Czech VAT: Risks and Opportunities for Trade with Canada

For Canadian companies, doing business in the Czech Republic throws up many administrative and cultural hurdles. Few of these are as perplexing – or as potentially expensive – as VAT, the European Union's equivalent of GST. Mark Davidson from TMF Czech reviews some of the pitfalls encountered by traders, as well as how the Czech Republic has introduced some particularly favourable VAT schemes to make itself a highly desirable EU importation hub.

Czech Republic Signs Up to a Pan-EU Tax

Value Added Tax was conceived by a German, and later first introduced by the French in 1954. Since then, it has developed into the world's first serious cross-border tax, with the European Union now setting the overarching rules for all its 27 member States. The Czech Republic introduced VAT in 2004 as part of its accession to the EU.

The Czech Republic's current VAT system is based on a series of EU Directives. All EU member States are required to implement these Directives into national law, with only limited scope for local derogations. The aim of these laws is to facilitate free trade around Europe without any losses to businesses from the local VAT regimes.

This means Canadian companies trading in the Czech Republic must comply with the EU-based rules or face risks of losses or blockage to free flowing trade.

Potential VAT-Related Losses and Savings

Canadian companies trading in the Czech Republic face two primary challenges in terms of VAT. Firstly, if Canadian businesses are incurring Czech VAT on local expenses (e.g. hotel bills or marketing costs) then this cost can be recouped. There is an EU-wide system, known as VAT Reclaims, which enables foreign companies to recover VAT suffered through quarterly claims. These must be submitted with a special form, in Czech, and filed with supporting invoices and proof that the claimant is tax registered. There are strict deadlines for reclaims, and VAT recovery can be timed out.

Secondly, if Canadian companies are selling goods or services in the Czech Republic, they may be liable to register, charge and comply with Czech VAT rules. This means companies need to obtain a Czech VAT number and charge VAT at 19% on sales to local companies or individuals. In return, companies may offset the VAT incurred on any local expenses (e.g. warehouse hire) before paying over the net amount to the Czech tax office.

Whilst this can create an administrative burden, the good news is that they can do this on a non-resident basis, meaning there is no need to form a local branch or subsidiary. VAT is the only consideration to worry about.

The Czech Republic has gone a long way to making itself a favourable destination for inbound investment into the EU. This extends to VAT. The Czech tax regime offers one of the best VAT deferment schemes for importers into the EU. If structured correctly, it is possible to bypass the normal VAT cash charge on importation. This has motivated many global companies, such as Dell, to establish their Central and Eastern European distribution hubs in the Czech Republic.

In summary, Canadian companies need to be wary of losses from Czech VAT, but should carefully explore some of the local cash-saving opportunities as they plan their European business strategy.

By Mark Davidson

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