

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

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BACHELOR THESIS ASSIGNMENT

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Agricultural Economics and Management

Thesis title

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

Objectives of thesis

The aim of this thesis is to study the legal structure of business regulation, the Czech company founding processes and company forms from the viewpoint of a foreign investor and to present the case of a joint venture of the Czech Technology Park in Brno, including environmental scanning and future prospects.

Methodology

The method of investigation of this thesis is a qualitative normative method, which with the help of different kinds of laws and articles examine business running processes. In this research inductive-deductive will be employed. Deductive works from the more general to the more specific. And inductive reasoning works the other way, moving from specific observations to broader generalizations and theories.

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- 2)05-06/2013: Investigation and collecting data according to information resources, consultation with the supervisor.
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Keywords

Legal structure, Privatization, Foreign Direct Investment, Company founding, Company forms, Case study.

Recommended information sources

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 - 3) Monika Pauknerova. 2011. Private International Law In The Czech Republic. The Netherlands: Kluwer Law International BV. 189p. ISBN 978-90-411-3836-1.
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Další literatura po dohodě s vedoucím práce / Additional literature and resources upon agreement with the tutor.

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Prague November 8, 2013

Declaration

I declare that I have worked on my bachelor thesis "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 third person.

In Prague on

Sogdiana Tursunova

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

Přehled právního rámce pro podnikání v ČR

Summary

The main objective of this research is to describe the principal key elements of the Czech Republic's regulatory environment for business as well as the basic legal issues concerning starting a company and business activity. The secondary objective is to present the main features of the successful business experience of the British development partner on the Czech industrial market. In the beginning, the research deals with the general overview of the Czech economy, the legal framework for foreign investment and FDI inflow in the country. After that, the research focuses on the legislation which regulates the establishment of a new company or business activity. In addition, the regulatory framework governing labor regulations, taxation and finance system will be handled. In the end, the research presents the case study of the Czech Technology Park Brno. The conclusion of the present bachelor's thesis work discusses a summary of the whole work, including author's comments.

Keywords: Czech Republic, business, investment, taxation, law, case study

Souhrn

Hlavním cílem tohoto výzkumu je popsat hlavní klíčové prvky právního prostředí České republiky pro podnikání a také, základní právní otázky týkající se založení společnosti a obchodní činnost. Druhotným cílem je představit hlavní rysy úspěšné obchodní zkušenosti z britského vývojového partnera v českém průmyslovém trhu. První část výzkumu se zabývá všeobecným přehledem o české ekonomiky, právním rámcem pro zahraniční investice a přílivem přímých zahraničních investic do ČR. Poté výzkum se zaměřuje na právní předpisy, které upravují založení nové společnosti nebo podnikatelské činnosti. Zohledněn je též regulační rámec upravující pracovně-právních předpisů, zdanění a finanční systém. Následně je předložena případová studie Český technologický park Brno. Bakalářská diplomová práce kulminuje ve svém závěru, kde se předkládá shrnutí celé práce, včetně komentáře autora.

Klíčová slova: Česká republika, podnikání, investice, zdanění, zákon, případová studie

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List of Abbreviations and Acronyms

ABC	Act on Business Corporations
AS	Joint-Stock Company
BUT	Brno University of Technology
CIT	Corporate Income Tax
CTPark	Czech Technology Park
CZK	Czech Crown
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
IFRS	International Financial Reporting Standards
LLC	Limited Liability Company
NCC	New Civil Code
P&O	Penunsilar and Oriental Steam Navigation Company
SRO	Limited Liability Company
VAT	Value Added Tax

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1 Introduction

1.1 Research Background

The legal framework for doing business is crucial. In our post-modern information society no entrepreneur can afford to launch a business venture without being aware or knowledgeable of the applicable rules. Concisely: in order to successfully play the game, information about the Czech Republic's regulatory rules is indispensable. After reading several extremely interesting reports and articles, I became interested in doing research on the legislative provisions related to the business environment in the Czech Republic and its impact on the business operations. I have spent the last seven months researching and I must say that it was worth it. During my research I noticed that the Czech Republic's legal system governing business environment allows for conducting successful business.

In the Czech Republic, people may engage in business in two ways either as an individual or as a legal entity. Under Czech legislation, a natural person is an entity who pursues business activities on the basis of a Trade License.

Legal entities are associations of individuals or other legal entities, special-purpose associations of property, territorial self-government units and other entities specified by Czech legislation.

This bachelor's thesis work may well be of interest to the audience who are interested in obtaining some information about the principal elements of business regulation. The Czech Republic attracts foreign investments and entrepreneurs because it has developed transport infrastructure, a skilled and disciplined work force, a highly developed technical base, and a positive approach from the Czech Government.

1.2 Research Objective

The first objective of this research is to elucidate the key elements of the regulatory environment for business in the Czech Republic. This translates to the need to find out how the regulatory framework for business works and which issues business people should pay

attention if they want to do business in the Czech Republic. The secondary objective of this research is to analyze the case study of the Czech Technology Park Brno.

This research concentrates on the legislation which governs the business environment in the Czech Republic. As for the case, the research concentrates on the successful experience of the British development partner in the Brno industrial park. This leads to another set of issues and questions, such as whether doing business in the Czech Republic is perspective from the viewpoint of foreign investors, and whether doing business in the Czech Republic is worth it.

1.3 Research Method and Material

The research method of this bachelor's thesis work is a qualitative normative method in which I examine the business regulation system and company founding processes with the help of different kinds of laws and articles. There is information which is based on Czech investment incentives law, labor law, income tax law and new corporate law, for example, different tax rates and corporate regulations. The data and analysis provided in the case study are based on secondary source instead of primary research, all the empirical data is gathered from the publications, official websites and magazines. The deduction approach is employed in this research.

1.4 Structure of the Research

The structure of this bachelor's thesis is as follows: Chapter 2 will focus on the business environment of the Czech Republic. It will review the Czech economy, foreign investment regime and FDI inflows. Following an overview of regulatory framework, Chapter 3 focuses on the legislation which regulates the start-up of a new company or business activity. Chapter 4 introduces the legal framework for labor regulations, finance and social security contributions. This chapter also turns on tax issues related to individuals and legal entities. Chapter 5 presents the case study of the Czech Technology Park Brno, focusing on development in time and future prospects on the Czech market. Except Chapter 5, all chapters have partial summary of main findings. The research closes with concluding comments in Chapter 6.

2 Brief Description of the Business Environment of the Czech Republic

2.1 General Overview of Economy in the Czech Republic

Of the former communist countries in Central and Eastern Europe, the Czech Republic has one of the most developed and industrialized economies.¹ The major industries in the country are auto manufacturing, machine-building, mechanical engineering, textile, glass and shoe industries. The main agricultural products are wheat, sugar beets, hops and potatoes. As a small, open economy in the heart of Europe, the country's economic growth is strongly influenced by demand for Czech exports which makes the country being dependent on the partners such as Germany and influx of foreign direct investment (FDI). The Czech government offers investment incentives for investors in order to enhance the country's natural advantages, thereby stimulating the economy.

On 1 May 2004, the Czech Republic became a member of the European Union (EU).² The accession process the EU had a positive impact on reform in the country, and new EU directives and regulations continue to shape the Czech Republic's business environment.

However, the economic transformation in the Czech Republic is not yet completed. The government still faces the challenges in completing industrial restructuring, increasing transparency in capital market transactions, improving law enforceability, and reforming the pension and health care systems.

Due to the distinction between conferred, shared and not conferred EU competencies, the existence of the internal market and the stage of current European integration, a significant harmonization on the regulatory framework for business environment occurred in the Czech Republic. Nevertheless, there is still a large part of the national law which is out of Brussels' and Luxembourg's reach. Therefore, it is critical to note that the Czech Republic is a state sharing the continental legal tradition, where the supreme law is the Constitution and the significant part of law is set by sources in the form of codices (Czech Civil Code)

¹ International Business Publications USA, *Czech Republic, Mining laws and regulations handbook, Strategic information and basic law*. Washington, DC: International Business Publications, 2013. pg. 29

² JENERÁLOVÁ, I., *Development of Czech economy* [on-line]. Accessible at WWW: <<http://www.czech.cz/en/Business/Economic-facts/Development-of-Czech-economy>>

and other Acts of Parliament. Thus, the current Czech business conduct regulation is done by both, the EU law and the national Czech law. In addition, the evaluation of the business conduct setting should not only include the substantive and procedural EU and Czech national regulation, but as well as its operation in the real business life.

Table 1 The benefits and risks of joining the EU according to Czech companies

Benefits	Risks
<ul style="list-style-type: none"> • No tariffs • New investment opportunities • Balanced business environment • Improved access to capital and public procurement • Availability of EU funds 	<ul style="list-style-type: none"> • Increased demands on business ethics, ecology, technical norms • Tougher labor regulations • Increased competition • Better approach to marketing, presentation of the products, innovation, reliability towards the customers

Source: SKOPAL, L., *The Influence of the European Union on the Czech Company Pilana Tools* [online], pg. 22

According to the 2014 Index of Economic Freedom Czech Republic, “In 2012, several scandals involving senior government officials highlighted ongoing corruption and lack of transparency and caused the European Commission to cut around USD 650 million of EU aid to the Czech Republic. The judiciary’s independence is largely respected, though its complexity and multilayered composition leads to a slow delivery of judgments”. Overall, shareholders rights are protected, and contracts are generally secure.

2.2 Foreign Investment Regime

Foreign investors also have options, as individuals or business entities, to establish sole proprietorships, joint ventures and branch offices in the Czech Republic.

Legally, foreign and domestic investors are treated identically and both are subject to the same tax codes and other laws.³ In principle, the government does not differentiate

³ International Business Publications USA, *Czech Republic Export-Import and Business Directory*. Washington, DC: International Business Publications, 2011. pg. 222

between foreign versus domestic investors, or between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors. Nevertheless, a significant number of cases suggest that certain institutions and/or top (ex) politicians and high state officers might act in a biased manner. Further, the ongoing changes of the legal framework do not support the consistency and reliability of the national legal system and can become serious issues for many foreign investors.

Since coming into force on 1 October 1995, the Foreign Exchange Act has had significant implications for the success of foreign investments in the country. The result of this Act is that the Czech crown (CZK) became fully convertible on the current account of the trade balance.

The new amendments to the Investment Incentives Act⁴ allow for investors to apply for various benefits, after satisfying certain conditions established in the Act, such as:

- Funding for new types of investments;
- Extension of the income tax relief period;
- Direct subsidies for business services and technology centers.

Funding/subsidies for new types of investments are available for manufacturing projects, technological centers and strategic service centers (e.g., centers for software creation, repair centers or shared services centers).

A new income tax discount period is extended from 5 to 10 years for investors who have been offered investment incentives in the Czech Republic.

The Investment Incentives Act (2012) also introduced support for strategic investment activities, which include the following conditions set out in Table 2.

⁴ Act No. 192/2012 Coll., that amends the Act No.72/2000 Coll., on Investment Incentives

Table 2 Strategic investment concept

Type of strategic investments	Minimum investment amount (CZK, million)	Minimum amount of creating new jobs
Manufacturing industries	500	500
Technology centers	200	120

Source: Data adopted from SANDERS, S., JANECEK, R., *The new regime of investment incentives in the Czech Republic* [on-line]. Accessible at WWW:

<<http://www.lexology.com/library/detail.aspx?g=2a05bcb8-e7fa-46e2-9d95-86347320f95d>>

Companies will be able to claim a direct subsidy of up to 5 per cent of their investment costs, however not more than CZK 1.5 billion in the case of a strategic investment in manufacturing and CZK 0.5 billion in the case of a strategic investment in technological centers. If, however, in the course of a single investment a manufacturing project is established and/or expanded and a technological center is established or expanded as well, the direct subsidy available may be up to 7 per cent of the investment costs.⁵

2.3 Foreign Direct Investment

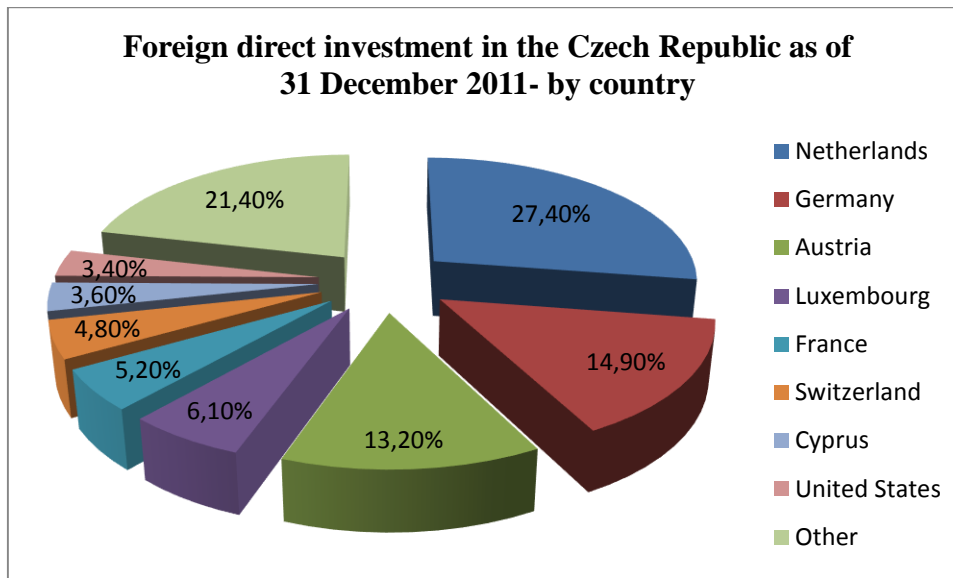
The inflow of foreign direct investment (FDI) into emerging markets, where the Czech Republic certainly belongs, was considered to be one of the key factors for dynamic and quality growth of the economic performance. At the end of 2011, FDI in the Czech Republic totaled CZK 2.4 trillion, which is approximately the same amount as at the end of 2010. The majority of capital invested in the country comes from the EU Member States, mostly from the Netherlands, Germany and Austria.

The greatest portion of FDI inflows has been concentrated in the sector of industrial manufacturing. In recent years, one of the most important investments was made by Toyota Motors and Peugeot in 2002 to jointly build a factory in the town of Kolin at a cost

⁵ SANDERS, S., JANECEK, R., *The new regime of investment incentives in the Czech Republic* [on-line]. Accessible at WWW: <<http://www.lexology.com/library/detail.aspx?g=2a05bcb8-e7fa-46e2-9d95-86347320f95d>>.

of USD 0.85 billion. As result, the Czech Republic became one of the most important players in the automotive sector in Europe. Several other multinational companies such as Honeywell, DHL, IBM, RedHat, Sun Microsystems and Logica subsequently decided to use the Czech Republic's potential in the services and research and development sectors.

Graph 1: FDI by country, end 2011



Source: Data adopted from the Czech National Bank, *Foreign Direct Investment in 2011* [on-line].

Accessible at WWW:

<https://www.cnb.cz/miranda2/export/sites/www.cnb.cz/en/statistics/bop_stat/bop_publications/pzi_books/PZI_2011_EN.pdf>

The top three cities for inward investment are Prague, Brno and Plzen.⁶ The key factors behind the location of investment projects were proximity to markets and the availability of a skilled workforce.

2.4 Summary

Chapter 2 opened by examining the business environment of the Czech Republic. It mainly focused on the developments in the legal standards due to the Czech Republic's accession to the EU in 2004.

⁶ CzechInvest, *Fact Sheet No. 2: Inflow of FDI into the Czech Republic* [on-line]. Accessible at WWW: <<http://www.czechinvest.org/data/files/fs-02-inflow-of-fdi-66-en.pdf>>

As the Czech government has harmonized its laws with EU legislation, this has involved the progress in the field of civil administration, internal markets regulation, intellectual property rights protection, business practices and many other areas important to investors and entrepreneurs. The main benefits are a balanced business environment, financial assistance and foreign direct investments, which help spur economic growth, create new jobs, and increase domestic consumption within the country. On the other hand, there are disadvantages such as increased competition in the domestic market and higher demands on business ethics.

Chapter 2 also reviewed the significance of FDI in the country. The major part of FDI has been concentrated in the industrial manufacturing sector, which has made the country one of the most important players in the field of this sector in Europe. The Czech Investment Incentives Act No.72/2000 Coll. forms the legal framework for investment activities. The Act allows for investors to apply the various benefits. Nevertheless, the investment incentives program does not include any formal discriminatory elements and this can be serious challenge for foreign investors and foreign entrepreneurs.

3 Types of Business Presence in the Czech Republic and Company Founding Processes

3.1 Starting a Business in the Czech Republic

Rules and regulations for entrepreneurs, Czech-owned and foreign-owned businesses, various types of companies, partnerships and co-operatives have been included in the Commercial Code from 1991.

As of January 1, 2014, certain parts of the Commercial Code from 1991 were absorbed or replaced by the new Czech Civil Code⁷ (NCC), and by the new Czech Act on Business Corporations⁸ (ABC). Therefore, the current main sources of legal regulation regarding business conduct are NCC and ABC.

The formation of a company or a partnership in the Czech Republic was and remains a two-step process. Firstly, business entities must be established by the execution of a deed of foundation (predominantly in the form of a notary deed) by all of its founders. Following its establishment, the company or partnership must be incorporated by registration in the Czech Commercial Register.

Registration in the Czech Commercial Register is carried out in court proceedings, in which the court assesses whether the newly established entity meets all statutory requirements for its formation (validly executed deed of foundation, payment of registered capital, legal title to use its registered office, and others).

A business entity that establishing business as a sole proprietor may be registered with the Commercial Court, or trade license regulator. The Trade Licensing Act⁹, as amended, contains a list of existing trades, and the requirements which an entrepreneur, or in the case of a company or partnership, its authorized representative must fulfill in order for the company or partnership to obtain the required trade license, authorizing it to carry out the relevant trade.

⁷ Act No. 89/2012 Coll.

⁸ Act No. 90/2012 Coll.

⁹ Act No. 455/1991 Coll.

The following types of entities are allowed to perform business activities as their main activity:

- Limited liability company;
- Joint-stock company;
- General commercial partnership;
- Limited partnership;
- Co-operative;
- Branch office;
- Sole proprietorship.

3.2 Limited Liability Company

In the Czech Republic the most common type of business entity is a limited liability company (LLC). A LLC may be founded either by one entity (whether an individual or a legal entity) or by a group of entities.

According the Commercial Code form 1991, the minimum registered capital was CZK 200,000, the minimum contribution of a partner CZK 20,000. Non-financial contributions were permitted,¹⁰ subject to their description in the contract and a valuation by two court appraisers. According to the new ABC, the minimum registered capital is just CZK 1.

A LLC does not have a board of directors. The statutory governing body of the company is/are the executive officer (or officers). Each of the executive officers, if there is more than one, has the right to act independently in the name of the company, unless the partnership agreement or the statutes (Section 133, Commercial Code and Section 194, ABC) provide otherwise, although such restrictions are ineffective against third parties.

The law does not require an LLC to establish a supervisory board. However, a supervisory board can be established, provided that the founder's deed or memorandum of association so stipulates. The supervisory board consists of at least three members elected at the general meeting.

¹⁰ SRPOVÁ, J., ŘEHOŘ, V. a kol., *Základy podnikání*. Praha: Grada Publishing, a.s., 2010. pg. 78

One shareholder may have only one business share, but one business share may belong to more than one shareholder. Business shares in the company are not easily transferable, it requires a written agreement. With the approval granted during the general meeting, a shareholder may transfer his/her ownership interest to another shareholder, unless the memorandum of association provides otherwise.

The members (associates) participate in the profit, as determined in a resolution of the general meeting about profit distribution among the members in proportion to the size of their business shares, unless the deed of association provides otherwise. The registered capital, the reserve or other capital fund cannot be used when distributing any profit.

3.3 Joint-Stock Company

Under Section 154(1) of the Commercial Code, a joint-stock was a company whose registered capital was divided into a certain number of shares with a specific nominal value, which is responsible for a breach of its obligations with its entire property. A shareholder was not liable for the company's obligations during its existence. A similar definition is included in the new regulation, i.e. in Section 243 of the ABC.

A joint-stock company is the company type with the highest level of mandatory regulation of its internal affairs (e.g. corporate changes, decision-making etc) and external matters (e.g. legal actions, restrictions for legal actions) by the Commercial Code and by the ABC.¹¹ Only this type of company may be publicly traded on the securities market.

A joint-stock company may be founded by one or more legal persons or at least two natural persons. The company cannot be founded by only one natural person. However, over time, one natural person may concentrate all the shares of the company into his/her ownership.

According to the Commercial Code from 1991, the amount of registered capital had to be at least CZK 2 million and, in the case of public offering shares, at least CZK 20 million.

¹¹ REUVID, J., TERTEROV, M., *Doing business with the CZECH REPUBLIC*. London: GMB Publishing Ltd, 2005. pg. 61

Similarly, under the ABC, the minimal amount of registered capital must be at least CZK 2 million or 80 000 EUR (Section 246 of the ABC).

A reserve fund is obligatory, with a minimum of 10 per cent of the registered capital, fed annually by a minimum amount of 5 per cent of the net profits until the level fixed by the Statutes is reached, with an amount equal to at least 20 per cent.

Table 3 Basic differences between limited liability company (s.r.o.) and joint-stock company (a.s.)

	Limited Liability Company (s.r.o)	Joint-Stock Company (a.s)
Minimum registered capital	CZK 1	CZK 2,000,000 or EUR 80 000
Minimum No. Of Appointments Required	1 (executive)	6 (3 members of the board of directors and 3 members of the supervisory board) (in case of an a.s. with single shareholder, only 1 member of the board of directors is sufficient)
Supervisory Board	Optional	Mandatory
Liabilities	Shareholders are jointly and undividable liable for the liabilities of company only up to the total of their unpaid contribution to the registered capital	Shareholders are not liable for the liabilities of the company

Source: Data adopted from Baker & McKenzie, *Doing Business in the Czech Republic* [on-line] and CzechInvest, *Fact Sheet No. 22: Setting up a Business* [on-line]

The board of directors consists of at least three members, however, this shall not apply in the case of a company with a sole shareholder. Its members are generally elected and recalled by the general meeting or by the supervisory board if the articles of association so stipulate. The board of directors decides on all matters that are not reserved to the general meeting or the supervisory board.

A joint-stock company must establish a supervisory board, which monitors the activities of the board of directors and the operations of the joint stock company.¹² Every shareholder is entitled to a proportion of the company's profits (a dividend) which the general meeting approved for distribution to shareholders, taking into account the company's financial results.

3.4 General Commercial Partnership

A general commercial partnership is a variant of a personal trading company.¹³ The company must have at least two partners – natural or legal persons, who carry out their business activities under one name and are liable for the obligations of the company jointly and severally with all their property. If the partner is a natural person, that person must meet the general conditions laid down by law for the operation of the business. If shareholder of a general commercial partnership is a legal person, then his/her rights and obligations shall be held natural person, either statutory body, or an authorized representative. The company's statutory organ is all partners.

The ABC stipulates only a minimal requirement for a memorandum of association establishing the company and leaves it to the partners to regulate their mutual relationship. No registered capital is required.¹⁴

Regarding the rights of partnership, the profit is distributed among the partners in equal proportions. If the profit of the company for the payment of this amount is not sufficient, it is divided between the shareholders in proportion to the amounts in which they fulfilled their obligation to deposit.

¹² CzechInvest, *Fact Sheet No. 22: Setting up a Business* [on-line]. Accessible at WWW: <<http://www.czechinvest.org/data/files/fs-22-setting-up-a-business-86-en.pdf>>

¹³ KOLÁŘ, J., *Legal Forms of Doing Business in the CR* [on-line]. Accessible at WWW: <http://www.doingbusiness.cz/EcbtApplication2.aspx?rid=42442&app=Main&grp=Content&mod=ContentPortal&sta=ArticleDetail&pst=ArticleDetail&p1=OID_INT_3762&p2=ShowDocInfo_BOOL_False&acode=68416876>

¹⁴ VEBER, J., SRPOVÁ, J. a kol., *Podnikání malé a střední firmy*. Praha: Grada Publishing, a.s., 2012. pg. 72

3.5 Limited Partnership

A limited partnership is an entity founded by at least one limited partner and one general partner. The minimum deposit for a limited partner is to be set in the memorandum of association. The limited partners are liable for the obligations of the partnership together with other partners (general and limited) jointly and severally up to the amount of its unpaid contribution as registered with the Commercial Register. General partners face unlimited liability regarding the obligations of the partnership.

The significant difference between the two classes of partner is, that only general partner of the company is authorized to carry out commercial management of the partnership.

The statutory organ of a limited partnership is also only general partner. A partnership agreement may specify that the statutory organ may be certain of the general partners or one of them.

Profit and loss is divided between the company and general partners. Part of profit which gets the company after taxes is shared to limited partners in proportion to their shares, unless the partnership agreement or a decision of all partners stipulate otherwise. Limited partners of the company do not bear the loss.

3.6 Co-operative

A co-operative is an association of an unlimited number of persons (having at least 3 members¹⁵) established for the purpose of an entrepreneurial activity or securing the economic, social, or other needs of its members.¹⁶ The co-operative is a legal entity, having the liability for its obligations with all its assets.

The minimum registered capital of a co-operative is CZK 50,000, regardless of the number of the founding members of the cooperative. Members may subscribe according to statutes for additional contributions or for further property participation.

¹⁵ Section 552(2) of the new Czech Act on Business Corporations

¹⁶ VEBER, J., SRPOVÁ, J. a kol., *Podnikání malé a střední firmy*. Praha: Grada Publishing, a.s., 2012. pg. 69

A cooperative must create and organize the following: the members' meeting, the managing board and an auditing commission. The managing board and an auditing commission are not mandatory if the co-operative has less than 50 members. Unless agreed otherwise, each member has one vote at the general meeting.

The co-operative must create an indivisible fund in an amount corresponding to at least 10 per cent of the registered capital and must be subsidized by at least 10 per cent of the annual profits until it represents 50 per cent of the registered capital.

When approving ordinary financial statements, the members' meeting shall decide on the amount of profits to be distributed to the members of the co-operative. Unless the statutes provides otherwise, a certain member's share in the total profit allocated for distribution to the members is computed on the basis of the ratio between the amount of his/her paid-up contribution (Section 236 of the Commercial Code and Section 586 of the ABC).

3.7 Branch Office

A branch is one way for a company to set up a business in the Czech Republic. There may be accounting and tax advantages in establishing a branch office, particularly if the branch is to conduct a great deal of business on behalf of the company to which it is attached. However, there is a risk is that the 'mother' company may be held liable for all liabilities of the branch office and the authority of the director of the branch office to act on behalf of the company towards third parties cannot be limited.

A branch office of a foreign company is not a Czech legal entity, but functions as the representative of a foreign company and incurs obligations on behalf of the foreign company. Branch offices must fully list their business activities on their application for registration in the Commercial Register. An appointed director, who is entitled to act on behalf of the foreign company as regards the branch office, must also be registered in the Commercial Register. No registered capital is required.

3.8 Sole Proprietorship

A sole proprietor is a physical person who has income from carrying out a business and/or self-employment. A foreign physical entity may carry out business activities in the Czech Republic under the same conditions as a citizen of the Czech Republic. To be self-employed, the sole proprietor must be at least 18 years of age, to do business on his/her own account, and have a clean criminal record.

A sole proprietor is entitled to declare a trade or to apply for a licence in full or in part. Applying for a licence, an applicant is obliged to define the parameters of the type of business in the wording of the declaration with sufficient accuracy and explicitness. In the declaration for a free trade the applicant defines the types of activity which he/she will pursue during his/her business transactions. The application must also contain a photo identification, proof of citizenship or legal residency, a foreign criminal record extract or affidavit confirming that the physical entity which is applying for a licence has no criminal record, depending on his/her country of origin, a deed (výpis z katastra nemovitosti) and the owner's permission for the place of business, a trade licence selection form, and a stamp tax of CZK 1,000¹⁷ per trade licence.

Sole proprietorships can be formed in 1 to 5 days after filing an application with the trade license regulator, unless the entrepreneur failed to meet the legally defined conditions.

The Trades Licensing Office decides on the granting of a licence within 30 days of receiving the application, in the event that all requirements have been met.¹⁸

3.9 Summary

Chapter 3 reviewed significant changes of regulatory framework relating companies and partnerships. Until 1 January, 2014, the legal regulations for various types of companies, partnerships and cooperatives were in the Commercial Code. Present those areas govern by

¹⁷ According to Act No. 634/2004 Coll., on Administrative Fees, as amended – Lot No. 24 Scale of charges.

¹⁸ Act No. 455/1991 Coll., on Commercial Activities (Small Business Act), as amended.

the new Czech Act on Business Corporations, Act No. 90/2012 Coll. (the ABC). A complex interaction and co-existence of the Commercial Code from 1991 occurs currently, i.e. although the Commercial Code from 1991 was abolished, some of its previous survive and apply to companies and corporations established under the Commercial Code from 1991. Hence the regime of a LLC created in 2012 differs from the regime of a LLC created in 2014.

Chapter 3 also noted that the registration of a company or partnership must be incorporated by registration in the Commercial Register, in case of an entrepreneur who runs a business as a sole proprietor may be registered either with the Commercial Court, or trade license regulator.

In the Czech Republic, the most common company form for small and medium-sized businesses is a limited liability company. Under the new legislation, the minimum contribution of each shareholder of LLC to the registered capital is CZK 1. It became much easier to establish a LLC, however, in the case of such a low contribution, the risk of insolvency and related consequences should be considered.

Following are the main issues that an entrepreneur should take into consideration when he/she setting up a business:

- The issues demanded in corporate registration;
- The minimum corporate capital;
- The concept of corporate existence;
- The minimum number of appointments;
- The regulations for the creating fund;
- The regulations for the rights and obligations of partners.

There are several different kinds of registration requirements and control authorities for the company founding processes. Because of that it is essential to obtain legal advice from experts when starting a business in the Czech Republic.

4 The Legal Structure of Business Regulation

4.1 Labor Law Regulations

The Czech Labor Code, Act No. 262/2006 Coll. is the principal legislative act governing relations between employees and employers in the Czech Republic. Other main statutes and regulations relating to employment includes, in particular, the Act on Employment,¹⁹ Act on Collective Bargaining²⁰ and a number of Decrees relating to the Code. The new Czech Civil Code, Act No. 89/2012 Coll., effective as of January 1, 2014, is generally applicable also to labor-law relationships.

The Work Inspection can impose a fine of up to CZK 10 million (approximately EUR 400,000) for not concluding an employment contract in writing.²¹

An employment contract must include certain prerequisites: the type of work to be performed by the employee, the place of work and the date of commencement of work. Where the employment contract does not include the details of the rights and obligations arising from an employment relationship, the employer shall notify his/her employee thereof in writing, at the latest within one month from the commencement of such employment relationship, of the following:

- the employee's full name and the employer's designation and seat if the employer is a legal entity, or the employer's full name and address, if he is an individual (a natural person);
- the type of work (job title) and place of performance of work;
- the length of annual leave or the method of determining it;
- the notice periods (with regard to the termination of the employment contract);
- the weekly working hours and their distribution (schedule);
- wage or salary details and the remuneration method, the maturity of wage or salary, pay days and the place and method of wage or salary payment;

¹⁹ Act No. 435/2004 Coll., as amended

²⁰ Act No. 2/1991 Coll., as amended

²¹ RANDLOVÁ, N., NÁHLÍKOVÁ KALETOVÁ, R. Czech Republic. In: The International Comparative Legal Guide to: *Employment & Labour Law 2013*. London: Glogal Legal Group Ltd, 2013. pg. 75

- facts on collective agreements regulating the employee's working conditions and the designation of the contracting parties to these agreements.²²

The employment contract must stipulate a working week not exceeding 40 hours²³ in a format that affords employees at least a 30-minute break for meals and rest every six hours. An adolescent employee must be given such a break after a maximum of four and a half hours of continuous work (Section 88(1) of the Labour Code).

In accordance with the Government Regulation No. 210/2013 Coll., which came into force on August 1, 2013, the minimum wage is CZK 8,500 (previous was 8,000 CZK) per month and the lowest minimum hourly wage is CZK 50.60 (previous was 48.10 CZK). The levels of the guaranteed wage according to the new Decree are in the following Table 4. To calculate the guaranteed wage, the employee's work is divided into eight categories depending on its complexity, difficulty and responsibility.

Table 4 The minimum guaranteed wage amounts

Group	Minimum hourly rate of guaranteed wage in CZK	Minimum monthly rate of guaranteed wage in CZK
1.	50.60	8,500
2.	55.90	9,400
3.	61.70	10,400
4.	68.10	11,400
5.	75.20	12,600
6.	83.00	13,900
7.	91.70	15,400
8.	101.20	17,000

Source: HURKA, P., *New amount of minimum wage and guaranteed wage in the Czech Republic* [online]. Accessible at WWW:

<http://www.labourlawnetwork.eu/national_labour_law_latest_country_reports/national_legislation/legislative_developments/prm/109/v_detail/id_3311/category_8/index.html>

The minimum entitlement for annual leave is four weeks, and the minimum payment for overtime is 25 per cent of the average hourly salary²⁴ unless the employer and the

²² Section 37(1), Act No. 262/2006 Coll., the Labor Code

²³ LEE, S., McCANN, D., and MESSENGER, J. C., *Working Time Around the World*. Geneva: International Labour Office, 2007. pg. 16

²⁴ RANDLOVÁ, N., NÁHLÍKOVÁ KALETOVÁ, R. Czech Republic. In: *The International Comparative Legal Guide to: Employment & Labour Law 2013*. London: Glogal Legal Group Ltd, 2013. pg. 75

employee have agreed that instead of the premium for overtime work the employee will take compensatory time off in the scope of the hours when he/she worked overtime.

An agreement on the termination of an employment relationship must be in writing, specifying the cause and date of termination.

The statutory notice period lasts at least two months, commencing on the first day of the calendar month following the month when the notice was delivered to the employee, and ends on the last day of the relevant calendar month (with some exceptions, for example: a dismissal before a protective period, such as parental leave).

4.2 Accounting Regulations and Auditing Requirements

The basic rules and regulations for accounting are set out in Act No. 563/1991 Coll., on Accounting, as amended (the “Accounting Act”).

All entrepreneurs registered in the Czech Commercial Register are obliged to keep double entry books. Accounting units that are not registered in the Czech Commercial Register and whose annual turnover does not exceed CZK 25 million, are permitted to keep simplified accounting records.

The Law on Accounting allows the Ministry of Finance of the Czech Republic (“MF CR”) to prescribe mandatory formats for accounts. Five separate formats exist for the following types of business:

- entrepreneurs (the majority of businesses), within which there are various categories;
 - banks;
 - insurance companies;
 - municipalities and institutions which are financed by the state budget;
 - non-profit organizations, political parties, civic associations
- and other similar bodies.

The main regulatory body of accounting and auditing continues to be the state, but developments in this area are shared by a number of professional organisations: the Chamber of Auditors of the Czech Republic, the Union of Accountants, and, in particular, the all encompassing National Accounting Council.

Since the Czech Republic joined the EU in 2004, leading representatives of this country have committed themselves to implementing European Law, including the principles and procedures of accounting. However, there are still differences between the Czech and EU accounting systems.

Only companies whose securities are traded on regulated public markets in the EU Member States have to compile and present both financial statements and consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, instead of financial statements prepared according to Czech regulations. All other private enterprises in the Czech Republic can use IFRS directly instead of Czech accounting regulations when compiling their consolidated financial statements.

Companies that are not issuers of public securities must present financial statements prepared in accordance with Czech accounting legislation (a voluntary transition to IFRS is not permitted).

The Accounting Act sets forth the format and content of the financial statements, whereas the Decree on Double-Entry Accounting²⁵ contains detailed requirements on the content, analysis and classification of items in the financial statements.

Annual financial statements consist of a balance sheet, a profit and loss account and the notes to the financial statements (voluntarily cash flow statement and statement of changes in equity).

²⁵ Act No. 500/2002 Coll., as amended.

Audited entities must prepare an annual report, including condensed financial statements with notes, the auditor's opinion and a comment on the business's past and projected future performance and financial position.²⁶

4.3 Business Taxation and Social Security and Health Insurance

Contributions

The taxation system of the Czech Republic is very similar to the ones in other developed European countries. The tax system may distinguish between direct taxes and indirect taxes. Direct taxes are assessed to all taxpayers according to their income, property and usually respect the personal situation of the taxpayer. Direct taxes include income tax, road tax, real estate tax, transfer taxes, etc. Indirect taxes are paid and collected on the prices of goods, services, etc. and do not respect the personal situation of the taxpayer.

Next I will concentrate on the main taxes concerning the companies and individuals in the Czech Republic. Because of the complex Czech taxation system and many exceptions embedded in it, I will handle only the main points of the income tax, the value added tax and contributions to the social security and health insurance fund.

4.3.1 Taxes on Corporate Income

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.

A CIT rate of 19 per cent applies to all business profits, including capital gains from the sale of shares. The investment funds, pension funds and share funds is subject to reduced rate of 5 per cent.

Legal entities without any registered presence in the Czech Republic can be subject to Czech withholding tax on Czech-source income. The withholding tax rates may be reduced

²⁶ REUVID, J., TERTEROV, M., *Doing Business with the CZECH REPUBLIC*. London: GMB Publishing Ltd, 2005. pg. 94

or eliminated by double tax treaties with respect to particular types of income. To date the Czech Republic has concluded about 78 Double Taxation Treaties.

Dividends paid to parent companies registered in the Czech Republic and/ or another EU member state are exempt from withholding tax, provided that certain conditions are met (i.e. specific legal forms of companies, minimum 10 per cent shareholding, 12-month uninterrupted holding of the shares). In general, dividends paid abroad are subject to a 15 per cent withholding tax, unless a double tax treaty provides otherwise. However, dividends paid to entities that are residents of countries with which the Czech Republic does not have an enforceable Double Taxation Treaty, are subject to 35 per cent withholding tax.

4.3.2 Value Added Tax

Value-added tax (VAT) is primarily regulated by Act No. 235/2004 Coll., which is a transposition of the European Union directive No. 2006/112/ES. There are two VAT rates, standard and reduced. The standard tax rate covers most goods and services, while the reduced rate applies primarily to food-stuffs, books, pharmaceuticals and special healthcare products. In 2013 the standard rate stood at 21 per cent (20 per cent prior to 2013) and the reduced rate at 15 per cent (14 per cent prior to 2013).

A legal entity that was established for business purposes in the Czech Republic must be registered for VAT if its taxable supplies exceed CZK 1,000,000 for a period of 12 consecutive months or purchases of goods from other EU countries exceed CZK 326,000 per calendar year.

For non-Czech entities, there is no registration threshold, but they must register as a VAT payer if they:

- make any supply subject to Czech VAT (unless the liability to declare and pay VAT is shifted to the recipient of the supply), or
- supply goods from the Czech Republic to another EU member state.²⁷

²⁷ CzechInvest, *Fact Sheet No. 13: Taxation* [on-line]. Accessible at WWW: <<http://www.czechinvest.org/data/files/fs-13-taxation-77-en.pdf>>

According to the Finanční Správa, “In accordance with the Section 101(a) of the newly amended Value Added Tax Act, from 1st January 2014, all VAT payers are required to submit tax returns, additional tax returns and recapitulative statements including their attachments electronically. The only exception will have natural persons, whose turnover for the immediately preceding 12 consecutive calendar months shall not exceed CZK 6 million and, based on law, do not have obligation to do the submission electronically”.

4.3.3 Personal Income Tax

According to the Czech income tax for individuals, residents in the Czech Republic are subject to income tax for their income earned inside the Czech Republic and abroad. Non-residents who are employed in the Czech Republic are subject only for their Czech source income.

The current flat tax rate of 15 per cent is calculated from a "super-gross" wage (i.e. gross wage plus social and health insurance paid by the employer on behalf of the employee). The tax rate of 22 per cent applies to income exceeding 48 times the average salary in 2013-2015 (annual income of CZK 1,242,432 in 2013).

Table 5 Calculation of the tax on personal income

Gross wage / wages	
+	Social security and health insurance paid by employer (34% of gross wage)
=	Tax base, i.e. "super-gross" wage
-	Tax allowances
=	Modified tax base (rounded down to whole hundreds)
X	15 % of the tax base
=	Tax brutto
-	Tax reductions
=	Tax netto

Source: Data adopted from RADVAN, M., *Czech Tax Law*. Brno: Masaryk University, 2010. pg. 18

In the near future, the tax rate should increase while the options for using fixed deductions have been already restricted. Therefore, it seems that the level of tax personal imposition has an increasing trend and this is criticized by taxpayers not wanting to pay more as well as by a section of macro-economists and businesses perceiving such an increase incompatible with the proclaimed state intent to re-start the economy and to support both production and consumption.

4.3.4 Social Security and Health Insurance Contributions

The Czech Republic's social security system includes the pension, sickness and health insurance funds, as well as national employment policy and the non-contributory social benefit fund. Czech or foreign employers or Czech branch offices of foreign employers, all foreigners who work for a Czech employer or are on the payroll of a branch office of a foreign company participate in the Czech Republic social security system.²⁸

Table 6 Social security/ social insurance rates

Type of insurance	Paid by employer (%)	Paid by employee (%)	Total (%)
Social security	25.0	6.5	31.5
-Pension insurance	21.5	6.5 ¹	28.0
-Sickness insurance	2.3	0.0	2.3
-Unemployment insurance	1.2	0.0	1.2
Health insurance	9.0	4.5	13.5
Total (%)	34.0	11.0 ¹	45.0

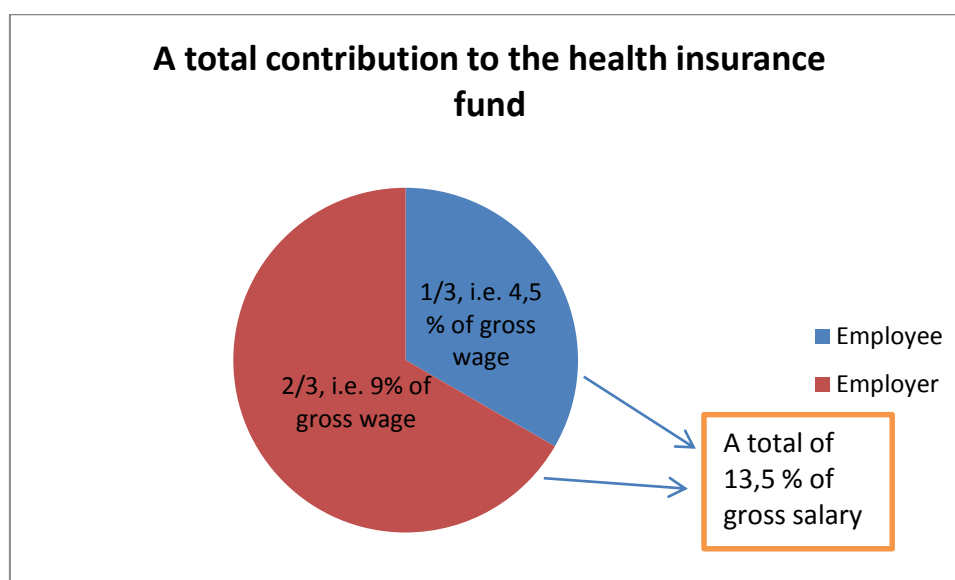
¹ As of 1 January 2013 the individuals may participate also in new pension savings scheme. In such a case, the employee is then obliged to pay additional 2% on monthly social insurance contributions, i.e. in total amounting to 8.5%.

Source: KPMG, *Taxation of international executives – Czech Republic* [on-line]. Accessible at WWW: <<https://www.kpmg.com/global/en/issuesandinsights/articlespublications/taxation-international-executives/czech-republic/pages/other-taxes-levies.aspx>>

²⁸ RADVAN, M., *Czech Tax Law*. Brno: Masaryk University, 2010. pg. 20

There is an annual cap on the calculation base for social security equal to 48-times the average monthly salary. The cap for health insurance has been cancelled in 2013-2015.

Graph 2: Percentage of the total contribution to the health insurance fund



Source: Data adopted from KPMG, *Taxation of international executives – Czech Republic* [on-line]. Accessible at WWW: <https://www.kpmg.com/global/en/issuesandinsights/articlespublications/taxation-international-executives/czech-republic/pages/other-taxes-levies.aspx>

A self-employed individual is subject to a mandatory contribution of 42.7 per cent (13.5 per cent health insurance, 28 per cent pension insurance and 1.2 per cent unemployment insurance).

4.4 Summary

Chapter 4 first reviewed the regulatory framework for labor relations, and significance of the primary standards for concluding employment contract. The chapter explored in some

detail the legal requirements for employment contracts. The major requirements are that the level for weekly working hours must not exceed 40 hours and the employment relationships must be in written form.

Next, chapter 4 outlined the regulatory framework related to accountancy and auditing. The main requirements for all entrepreneurs who registered in the Commercial Register are to keep double entry books. Only for those who have exceptions specified in the Accounting Act, and accounting units that are not registered in the Commercial Register are permitted to keep simplified accounting records.

Chapter 4 also examined significant aspects of business taxation. Residents in the Czech Republic are subject to income tax on their worldwide income, but non-resident taxpayers will solely pay tax on their Czech-source income. The corporate income tax rate for legal entities is 19 per cent. The standard rate for VAT is 21 per cent and it is levied on most goods and services in the country, but there is reduced rate of VAT for certain services and items. Regarding the individuals, the income flat tax rate is 15 per cent, but a higher rate of income tax applies to individual income exceeding 48 times the average salary. Finally, chapter 4 noted that a social security contribution of 34 per cent paid by employer, but in case of a self-employed individual, it is 42.7 per cent.

5 Analysis of the Czech Technology Park Brno

5.1 Case Introduction

The company Czech Technology Park Brno, a.s., (CTPark Brno) is a joint venture between the UK P&O Group and the city of Brno. Peninsular and Oriental Steam Navigation Company (P&O) is a company with a great tradition, which has extensive experience in setting up technology parks in Europe and the United States.

The CTPark Brno has a formal cooperation agreement with the Brno University of Technology (BUT) and the project is being developed adjacent to the university campus. A joint venture was founded in 1993, the CTPark Brno was the brainchild of the chairman of the Bovis Group, Sir Frank Lampl, it was formerly a wholly owned subsidiary of P&O and Lampl.

P&O and the city of Brno each holds 50 per cent of the shares in the joint-venture company, with the BUT holding a single 'priority share'.²⁹ The local authority contributed a long leasehold plot of land within the first phase of construction, with the commercial partner matching the long leasehold value with cash equity. The city of Brno provides general support and assists with major infrastructure and transport links. P&O provides development management expertise and a finance guarantee, which allows the joint-venture company to secure development funding.

The CTPark Brno's philosophy is to combine the commercial and academic world in a business park environment, providing modern commercial premises for high-tech companies. CTPark Brno's proximity to and relationship with the BUT is a main attraction for locating companies. BUT was founded in 1899 and has excellent schools and departments for mechanical, civil, electronics, informatics and chemical engineering as well as architecture, and has more than 20,000 students and a staff of 2,700. The BUT regularly undertakes project work with commercial applications in collaboration with a

²⁹ REUVID, J., TERTEROV, M., *Doing Business with the CZECH REPUBLIC*. London: GMB Publishing Ltd, 2005. pg. 354

range of companies and is actively pursuing further research links with quality foreign and domestic companies and welcomes opportunities to foster collaboration.

Brno, is called the Czech Republic's second city, but it is the first one in the country with a Western-style technology park. The city of Brno is strategically located in the middle of Europe and has been an important centre of trade for generations. With a population of 400,000, Brno itself has a long-established tradition in engineering, electronics, textiles and other trades. With the development of the new economy, the city has become a centre for high-tech electronics, IT and computing. It is also home to international fairs and exhibitions, which draws over one million people annually from all over the world, reinforcing the city's importance as a centre of commerce. This is one of the reasons for locating the Technology Park in Brno. Another reason is the educated labor base of Brno. The city provides a highly skilled workforce coupled with low employment costs.

5.2 Construction and Development

The office site of CTPark Brno measures 120 hectares, including the BUT campus, and offers a total of 190,000 square metres of mixed commercial accommodations for office, research and light industry, together with associated retail, leisure and services facilities.³⁰ The original master plan was developed by Building Design Partnership, one of the largest multidisciplinary architectural design practices in Europe and, it was formally adopted as the land use strategy for the site and approved by the city of Brno within the city's regulation development plan, designated as a special zone in 1993.

The first office site of the CTPark Brno which provides 28,000 square metres was launched by way of an architectural competition. Peter Foggo International submitted the winning phase design and the first building, the 3600-square metre Kaplan office building (named after Victor Kaplan, inventor of the water turbine) was completed in the summer of 1995. The building provided some of the most advanced office space in the Czech Republic at that time. With flexible open-plan floor plates, fully accessible raised floor

³⁰ The official website of the Czech Technology Park Brno [on-line]. Accessible at WWW: <<http://www.technologypark.cz/en/>>

plates and internal environment control systems, the building helped to attract the first tenant to the Park, Germany-based Siemens' Czech Telecommunications Division, leasing 250 square meters.

Construction costs for the Kaplan building were reported as 150 million CZK. The two most touted aspects of this building were its relatively low rent and its low projected energy costs. On a rent-comparison chart provided by the developer in 1995, the Kaplan building's rent was listed at 648 CZK per square meter per month, in contrast to Prague's International Business Center, where the monthly rental rate was 1,152 CZK per square meter, and Brno's World Trade Center, which had a monthly rent of 810 CZK per square meter.³¹

Currently, about ninety-five per cent of the completed office site of the CTPark Brno is filled and only five percent of the area consists of free space to lease. In accordance with the data presented on the Czech-office.cz, the price of office premises for rent in the office site of the CTPark Brno is 11 euros (approximately CZK 300) per square meter per month. The price of one parking space in the office site of the CTPark Brno is 33.00-42.00 euros (approximately CZK 900-1,100) per month.³²

The development company usually concludes contracts with their tenants for a period of five to ten years. However, it is possible to extend the contract again maintaining mutual benefits (between the company and the CTPark Brno).

Current CTPark Brno tenants are set out below in Table 7. Most of these companies are regional Czech subsidiaries of US and Dutch multinational companies, which undertake various activities on the Park from high-tech manufacturing to more office-based functions. Control Techniques Brno s.r.o. (Control Techniques) is a leading world producer of variable electronic drives for electric motors. The company has a drive center occupying 850 square meters of the office site of the CTPark Brno. The facility provides customized solutions to clients and employs 13 people, including specialist variable speed

³¹ JETTE, J., *Brno Industrial Park Woos Tenants With High Technology, Low Rates*. The Prague Post [online]. Accessible at WWW: <<http://www.praguepost.cz/archivescontent/20308-brno-industrial-park-woos-tenants-with-high-technology-low-rates.html>>

³² One parking space per 45 square metres

drive experts who also lecture at the Faculty of Electrical Engineering and Communication at the BUT.

Table 7 List of current tenants of the CTPark Brno

Company	Activity	Country
IBM Global Services Delivery Center Czech Republic, s.r.o. (IBM CZ)	Information technology	USA
Motorola Solutions CZ s.r.o.	Communications solutions, service programs	USA
FEI Czech Republic s.r.o. (FEI CZ)	Electron optics	USA
Y Soft s.r.o.	Printing solutions	Czech Republic
Vodafone Czech Republic a.s.	Telecommunications	Great Britain
Bobst Group Central Europe s.r.o.	Engineering	Switzerland
SILICON GRAPHICS s.r.o. (SGI)	Information technology	USA
Control Techniques Brno s.r.o. (Control Techniques)	Regulation control	Netherlands
Koyo Bearings Česká republika, s.r.o.	Engineering	USA
MANN+HUMMEL (CZ) s.r.o.	Filtration solutions for automotive and engineering industry	Germany
MEGAS ESI s.r.o.	Engineering	France
VELUX Česká republika, s.r.o.	Sales and service of Velux roof windows	Denmark
Heco nerez s.r.o.	Producing and reselling of stainless steel fittings and valves	Germany

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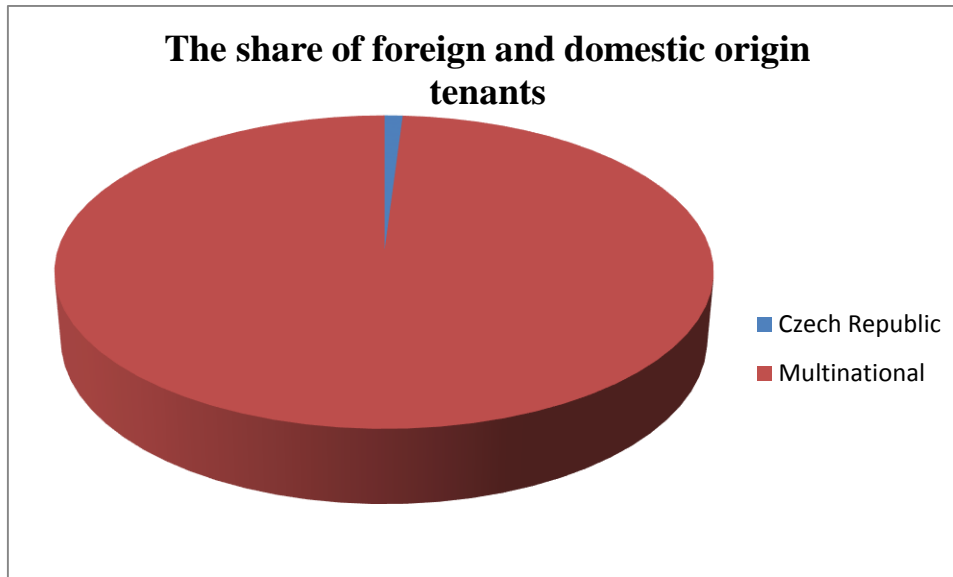
Source: Data adopted from the official website of the Czech Technology Park Brno [on-line].
 Accessible at WWW: <<http://www.technologypark.cz/en/>>

The FEI holding is the world leader in the production and distribution of electron microscopes used at the cutting edge of nanotechnology research. In the CTPark Brno, the company FEI Czech Republic s.r.o. (FEI CZ) occupies an office area of 8,600 square meters and has nearly 300 employees. In contrast to the Control Techniques with the registered capital in the amount of CZK 3,680,000, the FEI CZ has a registered capital of CZK 1,500,000 and has two executive officers. In their company partnership agreement it stated that the company executives representing are liable acting separately. However, in the case of contract that exceeds the amount of EUR 100,000 (approximately CZK 2,500,000) the FEI CZ is represented by two executive officers acting jointly.

The IBM CZ in the office site of the CTPark Brno is an integral part of IBM's outsourcing organization which is providing integrated services to more than hundred clients throughout Europe. IBM CZ has an Integrated Delivery Center occupying 20,000 square meters of the site of the CTPark Park. IBM CZ has the registered capital of 200,000 CZK and two executive officers. According to the Articles of Incorporation of IBM CZ, each executive officer is entitled to act and sign separately.

According to the data of the Table 7, approximately 99 per cent of the CTPark Brno is occupied by tenants of foreign origin. The greatest portion of the CTPark Brno is occupied by companies operating in the field of information technology, telecommunications and engineering.

Graph 3: Percentage of foreign and domestic origin tenants of the CTPark Brno



Source: Data adopted from the official website of the Czech Technology Park Brno [on-line].
Accessible at WWW: <<http://www.technologypark.cz/en/>>

To date, CTPark Brno has created over 5,000 new jobs. Admission requisites for occupier companies are that they should be ‘technology oriented’ but no further criteria are applied beyond that general description. Clean technology, non-polluting and environmentally friendly are terms which the occupier company would wish to apply to production operations undertaken on the CTPark Brno.

5.3 Czech Government Support

The CTPark Brno works closely in cooperation with CzechInvest, the Czech government’s agency for encouraging foreign investment, and has completed several successful projects to date. IBM’s decision to choose the office site of the CTPark Brno as the location for a new Information Technology Service Centre was significant for both the project and the city of Brno. IBM, which was drawn to Central and Eastern Europe in their site location deliberations, weighed the pros and cons of locating their investment in either the Czech Republic, Slovakia, Estonia or Hungary. As with many such investment decisions, government incentives played a significant part, and the project was used as a pilot scheme for expanding the existing investment incentive package offered by the Czech government into the so-called ‘strategic services’ sector. In the Czech Republic, IBM first considered the capital city of Prague and Brno and, after an in-depth comparative analysis, the

company recognized the cost advantages that the Park and the city of Brno offered compared to the capital location.

The developer received a contribution towards the cost of primary infrastructure installation under a government scheme for promoting the establishment of industrial zones throughout the country. This has enabled the Technology Park project to react quickly to tenant companies' requirements for new buildings and allows the developer to offer a more competitive rental level. Such flexibility is very important in the competition to attract foreign investors seeking a Central European manufacturing location. Often such kind of projects should be in operation very quickly from receipt of final approval. Reaction time is crucial as well as future expansion possibilities. Sometimes an interim solution is necessary while a new object is constructed. The development team at the CTPark Brno has experience in handling such enquiries and is able to offer a complete turnkey solution to satisfy locating manufacturers' property requirements.

5.4 Future Prospects

The developer has signed a landmark deal with FEI CZ to design and construct a custom built of 40,000 square metres of the CTPark Brno's second phase Central Zone. The FEI CZ decided for a new, custom-built facility to consolidate and expand its existing operations in the Czech Republic, which will support better production flow, increased volumes, and reduced costs.³³ The initial lease period is for ten years with a possibility of an extension.

Phase II of the CTPark Brno office site the Central Zone will provide a further 42,000 square meters of office and laboratory space suitable for research and development activities in a range of buildings surrounding a central water feature and landscaped park. The project is currently in the stage of commencing tenders and detailed design process. Financing of construction was secured via bank loans from CSOB totaling EUR 35 million.³⁴ The development team has raised over EUR 95 million for the construction of

³³ BUDAR, T., *FEI Signs for 40,000 m² at CTPark Brno*. CTP News [on-line]. Accessible at WWW: <http://data.ctpark.eu/sites/default/files/attachments/CTP_NEWS_II_2012.pdf>

³⁴ BUDAR, T., *Expansion of CTPark Brno – Phase II continues*. CTP News [on-line]. Accessible at WWW: <http://data.ctpark.eu/sites/default/files/attachments/CTP_NEWS_I_2013.pdf>

seven new buildings at Phase II. The buildings should be designed in accordance with the latest standards in sustainability with energy savings and water management systems incorporated. The premises for offices will provide the optimum solution for organizations wishing to place research and development projects at the site to benefit from the location's advantages. Additionally, the new development will accommodate services, such as a supermarket, bank, health care facilities and restaurant/cafe options.

The CTPark Brno has achieved its position as one of the most important business developments in Central Europe. It has reached critical mass and is 95 per cent leased with a good tenant profile at a time when others are embarking on such schemes. It was a considerable problem to start such a progressive scheme in Brno when most of the focus was on Prague in the early-to-mid-1990s. However, the CTPark Brno is certainly the better option for companies in the medium to long term. The cost and availability of staff is very important factors and, in this respect, the city of Brno certainly has a distinct advantage over the capital. Occupancy costs are also a consideration and relative leasing rates are lower outside the capital city. As the Czech economy develops further, the above factors will combine to become increasingly important.

The CTPark Brno's approach of attracting a number of high-profile foreign investors has created a solid foundation on which to base future development. There are many technology parks registered in the Czech Republic, but the CTPark Brno is by far the most developed. Potential tenants visiting the office site of CTPark Brno can see that it actually exists physically, and is not just a vision on paper.

6 Conclusions

The research was focused on the legislation which governs the business environment in the Czech Republic, and as for the case, the research was concentrated on the successful experience of the British development partner in the Brno industrial park.

Analyzing the entire findings of the main features of the regulatory environment governing business in this selected field, as well as the case study of the joint venture between the British development partner and the city of Brno, which has lasted over twenty years doing successful business on the Czech industrial market, I can conclude that the Czech Republic is a prospective country for doing business, and conducting business in the Czech Republic is worth it. Moreover, according to the research, we can see that the Czech Government has started strong tendency to actively attract investors and entrepreneurs for conducting business in the country.

The main result of the analyzing case study of Czech Technology Park Brno showed that 99 per cent of the Park is occupied by companies of foreign origin. The reason of that is that the Czech Republic supports more foreign entrepreneurs and foreign investors than domestic legal entities, as recommendation, the Czech Government should provide more favorable incentives for stimulating domestic entrepreneurs to conduct business in the country. For example, allocating low-interest loans, as well as the CTPark Brno should also provide incentives, such as, lower rent cost for the Czech origin business entities, as the company CTPark Brno leased land of national property of the Czech Republic.

Summarizing findings from the entire research, setting up a business in the Czech Republic is a lengthy process connected with an enormous administrative load, however, the Czech government trying to help eliminate barriers for business entities, creating more favorable conditions for establishing a corporation, such as reducing rules of corporate minimum capital.

Overall, in the process of creating business, the needs and circumstances of the Czech Republic have to be taken into account, including its development, legal regulation system and industrial relations. Although, these kinds of factors have long been highlighted by the Czech Government, there are still items in the regulatory framework which deserve continued attention. This includes a more effective judicial system for corporate affairs,

and a quicker, and more fair enforcement of justice in court. Another point of the Czech Republic's business climate that deserves attention is the ongoing corruption that is destroying the system of social values, hindering development as well as may possibly being the reason for discouraging potential foreign investors and foreign entrepreneurs.

For the future development the thesis should enrich by multiple-case study and diversify data source from different information channels. In regards of the author of this thesis, learning more deeply the regulatory environment governing business as well as practical skills of business case analyzing process would be very necessary.

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