

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of law**



**Bachelor Thesis**

**Review of the legal framework for doing business in the  
Czech Republic**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Ayaulym Almessova

Business Administration

Thesis title

**Review of the legal framework for doing business in the Czech Republic**

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### **Objectives of thesis**

The aim of the thesis will be to study and analyse key features of legal frameworks for doing business in the Czech Republic. It means that the main attention will be paid to the Czech law regulation of business practices, how Czech legislation defines rights and obligations involved in business transactions, in general how to do business from a legal perspective.

### **Methodology**

The methodological framework of this bachelor thesis concludes general economic theories and review of the Czech Republic's domestic laws and codes (such as labour law, income tax law, commercial code etc.). The research methods of the study are qualitative normative method research and secondary source study.

**The proposed extent of the thesis**

30 – 40 stran

**Keywords**

business, entrepreneurship, law, code, Czech Republic

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CLAYTON, Gary E, Economics: principles & practices (New York: Glencoe/McGraw-Hill, 2001)

EBNER, Alexander, „Entrepreneurship and economic development. From classical political economy to economic sociology,“ Journal of Economic Studies, №2 (2005)

GREBEL, Thomas, Entrepreneurship a new perspective

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## **Declaration**

I declare that I have worked on my bachelor thesis titled "Review of the legal framework for doing business in the Czech Republic" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on

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**Ayaulym Almessova**

### **Acknowledgement**

I would like to thank Mgr. Bc. Sylva Řezníková, Ph.D., MA for her advice and support during my work on this thesis.

# **Přehled právního rámce pro podnikání v ČR**

## **Souhrn**

Hlavním cílem této bakalářské práce je popsat právní rámec České republiky pro podnikání. První část studie je věnována vymezení základních pojmů a vlastností, týkajících se podnikání jak z vědeckého, tak i z právního hlediska. Tato část také obsahuje přehled české ekonomiky a možností pro podnikání. Druhá část se zabývá analýzou právního prostředí podnikatelské činnosti, tím, jak česká legislativa definuje práva a povinnosti spojené s obchodními transakcemi, obecně řečeno, jak podnikat z právního hlediska. Shrnutí celé práce a autorské komentáře jsou předloženy ve závěru.

**Klíčová slova:** podnikání, podnikatelská činnost, občanský zákoník, české právo

# **Review of the legal framework for doing business in the Czech Republic**

## **Summary**

The main aim of this bachelor thesis is to describe the legal framework for doing business in the Czech Republic. The first part of the study is devoted to the definition of basic concepts and characteristics, related to the business both from the scientific and legal point of view. This section also provides an overview of the Czech economy and business opportunities. The second part deals with the analysis of the legal environment of entrepreneurial activity, also how Czech legislation defines rights and obligations involved in business transactions, generally speaking, how to do business from a legal perspective. A summary of the work and the author's comments are presented at the conclusion.

**Keywords:** business, entrepreneurship, Czech law, Civil Code

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## Introduction

We live in the time where economic plays huge role and even could define political changes, social values, behaviour patterns and so on. Business became an essential part of almost all society. Its goal is to satisfy people's wishes by different goods and services. Alongside with it, business plays a big role of "a vehicle for economic progress" as professor David Henderson said<sup>1</sup>. It is hard to overestimate the role business play, especially in industrial and post-industrial society's.

In our time almost everyone could start to "make money" or at least to try to. As business demography statistics shows EU-28's economy in 2015 consist of more than 26 million active enterprises with approximately 144 million employees. First place belongs to Italy with 3.8 million, second to France (3.5 million), in the third is Spain (3 million)<sup>2</sup>. For all country was common that the dominant sector was service. Czech Republic's business economy was made up of 1 001 048 enterprises by the end of 2015 year according to the annual enterprise statistics. In this year 27 030 new enterprises were "born" and 23 840 died<sup>3</sup>. This data shows that starting a business is no more a privilege but the opportunity. This create a lot of question and one of this involve review of legal framework for doing business. It is crucial to know "the game's rules". As a student of Economics and Management I should say that the Czech's laws support business sphere and make possible for people to earn some money. More and more people could be interested in starting their own business. That's why this bachelor's will be useful for this audience as well.

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<sup>1</sup> HENDERSON, David, „The Role of Business in the Modern World,” © Institute of Economic Affairs, <https://iea.org.uk/publications/research/the-role-of-business-in-the-modern-world> (accessed September 29, 2017).

<sup>2</sup> *Business demography statistics*. Eurostat. Statistics Explained. © European Union, 1995-2013, [http://ec.europa.eu/eurostat/statistics-explained/index.php/Business\\_demography\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Business_demography_statistics) (accessed November 01, 2017).

<sup>3</sup> *Annual enterprise statistics for special aggregates of activities (NACE Rev. 2)*. Eurostat. Statistics Explained. Structural business statistics & global business activities. © European Union, 1995-2013, <http://ec.europa.eu/eurostat/web/structural-business-statistics/data/databaseonline> (accessed November 01, 2017).

# **Objectives and Methodology**

## **Objectives**

The aim of the thesis will be to study and analyse key features of legal frameworks for doing business in the Czech Republic. It means that the main attention will be paid to the Czech law regulation of business practices, how Czech legislation defines rights and obligations involved in business transactions, in general how to do business from a legal perspective.

## **Methodology**

The methodological framework of this bachelor thesis concludes general economic theories and review of the Czech Republic's domestic laws and codes (such as labour law, income tax law, commercial code etc.). The research methods of the study are qualitative normative method research and secondary source study.

### **3 Literature Review**

In this theoretical part attention will be paid to the basic concepts and definition. Alongside with it will be reviewed Czech economic situation as a background for starting a business. These key points are necessary for understanding the topic of the bachelor thesis.

#### **3.1. Basic definition**

The aim of the whole thesis is to analyse legal framework for doing business in the Czech Republic. To maintain this goal, it is needed to start with the main concept. What does that mean to do business? Overall, what is business by itself? What kind of person could start a business? Next part will be logically divided into three major topics. First will be dealing with the evolution of views on the phenomenon of entrepreneurship. Second describes scientific definition of the term business or entrepreneurship and give some notion of person who could start to do business. Third is devoted to the law's standpoint of business.

##### **3.1.1. Evolution of views on the phenomenon of entrepreneurship**

Research on the phenomenon entrepreneurship is as old as economy itself, may be even older. Historical roots of entrepreneurship reach the emergence of the human community itself. Even a quick look at the history of business would take a lot of time and. Not easier with the scientific research on this phenomenon. That's why following text will obtain just crucial name and theories.

It is not certain who introduced concept of "entrepreneur" for the first time. Some said that it was French economist Richard Cantillon (1680s –1734). He defined entrepreneur as a person with indefinite, non-fixed incomes, who purchases other people's goods at a certain price, and sells his own at a price he does not yet know. According to him social group of entrepreneurs consist of merchants and craftsman, farmers (the price of their product is unknown, since it depends on the crop), thieves and robbers<sup>4</sup>.

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<sup>4</sup> GRUBENKOVA, D., „Predprinimatelstvo v teoriyah R. Kantilona, Marksa, Veblena i Shumpetera: sravnitelnyiy analiz,“ *Mezhdunarodnyiy studencheskiy nauchnyiy vestnik*, №2 (2016), <https://www.eduherald.ru/ru/article/view?id=15405>.

Another well-known economist Adam Smith (1723-1790) also defined an entrepreneur in term of risk as the owner of capital, who realize risky commercial ideas<sup>5</sup>. In fact, he pointed out three main components of the entrepreneur's activity: profit as the purpose; commercial idea as a way to achieve profit and risk as an inevitable negative condition of the whole process.

Sometimes French economist Jean-Baptiste Say (1767 – 1832) is called the author of the concept of “entrepreneur”. He laid stress on his functional role as a coordinator, who independently coordinates productive factors<sup>6</sup>.

Despite huge influence of the Classical School (A. Smith, D. Ricardo, J. Mill, Th. Malthus, J. Bentham a so on) on economic theories, her representative did not manage to create a theory on entrepreneurship<sup>7</sup>.

New approach to the problem was delivered by the Austrian School (K. Menger, E. Bawerk, F. Wieser and so on). According to its representative entrepreneurial activity is initiated by individuals who discover the benefits of some types of economic operations, after which the rest participant of the economic process imitates the successful actions of entrepreneurs, which are then reinforced by habit and legislative acts. In this concept, the creative element of consciousness plays a major role in entrepreneurial activity, allowing some individuals to discover the best ways of making a profit<sup>8</sup>.

Significant ideas were proposed historical school of economics. Joseph Alois Schumpeter (1883–1950) suggested that entrepreneurship is not a profession, but rather reflection of some state through which a novice businessman passes. He concludes that their main goal lies in creating new combinations to increase productivity. There are five typical entrepreneurial innovations. Entrepreneur could invent a new product, introduce a new method or mode of production, develop a new

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<sup>5</sup>TOMILOV, Vladimir, KRUPANIN, Aleksandr and Temur CHAKUNOV, *Marketing i intraprenerstvo v sisteme predprinimatelstva* (SPb: SPbGUEF, 1998), <http://www.marketing.spb.ru/read/m20/index.htm>.

<sup>6</sup> GREBEL, Thomas, *Entrepreneurship a new perspective* (New York: Routledge, 2004), 6-7.

<sup>7</sup> GREBEL, Thomas, *Entrepreneurship a new perspective* (New York: Routledge, 2004), 8-9.

<sup>8</sup> SCHERBATYIH, Yuriy. *Psihologiya predprinimatelstva i biznesa* (SPb.: Piter, 2008), 9-10.

sales market, obtain a new source of raw materials or semi-finished products, change production's organization<sup>9</sup>.

The development of entrepreneurial activity is associated with the emergence of capitalism. Taking this into account this subkapitola ends with the analysis of Werner Sombart (1863-1941) and Max Weber (1864-1920) ideas.

M. Weber in his "The Protestant Ethic and the Spirit of Capitalism" wrote that the entrepreneurial energies are supplied by religious belief i.e., protestant ethic. For protestants hard work is not only welcomed, but is needed for the spiritual satisfaction and "salvation". He argued that the worldview, morality has a major influence on the activities of the entrepreneur. Religious demand of simple and frugal life led to the capital' accumulation, which they constantly invest. That's how modern "rational" capitalism was born<sup>10</sup>. From a sociological perspective, he claimed that entrepreneurial abilities are determined by the value system and culture which affect human behavior. It works in the following ways: value system creates and supports some moral beliefs for certain entrepreneurial behavior. These belief system influences on people's mind, their character and behavior.

Unlike Weber W. Sombart thought that Protestantism was only one of the manifestations of a new spiritual order, but not the reason. Capitalism arises together with the change of mentality, the basic attitudes of people who stop following the standards set by tradition, break with communities (guilds, workshops), act at their own risk to become rich. He believed that protestants, Jews as outsiders (heretics), different kind of robbers, adventurers and other marginals produced capitalism. When the mentality of "homo capitalisticus" extends from the marginals to the wider groups, Sombart turns to the psychology and highlights that people from different countries and cultures are not equally endowed with the qualities that the new system of relations required. For example, he wrote about the "specific talent of the Germans for capitalism"<sup>11</sup>. According to him, personal qualities of the entrepreneur have a huge influence on the effectiveness of entrepreneurial activities. Among them are

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<sup>9</sup>GRUBENKOVA, D., „Predprinimatelstvo v teoriih R. Kantilona, Marksa, Veblena i Shumpetera: sravnitelnyy analiz,“ *Mezhdunarodnyy studencheskiy nauchnyy vestnik*, №2 (2016), <https://www.eduherald.ru/ru/article/view?id=15405>.

<sup>10</sup> BERGER, Brigitte, *The Culture of entrepreneurship* (San Francisco, Calif.: ICS Press, 1991), 19-20.

<sup>11</sup> RUTKEVICH, Aleksey, "Werner Sombart – istorik kapitalisma," in Verner Zombart. *Sobranie sochineniy v 3 tomah* (Izd-vo: Vladimir Dal, 2005), 93-108, [ecsocman.hse.ru/data/2010/05/20/1213861909/str\\_93-109.pdf](https://ecsocman.hse.ru/data/2010/05/20/1213861909/str_93-109.pdf).

organizational skills, or ability to select people and organize their work in effective way; trading skills, or ability to negotiate to make a deal; and accounting skills<sup>12</sup>. Overall, outstanding individual, leaders matter more than corporations, governments or armies<sup>13</sup>.

According to Radaev there are several fundamentally different approaches to entrepreneurial function. The first interpretation prevails in the works of the classics of political economy (F. Quesnay, A. Smith), who assumed that the capital owner is an entrepreneur. Over time, the entrepreneur was less and less identified with the capitalist. And in the second interpretation (J. Mill, J.B. Say), he is regarded as the organizer of production, it wasn't necessary that he have property rights. The third interpretation of the entrepreneurial function connects with risk and uncertainty in the process of economic development (R. Cantillon, J. Thünen, F. Knight, etc.). The fourth is linked to the institutional economic theory (R. Coase, O. Williamson), in which the entrepreneur becomes a subject making a choice between the contractual relations of the free market and the organization of the firm in order to save transaction costs. Entrepreneurship became a special regulatory mechanism, alternative to the price mechanism and to mechanism of state regulation. Finally, the last one, fifth interpretation (G. Schmoller, F. Taussig, J. Schumpeter, P. Draker, etc.) emphasize the active, innovative nature of entrepreneurship not only in choosing from the available alternatives of resource allocation, but also in creating new market opportunities<sup>14</sup>.

As Magnus Hoppe admit research of evolution of views on the phenomenon of entrepreneurship is challenged due to absence of consensus on the entrepreneurship concept<sup>15</sup>. Text above should demonstrate huge interest on these phenomena and different approaches to it.

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<sup>12</sup>URBANAЕVA, Evgenia, ILTAKOVA, N., „Istoricheskie I socialnye korni predprinimatelstva,“ *Sociologicheskie nauky*, №2 (2016): 99.

<sup>13</sup> EBNER, Alexander, “Entrepreneurship and economic development. From classical political economy to economic sociology,“ *Journal of Economic Studies*, №2 (2005): 265.

<sup>14</sup> RADAЕV, Vadim, *Ekonomicheskaya sociologiya* (Vysshaya shkola ekonomiki, M: Izd. dom: GU VSHE, 2005), 202-204.

<sup>15</sup> HOPPE, Magnus, „The Entrepreneurship Concept: A Short Introduction,“ *Högre utbildning*, №2 (2016): 98.

### 3.1.2. What is a business? Definition and meanings.

Cambridge Advanced Learner's Dictionary & Thesaurus gives us several definitions to the word "business". It could be described as the activity of buying and selling goods and services or a particular company, that making this stuff. Besides, it is work that you do to earn money. Furthermore, it is the amount of work done or the number of goods or services sold by a company or organization. Also, it is a situation or activity, often one that you are giving your opinion about. The last one meaning is related to the things that you do or the matters that relate only to you<sup>16</sup>.

Business dictionary describes it as an organization or economic system where goods and services are exchanged for one another or for money<sup>17</sup>. The following definition will be given from the different science's point of view.

One of the most general definition was given by Judith Timms. It is described as a "commercial enterprise or establishment that trades in goods or services"<sup>18</sup>. Some researches focus on business like economic activity with continuous and regular satisfaction of human needs<sup>19</sup>.

According to Bill Pride, Bob Hughes and Jack Kapoor business "is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs". It could be described on macro- level (for example, Czech business, tourism business and so on) as well as on micro- level (some firm). Authors highlight the importance of three main features that make business successful: good resource's organization (material, human, finance and information), need's satisfaction and making a profit<sup>20</sup>. W. Baumol supposed that the entrepreneurial activity is the key condition for innovation and growth. Agree with it R. Holcombe, who thoughts that

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<sup>16</sup> *Business*. Cambridge Advanced Learner's Dictionary & Thesaurus. © Cambridge University Press 2017 Cambridge University Press 2017, <https://dictionary.cambridge.org/dictionary/english/business> (accessed November 17, 2017).

<sup>17</sup> *Business*. BusinessDictionary.com. © WebFinance, Inc. 2017, <http://www.businessdictionary.com/>.. (accessed November 17, 2017).

<sup>18</sup> TIMMS, Judith, *Introduction to business and management* (University of London International Programmes, 2011), <https://www.coursehero.com/file/14231633/Introduction-to-Business/>(accessed November 23, 2017).

<sup>19</sup> AREMU, Mukaila Ayanda, „Nature, purpose and scope of business,“ in *Contemporary Entrepreneurship Development*, editors: Gunu, U, Kasum, A. S. & Mustapha, I. Y. (Technical and Entrepreneurship Center (TEC), University of Ilorin, 2015): 2.

<sup>20</sup> PRIDE, William M., Robert James HUGHES and KAPOOR Jack R., *Business* (OH: South-Western/Cengage Learning, 2010): 9.

entrepreneurs push economy forward thanks to their chose of efficient and innovative ways of production<sup>21</sup>.

Sometimes business or entrepreneurship is described like the effort to coordinate the production's factors such as natural resources, labour, physical and human capital to produce and sell products<sup>22</sup>.

From the sociological point of view this is the implementation of organizational innovation in order to generate profit (another additional income). This definition put emphasis on three essential elements: organization as an object of action; initiation of changes; cash income as a goal and a measure of success<sup>23</sup>.

According to Kaufmann and Dant entrepreneurship could be described from the perspectives of traits, processes or activities. From the first point of view, it is certain type of personality. Entrepreneurial process is examined in two dimensions. Firstly, like searching for opportunity and information. Secondly, like gaining resources and business strategies. Third perspective is looking at entrepreneurial activity as an activity with the objective to change the system<sup>24</sup>.

Nowadays economists are mainly talking about three forms of business – the sole proprietorship, partnerships and corporation<sup>25</sup>. First type is the most common and simplest, it means that business is owned and managed by a single individual, who acquires all the benefits and risks of running an enterprise. Partnerships means that two or more individuals pool money, skills, and other resources, and share profit and loss in accordance with terms of the partnership agreement. Firm that meets certain legal requirements to be recognized as having a legal existence, as an entity separate and distinct from its owners is called corporation. It is owned by their stockholders, who share its profits and losses<sup>26</sup>.

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<sup>21</sup> BRAUNEHJELM, Pontus, *Entrepreneurship, Innovation and Economic Growth Past experiences, current knowledge and policy implications* (Swedish Entrepreneurship Forum and the Royal Institute of Technology 2010:02): 10.

<sup>22</sup> O'SULLIVAN, Arthur, Steven M. SHEFFRIN and PEREZ Stephen J., *Economics: principles, applications, and tools* (Boston: Pearson Prentice Hall, 2012): 2.

<sup>23</sup> RADAEV, Vadim, *Ekonomicheskaya sociologiya* (Vysshaya shkola ekonomiki, M: Izd. dom: GU VSHE, 2005), 204.

<sup>24</sup> KRUGER, M., *Entrepreneurship theory and creativity*, 2004: 18-20. <https://repository.up.ac.za/bitstream/handle/2263/27491/02chapter2.pdf> (accessed December 05, 2017).

<sup>25</sup> CLAYTON, Gary E, *Economics: principles & practices* (New York: Glencoe/McGraw-Hill, 2001), 57.

<sup>26</sup> *The sole proprietorship, partnerships, corporation*. BusinessDictionary.com. WebFinance, Inc. 2017, <http://www.businessdictionary.com/>.. (accessed November 11, 2017).



Entrepreneurship could be researched by different sciences. R.T. Hamilton and D.A. Harper highlight how it is important not to stay in one field and use achievement of another science. As they say, it will be better if economists apply psychological and sociological theories, which could clarify or support some point of his theory. Anyway, authors aware of relying on unconfirmed data, better to choose theories based on strict empirical tests<sup>27</sup>.

Overall, there are four mainstreams of entrepreneurial research as it shown in table 1<sup>28</sup>.

Table 1. The mainstreams of entrepreneurial research

Mainstream	Subject area	Main question
Psychological	Entrepreneurs characteristics and entrepreneurial process	Causes (Why)
Sociological	Entrepreneurs of different social or cultural backgrounds	Causes (Why)
Economics	Relationship between economic environment and entrepreneurship	Effects (What)
Management	Entrepreneurs skill, management and growth	Behaviour (How)

The person who start up new business is called entrepreneur. It is thought that person need to have a special kind of talent if he wants to be a successful businessman. Experts believe, that in any country such quality have just 3-5 % of the citizens, that's why approximately 80 % of entrepreneurial undertakings fails<sup>29</sup>. According to the Europe Union data 38 % of Europeans prefer to be their own boss, but in reality just 10 % are self-employed<sup>30</sup>.

Lipsic defines an entrepreneur as a person, who on his own and borrowed funds and under his own risk create a firm, that deals with the organization of productive resources to provide goods and services in attempt to make a profit<sup>31</sup>.

Entrepreneurial capabilities include such characteristics:

<sup>27</sup> HAMILTON, Robert and HARPER, David, „The Entrepreneur in Theory and Practice,“ *Journal of Economic Studies*, №2 (1994): 15.

<sup>28</sup> KRUGER, M., *Entrepreneurship theory and creativity*, 2004: 15-16. <https://repository.up.ac.za/bitstream/handle/2263/27491/02chapter2.pdf> (accessed December 05, 2017).

<sup>29</sup> LIPSIC, Igor, *Ekonomika* (M: Omega-L, 2006): 33, 109, <http://www.klex.ru/ai2>.

<sup>30</sup> *Enterprise*. Topics of the European Union. European Union, © European Union, 1995-2013, [https://europa.eu/european-union/topics/enterprise\\_en](https://europa.eu/european-union/topics/enterprise_en) (accessed February 05, 2018)

<sup>31</sup> LIPSIC, Igor, *Ekonomika* (M: Omega-L, 2006): 109, <http://www.klex.ru/ai2>.

- risk's acceptance,
- intuition,
- leadership,
- identifies business opportunities,
- creation of new enterprise<sup>32</sup>.

This list could be added by following characteristics. I. Kirzner stress the importance of intellect and focus on new knowledge. For J. Shackle imagination and creativity were very important. J. Schumpeter and F. Wieser highlight personal energy and leading to action. Combination of mind and imagination was the key point for W. Sombart<sup>33</sup>. The concept of D. McClelland connects the phenomenon of the entrepreneur with the increased need for achievement<sup>34</sup>.

Lumpkin and Dess determine five dimensions of entrepreneurial orientation. It includes autonomy, innovativeness, risk taking, proactiveness, competitive aggressiveness.

Sociologists put their attention on question of motivation. What makes person to start a business? There is several items that most researches described. First of all, achievement, challenge and learning, it means desire for self-realization through the challenge of entrepreneurship. Secondly, independence and autonomy, that point out on the person wish to control work life, time, decision-making process and so on. Thirdly, income security and financial success, this highlights the importance of making profits from entrepreneurship. Fourthly, recognition and status, it reflects person wish to receive recognition and respect. Some motivation dimension is not very common in scientific research, but also take a place. Such as family and roles, that means creating a family legacy. Dissatisfaction captures person disappointment with prior work arrangement. Community and social motivations means wish to help community the

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<sup>32</sup> CUERVO, Alvaro, Domingo RIBEIRO a SALVADOR ROIG. (EDS), *Entrepreneurship: concepts, theory and perspective* (Berlin, Germany: Springer-Verlag, 2010): 2.

<sup>33</sup> RADAEV, Vadim, *Ekonomicheskaya sociologiya* (Vysshaya shkola ekonomiki, M: Izd. dom: GU VSHE, 2005), 216-217.

<sup>34</sup> KRUGER, M., *Entrepreneurship theory and creativity*, 2004: 26-27. <https://repository.up.ac.za/bitstream/handle/2263/27491/02chapter2.pdf> (accessed December 05, 2017).

businessman lives in, also it means being an environmentally friendly, social responsible company<sup>35</sup>.

This sub capitol was devoted to the different meaning and definition of term business and entrepreneurship. Also, it provides with an information about an entrepreneur, a person who starts a business. Following sub capitol is devoted to law's stand of view on this term and to description of business's legal forms in the Czech Republic.

### **3.1.3. Business from law point of view.**

Legal dictionary defines business as any activity or enterprise entered into for profit<sup>36</sup>.

Entrepreneurial activity is understood as an independent activity carried out at its own risk aimed at the systematic acquisition of profit from the use of property, the sale of goods, the performance of work or the provision of services by persons registered in accordance with the procedure established by law<sup>37</sup>.

Czech Republic's Civil Code define entrepreneur as a person who, on his own account and responsibility, independently carries out a gainful activity in the form of a trade or in a similar manner with the intention to do so consistently for profit is considered, with regard to this activity. For the purposes of consumer protection and other, any person who concludes contracts related to his own commercial, production or similar activities, or within his trade, business or profession, or a person acting in the name or on the account of an entrepreneur is considered to be an entrepreneur. The entrepreneur is a person registered in the Commercial Register. A person who is authorised to conduct his business activities on the basis of a trade or another licence under another statute is presumed to be an entrepreneur.<sup>38</sup>

There are some features, that described entrepreneurial activity:

1. Systematic;
2. Independence (organizational and property);

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<sup>35</sup> STEPHAN, Ute, DREWS, Mark Hart and DREWS Cord-Christian, *Understanding Motivations for Entrepreneurship. A Review of Recent Research Evidence* (Enterprise Research Centre and Aston Business School, Aston University, Birmingham, 2015): 14-16.

<sup>36</sup> *Business*. Legal dictionary. The free dictionary by Farlex. 2003-2018, <https://legal-dictionary.thefreedictionary.com/> (accessed November 28, 2017).

<sup>37</sup> BATYICHKO, Vladimir, *Predprinimatelskoe pravo. Konspekt lektsiy* (Taganrog: TTI YuFU, 2011), <http://www.aup.ru/books/m236/> (accessed January 06, 2017).

<sup>38</sup> Act No 89/2012 Coll., as amended, občanský zákoník (i.e. "Civil Code"), §420-421, official translation.

3. Property liability of the entrepreneur, that depend on the organizational and legal form of business;
4. The legalized character;
5. Systematic profit as an aim;
6. Extraction of income from a certain activity;
7. Professionalism as a complex of certain knowledge and skills<sup>39</sup>;
8. Risky nature<sup>40</sup>.

According to the Trade Licensing Act an entrepreneur is every physical individual and legal entity, domestic or foreign, that fulfils the list of requirements such as:

- be at least 18 years old,
- be capable of performing legal tasks,
- have a clean criminal record, that's need to be proof by relevant documents from the country of citizenship, as well as from countries authority where that person has lived for a long term<sup>41</sup>.

Thera are several legal forms of business in Czech Republic<sup>42</sup>:

1. Individual entrepreneur (in Czech "OSVČ – osoba samostatně výdělečně činná", also commonly used as "živnostník". It means systematic activity carried out independently, on its own name, under its own responsibility, in order to obtain profit and under the conditions provided for by special Act ("Živnostenský zákon"))<sup>43</sup>:
  - „Živnost ohlašovací“. These are the entrepreneurship that are created and are operated on the basis of a notification (craft trade, regulated trade, unregulated trade).

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<sup>39</sup> BATYICHKO, Vladimir, *Predprinimatelskoe pravo. Konspekt lektsiy* (Taganrog: TTI YuFU, 2011), <http://www.aup.ru/books/m236/> (accessed January 06, 2017).

<sup>40</sup> ABAKUMOVA, Ekaterina, *Predprinimatelskoe pravo* (Novosibirsk: Izd-vo SibAGS, 2015), 37.

<sup>41</sup> Act No. 455/1991, as amended, the Trade Licensing Act.

<sup>42</sup> VEJVODOVÁ, Martina, *Ekonomika podniku I* (Vysoká škola ekonomie a managementu, 2012), 42, [http://www.vsem.cz/data/data/sis-texty/studijni-texty-bc/st\\_ep\\_epI\\_vejvodova\\_komp.pdf](http://www.vsem.cz/data/data/sis-texty/studijni-texty-bc/st_ep_epI_vejvodova_komp.pdf) (accessed February 09, 2018).

<sup>43</sup> Act No 455/1991 Coll., as amended, trade act (i.e. "Živnostenský zákon").

- “Koncesované živnosti”. These are the entrepreneurship that are created and operated based on an administrative (concession) decision. These trades are also certified by an extract from the Trade Register.
2. Business company (in Czech “Obchodní společnost”)<sup>44</sup>.
- “Veřejná obchodní společnost”. General partnership is a separate legal entity of at least two persons participating in business or management of its assets and guaranteeing its debts jointly and severally.
  - “Komanditní společnost”. Limited partnership is a company where at least one partner guarantees limited debts and at least one partner unlimited.
  - “Společnost s ručením omezeným”. Limited liability company is an entity whose debts are jointly and severally liable by the shareholders.
  - “Akciová společnost”. Joint-stock company is a company whose registered capital is allocated to a certain number of shares, that are equally treated by the company<sup>45</sup>.
  - “Evropské hospodářské zájmové sdružení”. European Economic Interest Grouping is a legal entity designed to make it easier for companies in different countries to do business together, or to form consortia to take part in EU programmes<sup>46</sup>.
  - “Evropská společnost”. European Company is a public company registered in accordance with the corporate law of the EU<sup>47</sup>.
3. “Družstvo”. A cooperative is a community of unmatched number of persons established for the purpose of mutual support of its members or another person, or for the purpose of doing business. It consists of at least 3 members<sup>48</sup>.

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<sup>44</sup> RANDL, Pavel and MALÁŠEK, Vladimír, *Setting up a business in the Czech republic*, © 2018 Randl Partners, 2010/2011, 32-33 p., <http://www.randls.com/Renderers/ShowMedia.aspx?id=58bd6b98-3472-48aa-974b-864195412880>.

<sup>45</sup> Act No 90/2012 Coll., as amended, Law on Commercial Companies and Cooperatives (Act on Commercial Corporations (i.e. “Zákon o obchodních společnostech a družstvech (zákon o obchodních korporacích)”)).

<sup>46</sup> Act No 360/2004 Coll., as amended, Law on the European Economic Interest Grouping (EEIG) (i.e. “Zákon o Evropském hospodářském zájmovém sdružení (EHZS)”)).

<sup>47</sup> Act No 627/2004 Coll., as amended, European Company Law (i.e. “Zákon o evropské společnosti”)).

<sup>48</sup> Act No 90/2012 Coll., as amended, Business Corporations Act (i.e. “Zákon o obchodních společnostech a družstvech (zákon o obchodních korporacích)”)).

4. “Státní podnik”. State enterprise is a legal entity through which the state carry out its property rights on its own behalf in order to fulfil significant strategic, economic, social, security or other interests of the state. The founder of the enterprise is the state. On behalf of the founder, the certain ministry run the enterprise, unless the law determines otherwise<sup>49</sup>.

### 3.2. Czech economy as a background for starting a business

“Czech Republic: Economy So Far So Good”. These way International Monetary Fund described Czech situation in economy in 2017. According to it its growth at 2.4 percent is strong, unemployment at 3.3 percent is the lowest in the European Union, and its government debt is low<sup>50</sup>. Organisation for Economic Co-operation and Development also gives an optimistic opinion on Czech economic and suggests that its strong growth will continue in 2018 and 2019<sup>51</sup>. As picture 1 below shows the unemployment rate is historically low and these push up labour coast.

Picture 1. Unemployment rate and labour cost in the Czech Republic, 2010-2018<sup>52</sup>.

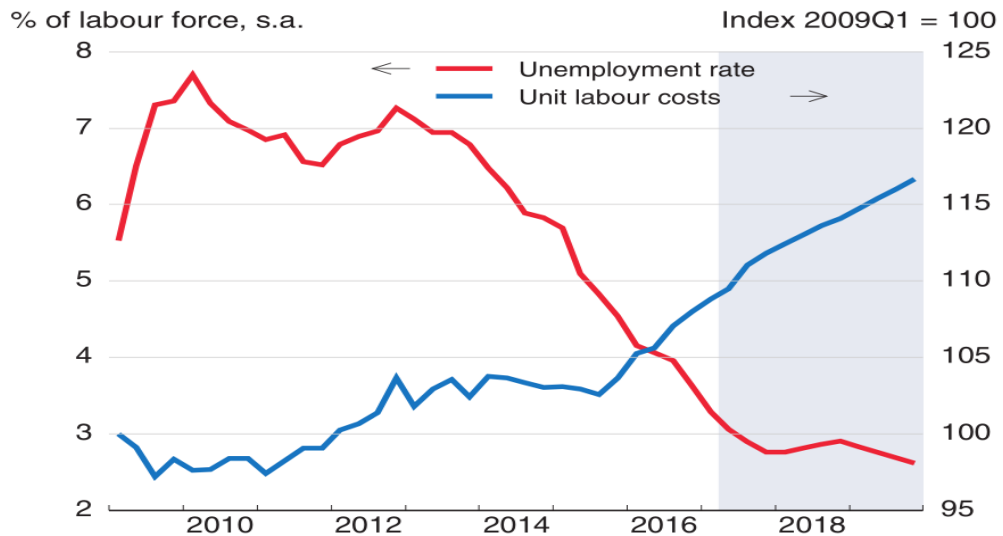
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<sup>49</sup> Act No 77/1997 Coll., as amended, State Enterprise Act (Act on Commercial Corporations (i.e. “ Zákon o státním podniku”)).

<sup>50</sup> „Czech Republic: Economy So Far So Good“, International Monetary Fund, 2017, <http://www.imf.org/en/News/Articles/2017/10/02/na100317-czech-republic-economy-so-far-so-good> (accessed February 12, 2018).

<sup>51</sup> „Czech Republic - Economic forecast summary“, © 2018 Organisation for Economic Co-operation and Development, <http://www.oecd.org/eco/outlook/czech-republic-economic-forecast-summary.htm> (accessed February 12, 2018).

<sup>52</sup> „Czech Republic - Economic forecast summary“, © 2018 Organisation for Economic Co-operation and Development, <http://www.oecd.org/eco/outlook/czech-republic-economic-forecast-summary.htm> (accessed February 12, 2018).



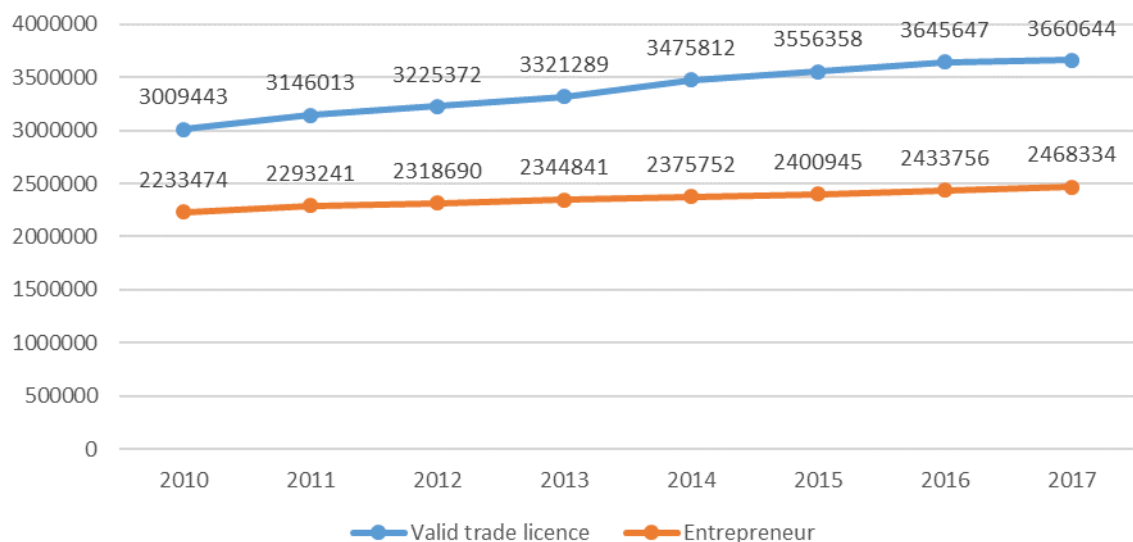
The main attention of the following text will be paid to the different sides of business activity in the Czech Republic.

The most common form of business in the Czech Republic is individual entrepreneurship. Picture 2 demonstrate actual and historical numbers individual entrepreneur and valid trade licence. As it shows until last year its number gradually increase. The number of trade licence per 1000 inhabitants to the end of 2017 were 345,43 and the number of individual entrepreneur were 232,92<sup>53</sup>.

Picture 2. Number of valid trade licence (“živnostenské oprávnění”) and entrepreneur in the Czech Republic, 2010-2017<sup>54</sup>.

<sup>53</sup>“Roční přehled podnikatelů a živností”, Ministerstvo průmyslu a obchodu. 2018. © Copyright 2005 - 2018 MPO, <https://www.mpo.cz/cz/podnikani/zivnostenske-podnikani/statisticke-udaje-o-podnikatelich/rocnii-prehled-podnikatelu-a-zivnosti--222295/> (accessed February 12, 2018)

<sup>54</sup>“Roční přehled podnikatelů a živností”, Ministerstvo průmyslu a obchodu. 2018. © Copyright 2005 - 2018 MPO, <https://www.mpo.cz/cz/podnikani/zivnostenske-podnikani/statisticke-udaje-o-podnikatelich/rocnii-prehled-podnikatelu-a-zivnosti--222295/> (accessed February 12, 2018).



Czech Statistical Office also demonstrates increase some kind of economic entities. Table 2 shows changes in number of different registered entities during the last 7 years.

Table 2. Economic entities according to selected legal forms in the Czech Republic, 2010-2017<sup>55</sup>.

By the end of...	In total	Business company		cooperative	state enterprise	Natural person		
		In total	from that joint stock company			individuak entrepreneurs doing business under the Trade Licensing Act	agricultural entrepreneurs	individual entrepreneurs doing business under other laws
31.12.2010	2 637 551	347 753	23 991	15 690	358	1 826 149	34 004	92 575
31.12.2011	2 703 444	365 293	24 667	15 536	308	1 859 844	35 092	95 312
31.12.2012	2 727 654	382 478	25 057	15 362	289	1 851 042	35 605	101 838
31.12.2013	2 694 737	399 571	25 255	15 216	241	1 749 865	34 290	229 235
31.12.2014	2 733 459	419 444	25 439	15 154	223	1 798 199	35 242	197 474
31.12.2015	2 768 953	440 757	25 710	14 831	207	1 825 627	43 005	173 172
31.12.2016	2 807 532	462 099	26 005	14 446	199	1 849 487	44 599	159 191
31.12.2017	2 848 672	482 658	26 197	14 103	180	1 892 729	46 010	130 633

The Czech Republic is the 21st most attractive country for mergers and acquisitions according to M & A Maturity Index. The Czech Republic has achieved the best assessment of transport, corporate infrastructure and technological levels<sup>56</sup>.

<sup>55</sup> „Ekonomické subjekty podle vybraných právních forem“, Český statistický úřad, <https://vdb.czso.cz/vdbvo2/faces/cs/index.jsf?page=vystup-objekt-vyhledavani&bkvt=cG9kbmlr&vyhltext=podnik&katalog=all&pvo=ORG01#w=> (accessed February 02, 2018).

<sup>56</sup> ZÍTKOVÁ, Pavlina, „Česká republika je 21. nejatraktivnější zemí pro fúze a akvizice,“ *Economia, a.s.* (2012), *Hospodářské noviny IHNEED.cz* 1996-2018, <https://ekonom.ihned.cz/c1-56859590-ceska-republika-je-21-nejatraktivnejsi-zemi-pro-fuze-a-akvizice> (accessed February 02, 2018).



The Czech Republic is the best country in Central, Eastern Europe and South Europe in terms of working conditions and opportunities. This results from Adecco's global survey, which evaluated the attractiveness of 119 countries in terms of working conditions and opportunities. As Karel Havlíček, representative of the Association of Small and Medium-Sized Enterprises, said the Czech Republic is also approaching the EU standard in valuing employees - mainly in qualified professions<sup>57</sup>.

The Czech Republic's economy attracts a lot of foreign investment and the Czech National Bank notice, that a total amount of EUR 77.8 billion worth of foreign direct investment has been recorded since 1993. The Czech Republic is a recipient of GBP 23 billion worth of EU structural funds for 2014 to 2020. In the Trading Across Borders the Czech Republic ranked first in the world in both the 2015 and 2016 rankings<sup>58</sup>.

The Enterprise Surveys conducted by the World Bank give some information about different side of entrepreneurial activity in the Czech Republic<sup>59</sup>. The main obstacle providing business are "practices informal sector", "access to finance". Besides, some of respondent choose such answer as "tax rates", "political instability", "inadequately educated workforce", "labour regulation", "corruption", "tax administration", "electricity", "crime, theft and disorder". Should notice that the administrative burden on entrepreneurs was reduced by CZK 21.1 billion in 2013, a decrease of 24.39% compared to 2005 (calculated in the 2013 tariff)<sup>60</sup>. In the years 2013-2016, 85 measures have been implemented to reduce administrative burdens; on the next 23 measures, the sector is currently working<sup>61</sup>. World Bank research shows that more than 40 % of Czech firm have internationally recognised quality certification and over 90 % use their own website.

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<sup>57</sup> KUCHYŇOVÁ, Zdeňka, „Česko je 25. nejatraktivnější zemí pro práci na světě,“ 1996–2018 Český rozhlas, <http://www.radio.cz/cz/rubrika/ekonomika/cesko-je-25-nejatraktivnejsi-zemi-pro-praci-na-svete> (accessed February 12, 2018).

<sup>58</sup> „Czech Republic. Global business guide,“ HSBC 2018, <http://www.business.hsbc.uk/en-gb/countryguide/czech-republic> (accessed February 17, 2018).

<sup>59</sup> „Czech Republic Country Profile 2013“, 2018 The World Bank Group, <http://microdata.worldbank.org/index.php/catalog/2220> (accessed February 14, 2018).

<sup>60</sup> „Zpráva o vývoji malého a středního podnikání a jeho podpoře v roce 2014,“ oddělení MSP a maloobchodu, 19 p., © 2005 - 2018 MPO, [www.psp.cz/sqw/text/orig2.sqw?idd=122312](http://www.psp.cz/sqw/text/orig2.sqw?idd=122312) (accessed February 12, 2018).

<sup>61</sup> „Zpráva o vývoji malého a středního podnikání a jeho podpoře v roce 2016,“ oddělení MSP a maloobchodu, 16 p., © 2005 - 2018 MPO, <https://www.mpo.cz/cz/podnikani/male-a-stredni-podnikani/studie-a-strategicke-dokumenty/zprava-o-vyvoji-maleho-a-stredniho-podnikani-a-jeho-podpore-v-roce-2016--232792/> (accessed February 12, 2018).

Overall, the Czech Republic ranked 36th in the World Bank's 2016 Doing Business rankings, falling three places from 33rd in 2015<sup>62</sup>. In the same time U.S. News & World Report ranked country on 29 places out of 80. Between advantages lay such attributes as educated population, well-developed infrastructure, skilled labor force and connection to the rest of the world. To the disadvantages belongs such attributes as innovative and technological expertise<sup>63</sup>. The Czech Republic is the 22nd largest export economy in the world<sup>64</sup>. Economic freedom score is 74.2, this place country on the 24th in the 2018 Index. It improved by 0.9 point, first of all, in business freedom, fiscal health, and government spending outweighing a decline in government integrity<sup>65</sup>.

This sub capital mainly focused on the development of economic entities. Shown data should demonstrate that Czech Republic have good condition for starting a business.

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<sup>62</sup>„Czech Republic. Global business guide,“ HSBC 2018, <http://www.business.hsbc.uk/en-gb/countryguide/czech-republic> (accessed February 17, 2018).

<sup>63</sup>„Czech Republic. Best Countries. 2017,“ 2018 © U.S. News & World Report L.P, <https://www.usnews.com/news/best-countries/czech-republic> (accessed February 17, 2018).

<sup>64</sup>„Czech Republic. 2016,“ 2018 © The Observatory of Economic Complexity, <https://atlas.media.mit.edu/en/profile/country/cze/> (accessed February 17, 2018).

<sup>65</sup>„Czech Republic. 2018 index of economic freedom,“ © 2018 by The Heritage Foundation, <https://www.heritage.org/index/country/czechrepublic> (accessed February 17, 2018).

## 4. Law regulation of business

This chapter is devoted to the analysis of the legal framework for doing business in the Czech Republic. Business is run under certain legislative conditions, and every person should follow them. In 2004 Czech Republic joined EU, that influences economy, politics and other spheres of life, including law regulation of business. According to Randl and Maláček, the treaty of accession made easier this process<sup>66</sup>. At the same time, it is needed to tell, that the legislative environment of the Czech Republic is very complex. A big number of amendments and laws make it difficult. Within scope of this bachelor, the aim is to capture main legal rules. The following text will show how to do business in the Czech Republic from the legal point of view.

### 4.1. Procedure of starting a business in the Czech Republic.

There are few essential steps, that person needs to take if he or she wants to start a business in the Czech Republic<sup>67</sup>:

1. Check the uniqueness of the company's name on the Ministry of Justice's website.
2. Notarize articles of association and lease agreement.
3. Obtain confirmation of the administrator or the capital contribution of the company, along with the confirmation of the bank that the capital contribution is held in the company's special bank account.
4. Register with the Trade Licensing Office and obtain extract of the trade license, which type depends on the scope of business. "Notifiable" trades are carried out on the notification to the relevant Office and "concession" trades are carried out on the concession granted by the relevant Office. In first case, entrepreneur needs to notify his intention to pursue such an activity. "Concession" trade could be provided after permission given by relevant Office<sup>68</sup>.

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<sup>66</sup> RANDL, Pavel, MALÁČEK, Vladimír, Setting up a business in the Czech republic, © 2018 Randl Partners, 2010/2011, p. 32, <http://www.randls.com/Renderers/ShowMedia.ashx?id=58bd6b98-3472-48aa-974b-864195412880>.

<sup>67</sup> „Ease of Doing Business in Czech Republic 2018,“ © 2017 The World Bank Group, <http://www.doingbusiness.org/data/exploreconomies/czech-republic#starting-a-business> (accessed February 17, 2018).

<sup>68</sup>MCKENZIE, Baker, “Doing Business in the Czech Republic 2017”, © 2018 Baker McKenzie, 15 p., <https://www.bakermckenzie.com/en/insight/publications/2017/02/dbi-czech-republic>.

5. Register in the Business Registry of the Regional Commercial Court through a notary.
6. Tax registration.
7. Social security's registration.
8. Health insurance registration.

A company became official when it incorporates in the Commercial Register. It is required to have the following documents to registry a company:

- a founding document,
- an original record of the founder's registration in the Commercial Register,
- consent of the owner of the property where the official seat is located with the land registry certificate,
- trade or other relevant licenses,
- declaration of the founder's contribution,
- an affidavit that legal requirements for performance of its office have been met,
- a clear criminal record certificate,
- other documents, in some cases<sup>69</sup>.

In case of individual entrepreneurship ("OSVČ, osoba samostatně výdělečně činná", is a person who has income from business and / or other self-employed activity), person have to register in four ministries and institutes<sup>70</sup>:

1. Individual Entrepreneurship Department ("Živnostenský úřad"). Doesn't need for some self-employed activities ("OSVČ bez živnosti"). For example, agricultural production, forestry and water management, authors' activities, independent professions that are not trades or businesses under special regulations (writer, actor, musician and so on); activities and business that are regulated by special acts, for which the state examination is usually required (tax advisers, lawyers, brokers,

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<sup>69</sup> "Taxation and investment in Czech Republic 2016. Reach, relevance and reliability," © 2018 Deloitte Touche Tohmatsu Limited, 4 p., <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-ibs-czech-tax-invest-en-2016.pdf&prev=search> (accessed February 17, 2018).

<sup>70</sup> "Registrační povinnosti podnikatele (OSVČ). 2011," © 2011 - 2014 iPodnikatel.cz - Portál pro podnikatele, <http://www.ipodnikatel.cz/Zalozeni-zivnosti/registracni-povinnosti-podnikatele-osvc.html> (accessed February 15).

psychotherapists and so on). In other case it is needed to fill out the Single Registration Form (“Jednotný registrační formulář”). Through the single registration form its possible to make all the necessary and optional registration and announcement at the same time (starting a trade, income tax registration, health insurance announcements and social security administration, also road tax, VAT or employee income tax in case)<sup>71</sup>.

2. Ministry of Finance (“Finanční úřad”);
3. Czech Administration of Social Security (“Česká správa sociálního zabezpečení”);
4. Healthcare Fund (“Zdravotní pojišťovna”).

#### **4.2. Legal regulation of business in the Czech Republic**

A wide range of legislative modifications apply to business entities in the Czech Republic. To the most important belongs the Civil Code, the Business Corporation Act, the Trades Licensing Code, the Accounting Act, the Labor Code, etc. In 2014 a new Act on Business Corporations and a new Civil Code replaced the Commercial Code and Civil Code. These is the most important change since 1991, that change Czech business legislation<sup>72</sup>.

Before these act review, notice, that exists 2 group of condition for entrepreneurship.

1. Common conditions include:
  - full legal capacity;
  - clean criminal record;
  - no debt to the state.
2. Special conditions mean that person have certain professional skills and qualification if the law demands<sup>73</sup>.

##### **4.2.1. The Civil Code („Nový Občanský zákoník”)**

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<sup>71</sup> „Podnikání - jak začít podnikat. 2018,“ © Jak podnikat - pár slov pro podnikatele a ostatní OSVČ, <http://www.jakpodnikat.cz/jak-zacit-podnikani.php> (accessed February 15).

<sup>72</sup> MCKENZIE, Baker, “Doing Business in the Czech Republic 2017”, © 2018 Baker McKenzie, 4 p., <https://www.bakermckenzie.com/en/insight/publications/2017/02/dbi-czech-republic>.

<sup>73</sup> KAMENÍK, Petr, HRABÁNKOVÁ, Milada and ORLOVÁ, Marie, *Živnostenský zákon: zákon o živnostenských úřadech: komentář* (Praha: Wolters Kluwer, 2014), p. 53-55.

The Civil Code was adopted by the Parliament of the Czech Republic and promulgated in the Collection of Laws No. 89/2012 Coll. This Civil Code recodified Czech private law and replaced the previous Czechoslovak Civil Code of 1964 and other laws, including the Family Act or the Act on the Ownership of Dwellings<sup>74</sup>.

The Civil Code is divided into five parts: general part, family law, absolute property rights, relative property rights and common, transitional and final provisions. In the general part are defined the individual terms with which the text of the Civil Code works (for example, concept of businessman, business firm, trade secret and so on). Besides, this part includes the principles of private law (§1-14), legal regulation of the status of natural and legal persons. The Civil Code regulates three forms of legal entities: corporations (korporace), foundations (fundace) and institutions (ústavy). Part Three “Absolute Property Rights” provides with a definition of ownership, rights to foreign objects and the issue of inheritance. The fourth part “Relative Property Rights” is the most comprehensive and dedicated to the definition of different types of contracts and obligations. The fifth part deals with legislative and technical issues<sup>75</sup>.

#### **4.2.2. Business Corporations Act (“Zákon o obchodních korporacích”)**

Business Corporations Act No 90/2012 Coll.<sup>76</sup> is closely linked to the Civil Code. It provides legal regulations for public companies, limited partnerships, limited liability companies, joint stock companies and cooperatives. The law also mentions European society, the European Economic Interest Grouping and the European Co-operative Society. It defines the basic conditions for the operation of commercial corporations.

#### **4.2.3. Trade Act (“Živnostenský zákon”)**

Trade Act No 455/1991 Coll.<sup>77</sup> regulates the conditions of the entrepreneurial business and the control over their observance. It determines the types of trades and defines what the trade is and what is not, the extent of the trade license and what is needed to obtain it. The law also contains annexes, in which lists individual types of trades and their contents. The Trades Act is followed by

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<sup>74</sup> Act No 89/2012 Coll., as amended, občanský zákoník (i.e. “Civil Code”), official translation.

<sup>75</sup> SYROVÁTKOVÁ, Jaroslava, *Legislativní podmínky podnikání v České republice 2017, aktuální daňová legislativa, pracovní právo* (Karkonoska Agencja Rozwoju Regionalnego S.A., 2017), 4 p., [http://www.karr.pl/images/projekty/siec\\_rozwoju/Pakiety\\_informacyjne/pdf/1b.pdf](http://www.karr.pl/images/projekty/siec_rozwoju/Pakiety_informacyjne/pdf/1b.pdf).

<sup>76</sup> Act No 90/2012 Coll., as amended, Business Corporations Act (i.e. “Zákon o obchodních společnostech a družstvech (zákon o obchodních korporacích”).

<sup>77</sup> Act No. 455/1991, as amended, the Trade Licensing Act (i.e. “Živnostenský zákon”).

Act No. 570/1991 Coll.<sup>78</sup>, On Trade Licensing Offices, which defines the structure, competence and competence of the Trade Licensing Offices.

According to the Trade Act person could start a business if meet the following requirements:

- full authority,
- clean criminal record,
- professional or other capacity, if this law or special regulations require it.

#### **4.2.4. Law on Private International Law (“Zákon o mezinárodním právu soukromém”)**

Law on Private International Law No 91/2012 Coll.<sup>79</sup> governs whether the private law relationship will be governed by the law of that country. The international element may consist, when the contract was concluded with a foreign legal entity or the contract was concluded in the territory of another state. The Act also regulates the legal status of foreigners and foreign legal entities in their private relations. Foreigners and foreign legal entities have, in principle, the same rights and obligations as nationals of the Czech Republic and Czech legal entities in the area of their personal and property rights. However, the law may provide for certain exceptions.

#### **4.3. Business taxation**

Accounting Act No 563/1991 Coll.<sup>80</sup> regulates accounting procedure. Any entrepreneur who carries on business on the basis of a trade license or other authorization or is registered in the Commercial Register must display his activities faithfully and truthfully through tax records. Exists five forms for accounts depends on the type of business: entrepreneurs, banks, insurance companies; organization financed by the state, non-profit organization.

Tax registration of income is regulated by the Act No. 586/1992 Coll., On Income Taxes<sup>81</sup>. Tax records serve to determine the income tax base. It contains income and

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<sup>78</sup> Act No. 570/1991, as amended, the Trade Licensing Act (i.e. “Zákon o živnostenských úřadech”).

<sup>79</sup> Act No. 91/2012, as amended, Law on Private International Law (i.e. “Zákon o mezinárodním právu soukromém”).

<sup>80</sup> Act No. 563/1991, as amended, Accounting Act (i.e. “Zákon o účetnictví”).

<sup>81</sup> Act No. 586/1992, as amended, Income Tax Act (i.e. “Zákon o daních z příjmů”).

expense data, as well as property and liability data. It is basically a very simplified and reduced form of accounting<sup>82</sup>.

In the Czech Republic exists following taxes:

1. Income Tax (Personal Income Tax and Corporate Income Tax);
2. Value Added Tax;
3. Excise Duties (on hydrocarbon fuels, spirits, tobacco, beer and wine);
4. Road Tax (on road vehicles used for business purposes);
5. Environmental Taxes;
6. Real Estate Transfer Tax;
7. Real Estate Tax<sup>83</sup>.

#### **4.3.1. Personal Income Tax**

Individuals with a permanent address in the Czech Republic, or physically present there for more than 183 days during a particular calendar year, are considered to be Czech tax residents, whose are taxed on their worldwide income in the Czech Republic. Non-residents, who works here, are taxable only on their Czech source income.

The current personal income tax rate on 15% for worldwide income. In some case it could increase of 7%. The solidarity increase of personal income tax rate when the aggregate income from dependent activity together with the aggregate tax base from independent activities; and the amount of average salary multiplied by 48<sup>84</sup>.

#### **4.3.2. Corporate Income Tax**

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<sup>82</sup> SYROVÁTKOVÁ, Jaroslava, *Legislativní podmínky podnikání v České republice 2017, aktuální daňová legislativa, pracovní právo* (Karkonoska Agencja Rozwoju Regionalnego S.A., 2017), 6 p., [http://www.karr.pl/images/projekty/siec\\_rozwoju/Pakiety\\_informacyjne/pdf/1b.pdf](http://www.karr.pl/images/projekty/siec_rozwoju/Pakiety_informacyjne/pdf/1b.pdf).

<sup>83</sup> MCKENZIE, Baker, "Doing Business in the Czech Republic 2017", © 2018 Baker McKenzie, 18 p., <https://www.bakermckenzie.com/en/insight/publications/2017/02/dbi-czech-republic>.

<sup>84</sup> MCKENZIE, Baker, "Doing Business in the Czech Republic 2017," © 2018 Baker McKenzie, 26 p., <https://www.bakermckenzie.com/en/insight/publications/2017/02/dbi-czech-republic>.



Legal entities having their legal seat or place of efficient management in the Czech Republic are treated as subject to Czech corporate income tax (CIT) on their worldwide income. The main information about CIT is given in the table 3.

Table 3. Corporate income tax in the Czech Republic<sup>85</sup>.

Corporate income tax rate	19 % (5 % in some cases)
Branch tax rate	19 %
Capital gains tax rate	0 % / 19 %
Basis	Worldwide basis
Double taxation relief	Yes
Tax consolidation	No
Social security and health insurance	34 % (partially capped)

### 4.3.3. Value Added Tax

Czech value added tax (VAT) law corresponds with EU VAT law. VAT act No. 235/2004 Coll<sup>86</sup>. regulate it. According to it, VAT should pay individuals or entities, that have an establishment in the Czech Republic, provides an economic activity, for last successive year their turnover exceeds CZK 1,000,000. A foreign entity also must register for VAT in the Czech Republic. There are some certain cases, when a special VAT registration is needed to be done.

Standard VAT rate of 21 % applies to the most goods and services. A reduced rate of 15 % is charged on certain goods and services (food, medical instruments and so on). The second reduced VAT rate of 10% was made for books, some baby food and certain medical goods.

### 4.3.4. Excise Duties

Excise duties obligation are provided with Council Directive 2008/118/EC. European Union legislation include following condition for excise duties:

- rates on specific products;
- criteria for excisable products;
- establishment for duty obligation;
- exemption and refund;

<sup>85</sup> "Taxation and investment in Czech Republic 2016. Reach, relevance and reliability," © 2018 Deloitte Touche Tohmatsu Limited, 9-10 p., <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-ibs-czech-tax-invest-en-2016.pdf&prev=search> (accessed February 17, 2018).

<sup>86</sup> Act No. 235/2004, as amended, VAT Act (i.e. "Zákon o DPH").

- control over movement of various goods<sup>87</sup>.

This tax is obliged for organization that manufacture or import some category of goods, for example hydrocarbon fuels, alcohol, tobacco, etc. Excise Duty Act No. 353/2003 Coll.<sup>88</sup> regulate the administration of such kinds of products, including the way of handling excisable products, duty payers, authorization proceedings, etc.

#### 4.3.5. Road Tax

The cars used for business purposes fall under the Road Tax No. 16/1993 Coll.<sup>89</sup> The tax period is a calendar year. It is specific for each kind of vehicle and based on engine capacity in cm<sup>3</sup> for passenger cars, excluding electric cars, the sum of the maximum authorized axle weights in tonnes and the number of axles of the semi-trailers, the maximum authorized mass in tonnes and the number of axles for other vehicles. For example, tax rates for personal cars is demonstrated in table 4.

Table 4. Tax rates for personal car in the Czech Republic

Type, cm <sup>3</sup>	Tax, CZK
Up 800	1200
From 800 to 1250	1800
From 1250 to 1500	2400
From 1500 to 2000	3000
From 2000 to 3000	3600
Over 3000	4200

For other motor vehicles tax varies 1 800 CZK to 50 400 CZK per year. To the end of 2016 transport taxes amounted to EUR 237,26 million, which is more than in previous year on EUR 8,43 million<sup>90</sup>.

#### 4.3.6. Environmental Taxes

An environmental tax concerns with something that has a proven, specific negative impact on the environment and which is defined in the European system of accounts

<sup>87</sup> „Joint final report on the Results of Parallel Audits of Excise Duty Administration in the Slovak Republic and in the Czech Republic. NKÚ. Czech Republic Supreme Audit Office, 2017“, 11 p., © Česká Republika. Nejvyšší kontrolní úřad, [https://www.nku.cz/assets/publikace-a-dokumenty/ostatni-publikace/spolecna-zprava-kontrola-spotrebni-dane-cr-sr\\_en\\_1.pdf](https://www.nku.cz/assets/publikace-a-dokumenty/ostatni-publikace/spolecna-zprava-kontrola-spotrebni-dane-cr-sr_en_1.pdf) (accessed February 18, 2018).

<sup>88</sup> Act No. 353/2003, as amended, Excise Duty Act (i.e. “Zákon o spotřebních daních”).

<sup>89</sup> Act No. 16/1993, as amended, Road Tax (i.e. “Zákon o dani silniční”).

<sup>90</sup> „Environmental tax revenues. 2018,“ Eurostat. Statistics explained, © European Union, 1995-2013: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env\\_ac\\_tax&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_ac_tax&lang=en) (accessed February 18, 2018).

(ESA 2010) as a tax<sup>91</sup>. Environmental taxes in the Czech Republic is in line with European Union law No. 261/2007 Coll. It includes electricity tax, natural gas tax and other gases tax and solid fuel tax. According to it, subject to tax are natural gas, biogas, coal gas, water gas, gas, methane and other gases, solid fuel and electricity, that are used for engine propulsion, heat production and other purposes specified in the law<sup>92</sup>. To the end of 2016 environmental tax revenues in the Czech Republic amounted to EUR 3 725,42 million. Energy taxes to the same period made EUR 3 462,2 million. Pollution taxes reduce compared to 2015 from EUR 30,98 million to EUR 25,97 million<sup>93</sup>.

#### **4.3.7. Real Estate Transfer Tax**

Real estate transfer tax regulated by the Senate legal action on the tax on the acquisition of immovable property No. 340/2013 Coll.<sup>94</sup> Any transfer of real estate applies at a rate of 4 %. The real estate transfer tax are paid when entrepreneurs sell land plots, building or another object of real estate.

#### **4.3.8. Real Estate Tax**

Real estate tax is under the the regulation of the Real Estate Tax Act No.338/1992 Coll<sup>95</sup>. This tax applies on buildings and plots of land registered in the Real Estate Cadastre and depends on their size and location. It is paid by the owner. The Real Estate Tax Act defines taxable subject, exemptions, tax base and rate, taxpayer, tax return, condition of payment and statute of limitation.

#### **4.4. Labor law regulation**

The Czech Labor Code, Act No. 262/2006 Coll<sup>96</sup>. is the principal legislative act that define relations between employees and employers. Also to this sphere applies the Act

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<sup>91</sup> „Environmental tax statistics. 2018,“ Eurostat. Statistics explained, © European Union, 1995-2013, [http://ec.europa.eu/eurostat/statistics-explained/index.php/Environmental\\_tax\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Environmental_tax_statistics) (accessed February 18, 2018).

<sup>92</sup> SOBOTOVIČOVÁ, Šárka, „Environmental taxes in the Czech Republic,“ *AAK - Acta academica karviniensia*, No 2 (2011): 167-168, <http://aak.cms.opf.slu.cz/pdf/2011/2/sobotovicova.pdf> (accessed February 12, 2018).

<sup>93</sup> „Environmental tax revenues. 2018,“ Eurostat. Statistics explained, © European Union, 1995-2013: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env\\_ac\\_tax&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_ac_tax&lang=en) (accessed February 18, 2018).

<sup>94</sup> Act No. 340/2013, as amended, Senate legal action on the tax on the acquisition of immovable property (i.e. “Zákonné opatření Senátu o dani z nabytí nemovitých věcí”).

<sup>95</sup> Act No. 338/1992, as amended, Real Estate Tax Act (former property tax) (i.e. “Zákon o dani z nemovitých věcí (dříve daň z nemovitosti)”).

<sup>96</sup> Act No. 262/2006, as amended, Labor Code (i.e. “Zákoník práce”).

on Employment No. 435/2004 Coll.<sup>97</sup> and Act on Collective Bargaining No.2/1991 Coll.<sup>98</sup>.

The subject of labor relationships is “fulfillment of dependent (subordinated) work”. Such relationships emerge within an employment relationship, on the basis of an employment agreement (“pracovní smlouva”); or outside an employment relationship, on the basis of an agreement for performance of a specific work assignment (in “dohoda o provedení práce”) or an agreement on work activity (“dohoda o pracovní činnosti”)<sup>99</sup>.

Government Order On Minimum Wage No. 336/2016 Coll.<sup>100</sup> declare the minimum wage is CZK 11 000 per month and the lowest minimum hourly wage is CZK 66.00 valid for 40 hours of weekly working hours. Table 5 describes the levels of the guaranteed wage depending on work’s complexity, difficulty and responsibility.

Table 5. The minimum guaranteed wage amounts in the Czech Republic.

Working group	The lowest level of guaranteed wages	
	in CZK per hour	in CZK per hour
1	66	11000
2	72,90	12200
3	80,50	13400
4	88,80	14800
5	98,10	16400
6	108,30	18100
7	119,60	19900
8	132,00	22000

#### 4.5. Main principles of business for foreigners.

Generally, foreign person can start a business on the same conditions as Czechs, unless special laws stipulate otherwise (eg restrictions resulting from the Foreign Exchange Act, etc.). It follows from the Trades Licensing Code (Section 5, Paragraph 2 of Act No. 455/1991 Coll.), which indicate that a natural person who does not reside in the Czech Republic or a legal entity which has no registered office in the Czech Republic may carry on business on the territory of the Czech Republic under the same conditions and

<sup>97</sup> Act No. 435/2004, as amended, Act on Employment (i.e. “Zákon o zaměstnanosti”).

<sup>98</sup> Act No. 2/1991, as amended, Act on Collective Bargaining (i.e. “Zákon o kolektivním vyjednávání”).

<sup>99</sup> MCKENZIE, Baker, “Doing Business in the Czech Republic 2017,” © 2018 Baker McKenzie, 37 p., <https://www.bakermckenzie.com/en/insight/publications/2017/02/dbi-czech-republic>.

<sup>100</sup> Government Regulation No. 336/2016, as amended, On minimum wage... (i.e. “O minimální mzdě...”).

to the same extent as a Czech person, unless the trade or special law provides otherwise<sup>101</sup>.

The recognition of foreign persons as entrepreneurs in the Czech Republic has undergone considerable development. The fundamental provision in this sense is Section 30 of Act No. 91/2012 Coll., On Private International Law (“zákon o mezinárodním právu soukromém”), which states that the Czech legal system recognizes a person who has been legally established and exists under a foreign legal system as a body of law without further action. Foreign legal entities also apply the principle that the law of the state where a legal entity was established is valid. In general, a foreign person can start business in the Czech Republic after the registration in the Commercial Register<sup>102</sup>.

A foreigner has a legal possibility to:

- set up a branch office in the Czech Republic;
- found a business entity;
- participate in the Czech business entity;
- establish an association<sup>103</sup>.

#### **4.6. Changes in Czech law for entrepreneurs in 2018.**

Business sphere is interwoven with a lot of a changes. Czech Republic is not an exception. Some of modify are listed below<sup>104</sup>:

1. General data protection regulation (GDPR). With it help, EU want to make better protection of individuals personal data. For businessman it means that their will must report any personal data information’s leakage, also their will have to minimize the volume of personal data.

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<sup>101</sup> Act No. 455/1991, as amended, the Trade Licensing Act (i.e. „Živnostenský zákon“).

<sup>102</sup>DOLEČEK, Marek, „Podnikání zahraničních osob v ČR,“ © 1997-2018 CzechTrade, <http://www.businessinfo.cz/cs/clanky/podnikani-zahranicnich-osob-v-cr-ppbi-63773.html#!>, (accessed February 08, 2018).

<sup>103</sup> MCKENNA, Cameron, „Alternative corporate structure” in: REUVID, Jonathan and Marat TERTEROV, *Doing business with the Czech Republic* (GMB Publishing Ltd., 2005), p. 60, [https://books.google.cz/books?id=PNPyLLOs0JIC&pg=PA51&hl=ru&source=gbs\\_toc\\_r&cad=3#v=onepage&q&f](https://books.google.cz/books?id=PNPyLLOs0JIC&pg=PA51&hl=ru&source=gbs_toc_r&cad=3#v=onepage&q&f).

<sup>104</sup>JEŽEK, Mojmir, “Most important changes in Czech law for entrepreneurs in 2018,” *Doing business in Czech Republic*, 2018: 52-53.

2. Register of beneficial owners of legal entities. A beneficial owner means any natural person that has the possibility to either directly or legally exercise factual influence within a given legal entity, with more detailed rules being set for individual types of legal entities.
3. Statutory pre-emptive rights about immovable property.
4. Amendment to the building act.
5. Compensation for damage in the field of competition.
6. Unified electronic identification.

## **5. Results and Discussion**

Everyone has the right to do a business or conduct another economic activity in the territory of the Czech Republic according to Article 26 of the Charter of Fundamental Rights and Freedoms<sup>105</sup>. An individual entrepreneur faces rights and duties, that regulates by many legislative acts of the Czech Republic. No need to say that law observance is one of the several requirements to provide a business. Law determine what profession you could chose as an individual entrepreneur (Annex of the Trade Act), on what condition you could carry on economic activity, how you could do it. All the steps are regulated by the legislative acts.

Overall, the Czech Republic is one of the most stable and attracting for investors market in Europe. It shows strong economic, but it is no easy place to conduct business, even though the Czech Republic is trying to reduce the time and number of procedures to start a business.

Some business reform makes it easier to do business, such as:

1. Lower fees for simple limited liability companies,
2. Allowance notaries to directly register companies through an online system,
3. Reducing the minimum capital requirement and the paid-in minimum capital requirement,
4. New regime on secured transactions that allows the registration of receivables at the collateral registry and permits out-of-court enforcement of collateral,

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<sup>105</sup> Constitutional act No. 2/1993 Coll. as amended by constitutional act No. 162/1998 Coll. The Charter of Fundamental Rights and Basic Freedoms, (i.e. „Listina základních práv a svobod“), official translation.

5. Modifying the monetary jurisdictions of courts<sup>106</sup>,
6. Reducing burdens in the Trades Licensing Act (for example, entrepreneurs don't have to provide documents if they were already submitted to another trade licensing office; entrepreneurs were allowed to make their submissions electronically and so on),
7. Full electronization of forms for entrepreneurs,
8. Extending the deadline for the VAT payer for control reports following a tax administrator's call,
9. Simplification of administration for small electricity producers,
10. Approval of the material intent of the Act on Social Entrepreneurship and so on<sup>107</sup>.

On the other hand, some reforms make more difficult to do business here:

1. New requirements for filing VAT control statements,
2. Increasing the property transfer tax rate and so on.

Alongside with it, slow judicial process and lack of transparency in public procurement are also complicate doing business in the Czech Republic.

In general, it takes 9 days to do 8 procedures, that are needed for establishing a limited liability company. In the Ease of Doing Business Ranking the Czech Republic places on 30<sup>th</sup> overall position. Alongside with it, it is just on 81<sup>th</sup> rank in terms of starting a business. Even worst it is with dealing with construction permits (127). As for paying taxes the Czech Republic is on 53<sup>th</sup> rank. It takes 8 payment per year and 248 hours to prepare, file and pay (or withhold) the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions. The total tax rate is 50 % of profit<sup>108</sup>.

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<sup>106</sup> „Business Reforms in Czech Republic, 2018,“ © 2017 The World Bank Group, <http://www.doingbusiness.org/reforms/overview/economy/czech-republic> (accessed February 19, 2018).

<sup>107</sup> „Desatero pro podnikatele aneb zkvalitňování podnikatelského prostředí v ČR, 2017,“ © 2005 - 2018 MPO, <https://www.mpo.cz/cz/podnikani/regulace-podnikani-a-snizovani-administrativni-zateze/podnikatelske-prostredi-v-cr-se-zlepsuje--231214/> (accessed February 18, 2018).

<sup>108</sup> „Ease of Doing Business in Czech Republic 2018,“ © 2017 The World Bank Group, <http://www.doingbusiness.org/data/exploreeconomies/czech-republic#starting-a-business> (accessed February 17, 2018).

It needs to be said, that despite certain complexity of Czech legislative, the business environment in the Czech Republic is improving. From the legal point of view, it is important, that the country's legal system is mostly matched with EU requirements

## **Conclusion**

The bachelor study focusses on the review of the legal framework for doing business in the Czech Republic. Research started with the analysis of theoretical concepts, which are important for the whole work such as business, entrepreneur and so on. The history of study on this phenomenon demonstrate different opinion and understanding what is business itself and what kind of person could it conduct. Anyway, in the 18<sup>th</sup> century was distinguished the main features of entrepreneurship, such as profit as the purpose; commercial idea to achieve profit and risk as an inevitable negative condition of the whole process. Taking everything into account, it could be said, that there is no consensus on this concept.

From the economic point of view, business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. Such activity lead to innovation and growth of the whole society. There are three main form of business - the sole proprietorship, partnerships and corporation. In the Czech Republic exists following legal form of business: individual entrepreneur, general partnership, limited partnership, limited liability company, joint-stock company, European economic interest grouping, European company, cooperative, state enterprise.

A person who, on his own account and responsibility, independently carries out a gainful activity in the form of a trade or in a similar manner with the intention to do so consistently for profit is considered, with regard to this activity is called to be an entrepreneur. Run a business in the Czech Republic could everyone, as Czechs as foreigners, on the same conditions.

Educated population, well-developed infrastructure, skilled labour force, connection to the rest of the world and other economic features make Czech Republic a promising country for business to start. On the whole, the Czech Government is trying to improve



business environment and make conducting a business easier. Despite this, the legislative environment of the Czech Republic is very complex. There are 8 steps person need to make if he/she wants to start a business and a number of document to registry the company.

To summarize the review of legislative framework for doing business in the Czech Republic, it need to mention, that, starting and conducting an enterprise connected with a lot of administrative barrier. To run a business demand knowledge of different act and code. The most important are the Civil Code, the Business Corporation Act, the Trade Act, Law on Private International Law, the Accounting Act, the Labour Code, different business taxation laws. Overall, the Czech government provide some changes, action and reforms to improve business environment.

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