the month from which we are allowed to use it for our own demand.
- We have to differentiate the hire costs on the time basis.

Tax Costs for Financial Leasing

- Asset value: CZK 1 000 000
- Motor vehicle: 54 months
- Purchase date: March 1, 2018
- Tax costs of 2018: $(1\,000\,000/54) * 10$ months = CZK 185 186
- Tax costs of 2019: 12 months
- Tax costs of 2020: 12 months
- Tax costs of 2021: 12 months
- Tax costs of 2022: 8 months
- Total: 54 months

PwC Corporate Tax Summaries

- <https://www.pwc.com/gx/en/tax/corporate-tax/worldwide-tax-summaries/pwc-worldwide-tax-summaries-corporate-taxes-2017-18-europe.pdf>
- Task: Compare two or more countries and their depreciation policy.

Depreciation: Austria

Assets	Depreciation Rate (%)
Buildings (industrial use, banking, insurance)	2.5
Buildings	2.0
Motor vehicles	12.5

source: author

Depreciation: Bulgaria

Category	Assets	Maximum Rates (%)
I	Massive buildings, industrial constructions...	4
II	Machinery, production facilities	30/50
III	Vehicles (except cars)	10
IV	Computers, mobile phones, software	50
V	Cars	25
VI	Long-term intangibles with legal or contractual limitations on the period of use	33.3
VII	Other assets	15

Depreciation: Croatia

Assets	Depreciation Period (Years)	Depreciation Rate (%)
Buildings and ships	20	5
Personal cars	5	20
Intangible assets, vehicles and machinery	4	25
Computers, hardware, software, mobile phones	2	50
Other assets	10	10

source: author

Depreciation: Greece

Assets	Depreciation Rate (%)
Buildings, installations, facilities...	4
Plots and land used for mining and quarries	5
Public means of transportation, airplanes, trains, ships	5
Machinery	10
Individual transportation	16
Intangible assets	10
Computers, software	20
Other fixed assets	10

source: author

Depreciation: Hungary

Assets	Depreciation Rate (%)
Computers	33 or 50
Vehicles	20
Other tangible assets	14.5
Buildings	2
Rented buildings	5

source: author

Depreciation: Ireland

Assets	Depreciation Rate (%)
Plant and machinery	12.5
Industrial buildings used for manufacturing	4.0
Motor vehicles	12.5
IP assets	Book depreciation or 7.0

source: author