

CZECH REPUBLIC

General information*

- Capital: Prague
- Population: 10.52 million
- GDP: \$198.4 billion

CSO legal forms and their characteristics

Civic Association

- General membership – based organisational form established by 3 persons, no eligibility requirements for founders.
- Complex legal regulation, however, many provisions are non-mandatory.

Foundation

- General non-membership organisational form created to collect the financial assets for public benefit purposes, with the initial capital requirement of 500,000 Czech crowns (EUR 18,230).
- Rather complicated legal regulation with excessive requirements.

Fund

- Simpler non-membership organisational form, without specific initial capital requirement, but serving rather temporary than long term purposes.

Institute

- Organisational form that combines aspects of a membership and non-membership CSO
- Required to engage in provision of services.

Key CSO laws



- Law No. 89/2012 Coll. Civil Code;
- Law No. 235/2004 Coll. On the Value Added Tax;
- Law No. 586/1992 Coll. On the Income Tax;
- Law No. 304/2013 Coll. On the Public Registers of legal entities and physical persons.

* Source: World Bank, 2013.

1. Existing forms of CSOs and their characteristics

? What forms of CSOs exist? What are their main characteristics?

The existing CSO forms include: **Association** (*Spolek*), **Foundation** (*Nadace*), **Fund** (*Nadační fond*) and **Institute** (*Ústav*). For the purposes of this Handbook we will provide information on associations and funds.

? Are there any restrictions on the permissible goals and activities of CSOs?

Association: Direct economic activity, with the aim to gain profit, cannot be the main statutory activity, only a supplementary one. In addition to this, the profit gained can be used only for support of the main statutory activity or for operational costs.

Fund: Funds are established only for socially or economically useful purposes.

In addition, Article 145 of the Civil Code stipulates that a legal entity cannot be established with the aim to violate the law or achieve a goal illegally, especially if its purpose is:

- a) denial or restriction of personal, political or other rights of persons of their nationality, gender, race, origin, political or other opinion, religion and social status;
- b) incitement of hatred and intolerance;
- c) promotion of violence;
- d) control over public authority or public administration without legal authorisation;
- e) prohibited are armed legal entities or those having armed forces.

2. Requirements on the founders of a CSO

? What is the minimum number of founders required by law?

Association: 3.

Fund: 1.

? What are the eligibility requirements for founders? Are foreign citizens allowed to serve as founders?

Association: There are no specific eligibility requirements for the founders, all individuals and/or legal entities are allowed to found an association. In case there are 3 individuals at least one must have full legal capacity.

Fund: Any individual and/or legal entity is allowed to establish a fund. There has to be at least one individual with full legal capacity.

? Are there any property or cash contribution requirements for the founders?

Association: No.

Fund: The amount of the contributions is set by the founders in the founding document.

3. Registration procedure

? Which authority is responsible for the registration?

Association: Regional Court determined on the basis of the official seat of the association or Notary.

Fund: Regional Court determined on the basis of the official seat of the fund or Notary.

? What is the registration fee?

Association: 1,000 Czech crowns (EUR 36.5)

Fund: 2,000 Czech crowns (EUR 73)*

? Are there any other direct financial costs of the establishment of a CSO?

- Notarial costs for the official verification of the signatures on the written documents (see below).
- Potential translation costs; registration documents must be submitted in the Czech language.

? How long should the registration process take?

Association: Maximum 30 days. If there is no answer from the responsible authority within 30 days, there is a legal presumption that the association has been registered.

Fund: According to the Law, the Court has to decide about registration within 5 days.

? Which documents are required for registration?

Association:

- *Statutes*, the content is determined in Article 218 of the Civil Code, the full version of Statutes must be kept in the premises of the association's seat;
- *Minutes from the founding meeting* with the officially verified signatures of the persons present at the meeting;

* As of January 2015 all registration fees for associations and funds have been waived until the June 30, 2016.

- *Written affidavit of the statutory representatives and members of the controlling and other bodies of the association that they comply with the conditions for performing their functions and that they agree with the registration of the association (with the officially verified signatures);*
- *Written confirmation of the owner of the property about the registration of the association's seat in their premises (with the officially verified signature);*
- *Application form for the registration;*
- *Duty stamps in a value of the administration fee.*

Fund:

- *Written affidavit of the statutory representatives and members of the controlling and other bodies of the fund that they comply with the conditions for performing their functions and that they agree with the registration of the fund (with the officially verified signatures);*
- *Founding document, its content is determined in Article 396 of the Civil Code;*
- *Payment confirmation of the initial contribution;*
- *Notification of the administrator of the initial contributions on how they administer the contribution;*
- *In case the founder is a legal entity, declaration of its legal status;*
- *Written confirmation of the owner of the property about the registration of the association's seat in their premises (with the officially verified signature);*
- *Extract from the Land Registry, where the seat of the fund is located;*
- *Duty stamps in a value of the administration fee.*



Is electronic submission possible?

Yes.



Is there a requirement to have an office in the country? Are there any specific requirements related to it?

Yes, there is a requirement to have an office (the official seat), but no additional requirements are set except for the written consent of the landlord. The office may be located in any kind of premises, including apartments.



Are there additional requirements related to registration?

No.



Are there additional administrative procedures related to registration?

Both organisations may need a bank account for carrying out any economic transaction, although it is not expressly stipulated by law. In addition, the fund must have a bank account in order to be able to administer the contributions and disburse them to the beneficiaries, although it is not expressly stipulated by law.



What are the legal grounds for denial of registration?

Following are the grounds for denial applicable to both organisational forms:

1. The application for the registration is submitted by a person not entitled to do so;
2. The application is not submitted in a prescribed manner;
3. The application does not contain all the prescribed information;
4. The application is incomprehensible or vague;
5. The application is not supplemented with the requested documents;
6. The purpose of the organisation is not in compliance with Article 145 of the Civil Code (see the question on restrictions and permissible goals of the organisation).

The registration authority explains in its decision the grounds for denial, provides advice on how to make the corrections and sets a time period for submission of a corrected application.

4. Sources of funding



What are the possible sources of funding?

Association: Available sources of income include:

- State funding (on both national and local level);
- Donations from domestic and foreign individuals and legal entities;
- Membership fees;
- Funding from corporate foundations and/or endowment funds;
- Income from economic activities;
- International and EU funding mechanisms;
- Income from service charges and legacies.

Fund: Article 398 of the Civil Code stipulates that possible assets of the fund are:

- Contributions from the founders and donations from individuals and legal entities;

- Income from economic activities but the gained profit shall be used only for the support of the fund's statutory purposes.

In addition to this, funds have access also to state funding (on both national and local level), funding from international EU funding mechanisms.

What are the restrictions on the possible sources of funding?

Association: Direct economic activity, with the aim to gain profit, cannot be the main statutory activity, only a supplementary one. In addition to this, the profit gained can be used only for the support of the main statutory activity or for the operational costs.

Fund: Fund is allowed to engage in economic activities but the gained profit shall be used only for the support of the fund's statutory purposes. Contrary to the foundations, a fund may dispose with its assets, if the act of disposal is in compliance with statutory purposes and may also use its assets for deliberate investments. The fund's property cannot be used for securing the debts.

5. Tax treatment of CSOs

What is the income tax treatment of CSOs?

CSOs are generally exempt from taxation on income from grants, donations if they are used for statutory purposes and income from statutory activities if they do not create surplus. Income from the non-statutory economic/commercial activities and surplus from other income generating activities is taxed at a reduced rate. The association or fund may reduce its tax base by 30% but maximum by 1,000,000 CZK (EUR 36,500) if the profit earned is used solely for financing the statutory activities. Revenue from the rent of property, revenues from commercial ads, income in form of interests and income from membership fees are subject to income tax. As an exception, associations do not have to pay the income tax from membership fees.

What is the VAT treatment of CSOs?

CSOs have to pay VAT on the income from economic activities, if their annual turnover exceeds 1,000,000 CZK (EUR 36,500). The general VAT rate is 21%.

Are there any tax benefits for donors in place?

Yes, individuals and legal entities may deduct the donations with a total value up to 10% (legal entities) and 15% (individuals) of the taxable income, provided that at least 2% of the tax base is donated.

6. Obligations of a registered CSO

? What are the reporting requirements of a registered CSO?

No obligation to submit an annual report to authorities.

? Are there additional obligations of a registered CSO?

CSOs have to register as VAT taxpayers at the respective Tax Authority and submit *VAT Tax Declaration* if their annual turnover from economic activities exceeds 1 million CZK (EUR 36,500).

Additionally, if a CSO has income from sources that are not income tax exempted, it is obliged to submit the *Income tax declaration*.

7. Internal governance of the organisation

? What are the basic requirements related to the governance and internal structure as provided by law?

Association: The law provides a broad discretion to associations in determining their internal structure and governance. The compulsory bodies of the association are:

- *statutory body*, usually called general assembly (individual or collective); and
- *supreme body* of the association.

There is a possibility to decide that the statutory body also serves as the supreme one. Other bodies of the association could be the controlling committee, the arbitration committee or other bodies determined by statutes.

The supreme body has to meet at least once a year. Decisions require either standard majority vote or super-majority when the key decisions are taken. For any decision-making process standard majority of members must be present at the meeting.

Fund: The two main bodies of a fund are Administration committee, which is a statutory body of the organisation acting on behalf of the organisation, and Supervisory committee or controller.

Powers and responsibilities of the *Administration committee* include everything that is not expressly entrusted to other bodies of the fund, either by law, founding document or by a decision of public authority. Those are, in particular, management of the assets or decision-making about all the matters of the fund. The Administration committee must be composed of at least 3 members (individuals and/or legal entities can serve as members of the committee). For decision making at least standard majority of members is required to be present at the meeting. The decisions are taken with a standard majority vote or super-majority in case of key decisions.

Supervisory committee (with minimum 3 members) may be substituted by a single *controller* in case of smaller funds. Both Supervisory committee and controller are in charge of overseeing the activities of the Administration committee, controlling the distribution of fund's contributions, monitoring the accounting and giving opinions on the financial matters of the fund.

Are there any eligibility requirements to the members of the governing bodies?

Members of the governing bodies must be at least 18 years old, with a full legal capacity. If the statutory activities of an association or a fund are linked to the youth or persons without full legal capacity, they can serve as members of governing bodies. However, the CSO can not engage in economic activities.

In addition, a member of the statutory body of the fund shall not be a member of the Supervisory committee, an employee of the fund, or a person that is biased towards the fund's purpose.

Are foreign citizens allowed to serve on the board?

Association: Yes.

Fund: Yes.

Are founders and members financially liable by law?

Association: No

Fund: No.

8. Staff and members of the organisation

Are there any eligibility requirements of the staff and members of a CSO?

No.

Is there a requirement to have a full-time employee?

No.

Is there a requirement to have an accountant?

There is no obligation to have an accountant, but there is a requirement to keep the books. The book keeping can be contracted to an external accountant or an accounting company.

9. Voluntary dissolution and liquidation



What is the liquidation procedure in case of voluntary dissolution of a CSO?

Association: The supreme body decides about voluntary dissolution of the association. If there are any remaining assets or claims, the association shall appoint a liquidator that satisfies the claims of the creditors and disburses the remaining assets in accordance with the law. The rest of the assets shall be used in compliance with the statute. If this is not possible than the liquidator offers the remaining assets to an association with similar goals (Article 269–273 of the Civil Code).

The association may decide also to undergo a process of a merger and separation (Article 274–302 of the Civil Code).

Fund: If the purpose for which the fund was established has been fulfilled, if the fund was established for definite period of time or it is no longer possible for the fund to fulfil its statutory purposes, the Administration Committee (a statutory body) may decide about dissolution and appoints a liquidator. The process of liquidation is the same as for all legal entities. The duration of the process highly depends on the remaining assets and claims. (Article 187–209 of the Civil Code).

The Fund may be dissolved without liquidation through a merger or change of legal form.