THE CONSUMER

Consumer Profile
The Czech Republic had a population of 10.7 million in 2020, with a growth rate of 0.06% annually. As in most European countries, the Czech population is ageing (with a median age of 43.3 years in 2020 according to CIA), which means that services for the elderly have increasing growth potential. 24.4% of the population is below 25 years of age, 43.3% is between 25 and 54, 12.1% is between 55 and 64, and 20.2% is 65 or older. 74.1% of the population lives in urban areas, with the northern and eastern regions having larger urban concentrations. Prague is by far the largest city, with about 1.3 million inhabitants.

There are 0.97 men for every woman. The UN estimates that the average household in the Czech Republic has 2.3 persons. The average dwelling comprises 1.4 rooms per person, compared to the OECD average of 1.8 rooms per person.

According to OECD data, in the Czech Republic, 94% of adults aged 25-64 have completed upper secondary education, well above the OECD average of 78%, one of the highest rates in the OECD. This is slightly higher for men - 95% of men graduating with a degree, compared to 92% of women.

In terms of employment, as of 2020 3% of the workforce is employed in the agricultural sector, 37% in the industrial sector, and 60% in services (World Bank).

Purchasing Power
GDP per capita at purchasing power parity in the Czech Republic was USD 42,575 in 2019, according to World Bank data. According to OECD data, the average net adjusted disposable income of households per capita is USD 21,453 per year, lower than the OECD average. It should be noted that there is a considerable gap between the well-off and the poorest, with the top 20% earning about four times as much as the lowest 20%. The Gini index, measuring levels of inequality in the country, stands at 24.9 according to the latest available data from the World Bank.

The purchasing power of the labour force is closely linked to its level of education. In the 2020 Gender Equality Index, the Czech Republic achieved a score of 56.2 out of 100, improving slightly compared to the previous edition, but with a score of 11.7 points lower than the EU average. According to sources from the Labour and Social Affairs Ministry, in 2020 women earn 20% less than men in the Czech Republic, above the EU average of 14.8%.

Consumer Behaviour
Czech consumers are traditionally price sensitive, but quality is becoming more and more important. This is indicated by a notable transition from cheaper brands to well-known brands. As consumer purchasing power increases, there is a growing interest in free, organic and health products. 60% of consumers use local businesses. Discount stores, in particular, have been very successful and are now
With an internet penetration rate of 87%, the Czech consumer is digitally connected and regularly uses a smartphone for online purchases (61% of consumers aged 16 to 26, and 43% of the entire population). Cross-border e-commerce is also becoming increasingly popular, with Czech consumers looking for lower prices or products not available in their country. In the Czech Republic, mobile devices are the most preferred device for shopping online, and the total number of internet retailers has grown rapidly in recent years. Collaborative platforms such as Uber or Blablacar are not widely used in the country. Although public opinion is generally positive, in major cities such as Prague the government has imposed fines several times on companies like Uber. Second-hand markets are very popular in the country and attract many buyers looking for clothing, vinyl records, jewellery and bags.

**Consumer Recourse to Credit**

Consumer lending has been steadily increasing since 2013. According to figures from the Czech Central Bank, in Q3 2020 banks continued to perceive increased risks to the future economic situation owing to the impacts of the coronavirus pandemic. Credit standards and conditions tightened further, with the exception of consumer credit. Mortgages/housing lending was the strongest performer in consumer lending during 2020. Household demand for loans for house purchase and consumption rose, owing, in the case of house purchase loans, mainly to a drop in mortgage interest rates and interest in property investment and, in the case of consumption loans, to a restart of the market following the easing of the measures introduced in spring to combat the spread of the coronavirus epidemic. Credit standards in the loans for consumption segment eased (an NP of 25%) in Q3 2020, mainly due to the competition between banks and a reduction in bank financing costs, while a continued perception of risks regarding the creditworthiness of clients acted in the opposite direction. Furthermore, 2019 was the first year during which cards payment transactions value exceeded ATM transactions value.

**Growing Sectors**

The most important growth sectors, attracted by household demand, are car-related. The other important sectors of household consumption are building and construction due to the economic situation (lower employment, higher wages, low inflation, the growing popularity of mortgages and low interest rates). The IT and telecommunications sector, pharmaceuticals and consumer goods are also growing at a decent pace.

**Consumers Associations**

Association of Czech Consumers

Czech Consumer Protection Association, in Czech

**IMPORTING & DISTRIBUTING**

**Import Procedures**

The following documents must be presented to the Customs office:
1. A brief declaration (air or maritime manifest) of the goods.
2. A common law declaration (SAD, single administrative document), as well as the accompanying documents to allow their clearance. The SAD form can be obtained from Chambers of Commerce or an authorised printer. A computerised Customs clearance platform (SOFI: International freight computer system) can be accessed in Customs offices or in some Chambers of Commerce.
3. Commercial invoice
4. Packing list
5. Certificate of origine
6. Insurance certificate (where applicable)

In the case of deliveries and purchases within the European Union, the declaration of exchange of goods (DEB) or Intrastat declaration must be sent to the Customs service.

All companies established outside of the EU are required to have an Economic Operator Registration and Identification (EORI) number if they wish to lodge a customs declaration or an Entry/Exit Summary declaration.

As part of the 'SAFE' standards advocated by the World Customs Organisation (WCO), the European Union has set up a new system of import controls, the 'Import Control System' (ICS), which aims to secure the flow of goods at the time of their entry into the customs territory of the EU. This control system, part of the Community Programme eCustoms, has been in effect since January 1, 2011. Since then, operators are required to pass an Entry Summary Declaration (ENS) to the customs of the country of entry, prior to the introduction of goods into the customs territory of the European Union.

The Modernised Customs Code (MCC) of the European Union simplifies various procedures such as: introducing a paperless environment, centralised clearance and more. For more information, check the EU’s Customs website and the Czech Customs Administration website.

**Specific Import Procedures**

As a member of the European Union, goods entering the Czech Republic may be placed under any of the following treatments:

**Transit**, which comprises external and internal transit:
- **External transit**: non-Union goods may be moved from one point to another within the customs territory of the EU without being subject to import duties, other charges related to the import of the goods (i.e. internal taxes) and commercial policy measures. Moving goods to another EU Member State means the customs clearance procedures are transferred to the customs office of destination.
- **Internal transit**: Union goods may be moved from one point to another within the customs territory of the EU without any change to their customs status. This includes transporting goods through another territory that is outside the EU customs territory.

**Storage**, which comprises customs warehousing and free zones:
- **Customs warehousing**: non-Union goods may be stored in premises or any other location authorised by the customs authorities and under customs supervision ('customs warehouses') without being subject to import duties, other charges related to the import of the goods and commercial policy measures.
- **Free zones**: Member States may designate parts of the customs territory of the Union as free zones. They are special areas within the customs territory of the Union where goods can be introduced free of import duties, other charges (i.e. internal taxes) and commercial policy measures.
The EU framework sets forth several regulations that can have an impact on import procedures: Waste Electrical and Electronic Equipment Directive (WEEE Directive), the ROHS Directive, Cosmetics Regulation, and Registration, Evaluation and Authorisation of Chemicals (REACH), agricultural documentation and sanitary certificates (Fisheries).

**Distribution channels**

By some measures, the Czech Republic has one of the highest proportions of supermarkets and superstore space per capita in the whole of Europe. Distribution channels in the Czech Republic are similar to those in the rest of the European Union. Fast-moving consumer goods (FMCG) has experienced some consolidation, especially in the sectors with strong competition. The principal economic zones of the country are concentrated around the capital Prague and in metropolitan cities like Usti nad Labem and Plzen in the west and Brno and Ostrava in the east.

The often pronounced focus of the Czech customer on the price of food is starting to slow down as the quality of produce starts to also heavily influence consumer behaviour. Even food discounters such as Lidl and Penny Market have recognised this trend and are investing in a store concept change in order to shake off their "cheap" image. Small retailers continue to face strong competition from large and modern grocery retailers. Czech Republic ranks among countries with the highest proportion of promotional sales, while consumer expenditures on food and beverages, including spirits and tobacco, accounts for 24.3% of total household spending (USDA). In recent years, food retail groups in the Czech Republic have recognized the growing importance of private labels, which account for nearly one-fourth of value spent of packed grocery excluding fresh products. In the Prague area, numerous smaller concepts are expanding - bakeries, wine stores, coffee shops.
The performance of supermarkets in the Czech Republic in 2019 was marked by solid growth in terms of both value sales and number of outlets, with the main groups (including Billa, Ahold Czech Republic and Tesco Stores) investing in the improvement of their points of sale, thus increasing their combined value share at the expense of smaller supermarket chains. Czech consumers are increasingly favouring smaller store formats, including smaller supermarkets supplied with only the necessary grocery products, whereas traditional grocery retailers continue to lose both value and outlet share due to struggling rural stores, rising wage pressure, a lack of investment and lagging innovation. Moreover, traditional grocery retailers are very fragmented compared to other grocery channels. Following the COVID-19 outbreak, Euromonitor considers that many independent grocery retailers in small villages may not survive without state or municipal support, so that the Czech government is considering elevating grocery stores in underserved areas to public service status.

Internet sales have been growing at a fast pace, with a 70% increase year-on-year in 2019 for grocery online sales (FAS Prague).

**Distribution market players**

The distribution structure in the Czech Republic increasingly resembles traditional western markets, with big groups dominating small local traders. In fact, until 1989, commercial distribution was under State control, but today it is entirely privatised. In 1997, hypermarkets represented only 1% of retail business while traditional businesses represented 49%. Today, the trend has completely changed and supermarkets/hypermarkets largely dominate the market, with the share of traditional traders in constant decline.

Today, the distribution market in the country is dominated by German, UK and Dutch retailers: REWE Group with the brand Billa (supermarkets) and Penny Market (discount); Schwarz Group with the brands Lidl (discount) and Kaufland (Hypermartks); Tesco Group with hypermarkets and supermarkets; Ahold with the supermarkets and hypermarkets Albert.

In 2019, the top three retail chains Schwarz Group, Rewe, and Ahold had a 57% market share, according to USDA figures. The German group Kaufland remains the leader in hypermarkets based on both the number of outlets and value sales.

In terms of sales value, retail channels have the following shares (USDA, 2019):

- Hypermarkets: 30%
- Supermarkets: 17%
- Discounters: 24%
- Convenience: 11%
- Specialists: 5%
- Other: 13%.

**Retail Sector Organisations**

- Czech Trade Office
- Czech Ministry of Industry and Trade
- Czech Confederation of Commerce and Tourism

**OPERATING A BUSINESS**

Type of companies
Společnost s ručením omezeným or SRO
(Limited Liability Company)

Number of partners: No minimum.
Maximum: 50.
Capital (max/min): CZK 1
Shareholders and liability: Partners’ liability is limited to the amount contributed.

Akciová společnost or AS (Public Limited Company)

Number of partners: No minimum: one or more; can be a sole proprietorship.
Capital (max/min): Minimum CZK 2 million when established without public bid and at least 20% must be released before the constituting general meeting. Minimum CZK 20 million with public bid.
Shareholders and liability: Liability is limited to the amount contributed.

Veřejná bchodní společnost or VOS (General Partnership)

Number of partners: At least 2 natural partners.
Capital (max/min): No minimum capital requirement.
Shareholders and liability: Liability is unlimited for all partners.

Limited Partnership (KS)

Number of partners: At least 2 partners: 1 active partner and 1 sleeping partner.
Capital (max/min): No minimum capital but the input of the partner with limited liability must be at least CZK 5,000.
Shareholders and liability: Liability of active partners is unlimited. Liability of sleeping partners is limited to the amount contributed.

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<th>Setting Up a Company</th>
<th>Czech Republic</th>
<th>Eastern Europe &amp; Central Asia</th>
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<tbody>
<tr>
<td>Procedures (number)</td>
<td>9.0</td>
<td>5.3</td>
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<tr>
<td>Time (days)</td>
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<td>11.8</td>
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Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage
The minimum wage is set CZK 14,600 per month for 2020 (official governmental source).

Average Wage
CZK 34,077 in Q1 2020, according to the Czech Statistical Office.
Social Contributions
Social Security Contributions Paid By Employers: Employers contribute 33.8% of the employee’s gross salary to the state health and social security funds (9% to the state health insurance funds and 24.8% the state social security funds). Social Security Contributions Paid By Employees: Health insurance 4.5%, old-age and invalidity pension between 3.5% and 6.5%.

Intellectual Property

National Organisations
The body responsible for the protection of intellectual property is Úrad Průmyslového Vlastnictví (Industrial Property Office). You can also consult the Copyright Law Department of the Ministry of Culture.

Regional Organisations

International Membership
Member of the WIPO (World Intellectual Property Organization)
Signatory to the Paris Convention For the Protection of Intellectual Property
Membership to the TRIPS agreement - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TAX RATES

Consumption Taxes

Nature of the Tax
Value-Added tax (VAT)

Tax Rate
21%

Reduced Tax Rate
A 15% rate applies to foodstuffs (excluding essential child nutrition and gluten-free food); non-alcoholic beverages; take away food; water supplies; medical equipment for disabled persons; children’s car seats; some domestic passenger transport; admission to cultural events, shows and amusement parks; writers and composers; social housing; renovation and repair of private dwellings; cleaning of private households; some agricultural supplies; hotel accommodation; admission to sporting events; use of sporting facilities; social services; supplies to undertaker and cremation services; medical and dental care; domestic care services; firewood; some pharmaceuticals; some domestic waste collection and street cleaning;
treatment of waste and wastewater; food provided in restaurants and cafes; cut flowers and plants for decorative use; writers, composers and food production.

A 10% rate applies to public transport; heating; books and magazines subject to certain conditions; medications; medications for veterinary use; necessary baby food. Following the COVID-19 pandemic, the 10% rate also applies to: restaurant and catering services, including serving draft beer; household cleaning services; bicycle repairs, footwear and clothing repairs; children, senior and disabled home care; hairdresser and barber services; drinking water supplied through a pipe; water distribution and treatment of sewage; e-books; accommodation services; admission charges to cultural and sport events; services of fitness centers; surface ski lifts; services of saunas and baths.

A 0% rate applies to exports, intra-community supplies, international transportation, transport and services directly related to the importation or exportation of goods.

Other Consumption Taxes

Tobacco, oil productions, and alcohol produced in or imported to the Czech Republic are all subject to excise taxes, which are applied according to the type and the quantities of products. Energy tax on electricity, natural and other gases, and solid fuels is levied on energy suppliers and distributors. A road tax is payable annually on all vehicles used for commercial purposes (rates vary depending on engine capacity and vehicle size).

Corporate Taxes

Company Tax
19%

Tax Rate For Foreign Companies

A corporation is resident in the Czech Republic for corporate income purposes if it is registered in, or has a place of management located in, the Czech Republic.

Capital Gains Taxation

Capital gains are taxed at the normal corporate income tax rate. Capital gains on the sale of shares and participations in EU/EEA resident companies are exempt from tax if conditions similar to those required to qualify for the dividend exemption are satisfied (10% ownership for 12 uninterrupted months minimum). EU/EEA resident companies that invest in Czech companies can benefit from this exemption if they fulfil the same criteria.

Capital gains obtained by non-resident companies of the EU/EEA or Czech companies investing outside the EU/EEA may be exempt from tax under the following conditions: the non-resident company is a tax resident in a third country with which the Czech Republic has signed a tax treaty; it satisfies the conditions for dividend exemption (10% holding for an uninterrupted period of 12 months) and is subject to a tax in the country of origin comparable to the Czech corporate tax at a minimum rate of 12%.

Main Allowable
**Deductions and Tax Credits**

Expenses incurred to obtain, secure or maintain taxable income are generally deductible, such as amortisation of tangible and intangible assets, equipment and services purchased, business travel expenses, salaries and social security contributions. The start-up costs are fully deductible while the goodwill resulting from the acquisition of a new company can be amortised over 180 months. Goodwill resulting from a merger is not deductible. Taxes paid are generally deductible (except for corporate income tax).

Charitable donations over CZK 2,000 may be deductible up to 10% of the tax base. Accrued interest under the generally accepted Czech accounting principles is in most cases tax-deductible, as are contractual fines and remuneration paid to members of the statutory bodies of a company. Payments for travel expenses and meal allowances for employees are in general deductible.

Tax losses can be carried forward up to five years (unless there is a significant change in the company's ownership structure). For taxable periods ending after 30 June 2020, tax losses may also be carried back for 2 years (capped at CZK 30 million).

Investment incentives are available for the manufacturing sector and the technology and data centres in the form of exemptions from property tax or corporate income tax, financial support for job creation and employee training. Research and development expenses give rise to a 100% tax allowance. An additional 10% tax credit is granted to companies whose research and development expenses in a tax year exceed those of the previous tax year.

**Other Corporate Taxes**

Companies are subject to a 15% to 35% tax on income paid to a non-resident for technical services, real estate tax (varies according to the area, location, and usage of the land or buildings), environmental tax and road tax.

The employer contributes 9% of the gross salary of the employee to the health insurance fund and 24.8% for contributions to the social security fund, for a total of 33.8%.

An exit tax is levied on the relocation of assets without a change of ownership between a Czech company and its foreign permanent establishment or when a Czech tax resident moves its residency abroad. The rate is the same as that of corporate income tax (currently 19%).

The transfer tax (imposed at a rate of 4% of the transaction price or the officially appraised value of the real estate transferred, whichever is higher) has been abolished with retroactive effect, hence it does not apply to real estate whose transfer was registered in the cadastral register on or after 1 December 2019.

No stamp duties are levied in the country.

**Other Domestic Resources**

**Financial Administration of the Czech Republic**

Consult Doing Business Website, to obtain a summary of the taxes and mandatory contributions.
Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed
List of Treaties on Income and on Capital

Withholding Taxes
Dividends, interest and royalties are each subject to 15/35% tax rates, where the upper margin applies to jurisdictions that have not concluded a tax treaty or an agreement for the exchange of information on tax issues with the Czech Republic. No WHT is levied on royalties paid to resident companies and individuals.