



# A HANDBOOK FOR

# NEW ENTREPRENEURS



Unlock Your Potential

# Index:

- 1 INTRODUCTION . . . . . 5**
- 2 BUSINESS AS A JOURNEY . . . . . 6**
  - 2.1 What are the advantages and disadvantages of running a business? |
  - 2.2 Do I have what it takes? Can I be an entrepreneur? | 2.3 A good business idea
- 3 HOW to conduct MARKET RESEARCH? . . . . . 11**
  - 3.1 Do you know your competition? | 3.2 How to analyze the market |
  - 3.3 How to create a customer profile?
- 4 HOW DO I REACH CUSTOMERS? . . . . . 17**
  - 4.1 How to tailor a product? | 4.2 What advantages should I mention?
- 5 CREATING YOUR OWN BRAND . . . . . 26**
  - 5.1 What is your brand? | 5.2 Who is your customer? | 5.3 Graphic design sells! |
  - 5.4 How do you communicate?
- 6 A SUCCESSFUL START TO BUSINESS . . . . . 29**
- 7 CAN I SET UP A BUSINESS IN THE CZECH REPUBLIC? . . . . . 31**
- 8 BUSINESS OWNER VS COMPANY? . . . . . 33**
  - 8.1 BUSINESS OWNER | 8.2 Company | 8.3 How to establish a small business? |
  - 8.4 How to establish a limited liability company?
- 9 FINANCES . . . . . 41**
  - 9.1 How much do I need to start with? | 9.2 Where to get the money to start with?
- 10 HOW TO PAY TAXES? . . . . . 49**
- 11 HOW TO MANAGE ACCOUNTING? . . . . . 53**
- 12 SUMMARY OF THE STEPS REQUIRED TO ESTABLISH A SMALL BUSINESS OR COMPANY . . . . . 56**
- 13 CONCLUSION . . . . . 58**
- 14 GLOSSARY . . . . . 60**
- 15 APPENDIX — HOW MUCH TAX WILL YOU PAY? . . . . . 61**
  - 15.1 Introduction to Appendix | 15.2 How to use this Appendix? | 15.3 How much tax and other charges do business owners pay? | 15.4 EXAMPLE 1 | 15.5 EXAMPLE 2 |
  - 15.6 How much will you pay in taxes and other contributions related to your employees?
- 16 REFERENCES/LINKS . . . . . 72**



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## 1st edition

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# 1

## 1 INTRODUCTION

The „Handbook for New Entrepreneurs“ was created by GLE o.p.s. as part of the „Entrepreneurship as a way out of social exclusion“ project, which took place from December 2008 to March 2011 with the support of the European Social Fund under the Operational Programme Prague — Adaptability. The editing and expansion of the text took place in 2015 as part of the project's follow-up and again it was supported by the European Social Fund under the Operational Programme Prague — Adaptability.

The aim of the handbook is to provide readers with information on business opportunities within the Czech Republic, on what is needed to start a business (whether it be on the legal and financial side or a good business plan) in order to better orientate themselves in this issue. The handbook does not compete with similarly focused professional publications, the aim is to provide basic “how to” instructions.

The handbook consists of two parts. The first part of the first edition was prepared by Dominika Špačková; changes included in the second edition were carried out by Jitka Nesnídalová and Lucie Václavková. In the first part you will learn the advantages and disadvantages of running a business; how to orientate yourselves in the market, among the competition and in the world of marketing; and how to devise a service or product that attracts a wide range of people. The second part, written by Tomáš Ryba and updated by Jitka Nesnídalová and Michaela Čapková, further discusses legal issues associated with the setting up of a business, as well as financing issues, budgeting, taxes, etc. Both parts are accompanied with a practical appendix called „How much tax will you pay?“, where you can find formulas that will make it easier for you to calculate specific contributions.

We hope that the manual contains information that will be useful for you and will help you decide which path to take next. And indeed, running a business may be one of them...

# 2

## BUSINESS AS A JOURNEY

Before we start to discuss on how to do business, let me share my story with you. I have my own business which consists of running a small internet shop and organising workshops. My journey to having my own business was convoluted; I even had to change direction several times as I learnt through trial and error. Once I made one kind of mistake and then at other times another. However, throughout the entire period of my business start-up I was convinced that if I did what I believed in many people in the world would have better lives. This thought kept me going at times when I lost money or when a contract did not get realized. At times it was very difficult to continue, and sometimes I reproached myself for ever starting the business. Yes, business is not a walk in the park.

Today, many years later, I have a small but steady income. I have learnt many things and have met new and inspiring people. I have more free time and I work when I want to. The sense of freedom that I have is more important than the idea that I could have earned millions of crowns. And besides, I can cook, clean and take care of the household, while answering emails or preparing parcels with goods.

Business is a journey. Sometimes it's a journey to higher goals, sometimes to having more time, and sometimes to getting more money.

A surprising percentage of business owners do not consider money to be their most important motivation for entrepreneurship. It has never been the main source of drive. Many of them are motivated by the fact that they want to, far more than when being employed, express their real skills and show their real value. Some wanted to improve something they did not like in their company. They wanted to provide a better service or to give to the world whatever they themselves lacked.

For example, we know the stories of entrepreneurs who had a very specific hobby, for which there was an insufficient quantity of tools on the market. So they decided that this must change and started to import or produce these tools. Some of them eventually got rich doing this. Even though their primary intention was just to serve other people by making some product more accessible for them.

### TRY TO ANSWER THESE QUESTIONS FOR YOURSELF:

- What is the most important thing for you in terms of running a business?
- How far do you want to go?
- What is the goal of your business?

### 2.1

#### What are the advantages and disadvantages of running a business?

##### ADVANTAGES

Running your own business brings many advantages. You do not have to obey anybody's commands. Nobody will interfere with your work and will not force you to do certain things at certain times. As an entrepreneur you are your own boss. You are continually learning new things and developing many skills. After some time your business can bring you a lot more free time than a normal job. In many professions you can also work from home. For example, programmers, graphic designers, architects, and those who run an internet shop, use this opportunity quite often.

##### DISADVANTAGES

On the other hand, running a business can also bring worries. Sometimes you have to work more hours, sometimes you don't make enough money. Large drawbacks that budding entrepreneurs must face are pressure and stress, but also increased responsibility, or the need to learn how to organise your work.

This, of course, is not a complete list of all the advantages and disadvantages as they differ slightly for everybody. If, however, every aspiring entrepreneur realizes beforehand all the risks associated with the business, they can alleviate many disadvantages or prevent them completely.

##### ADVANTAGES AND BENEFITS OF RUNNING A BUSINESS:

- Write down on a piece of paper the advantages that running a business can bring you. How can you benefit from these in your life situation?

## 2.2

### Do I have what it takes? Can I be an entrepreneur?

To make sure that you enjoy running your business and that it is enjoyable for you and not a burden, it is important to learn how to organize not only your time but also your finances and possibly the people you work with.

An entrepreneur is like a juggler who, in a single moment, must keep eight balls in the air without letting them fall to the ground, and if they do fall, then he must pick them up again. For a beginner juggler it is hard to keep them in the air, but after a few months of practice he can start using different techniques because he has already learnt the core skill. The same goes for business. At the same time you must be able to handle finances, accounting, the actual work itself, marketing, and even manage to smile at your customers.

The novice juggler knows the limits of his skills. If he has learnt how to juggle three balls after some time, then he wants to learn how to juggle four. And in business? It is important to recognise what a person can do and what they cannot. It is important for you to find out what you, as a novice entrepreneur, do not yet know. As a result of finding out where your skills are lacking, you will be able to focus on those areas and to avoid future difficulties. As you get to know your weaknesses and gradually work on improving them, running a business can become a rather pleasant experience for you instead of a stressful affair.

#### TEST OF PERSONAL CHARACTERISTICS IMPORTANT FOR BUSINESS

On the following page you can take a test to assess your strengths and the level of skills essential for running a business.

#### PLEASE ANSWER THE FOLLOWING QUESTIONS TO FIND OUT WHICH AREAS YOU MIGHT NEED TO DEVELOP.

- Are you a leader? Are you confident? Do you like to make your own decisions?

.....

- Do you like responsibility? Do you plan your projects from start to finish?

.....

- Are you independent? Are you disciplined? Are you flexible?

.....

- Do you read publications about business? Are you computer literate?

.....

- Are able to invest your personal savings into the business?

.....

- Have you ever worked in the area in which you plan to do business?  
Have you completed any training in business or economic education?

.....

- Are you willing to work overtime? Are you prepared for the fact that at the beginning you may have a lower income than what you were used to?

.....

- Can you handle stress? Is your family ready to support you? (time wise, financially?)

.....

- What skills do you consider important for achieving success in business?  
Have you ever worked in a managerial position?

.....

- Have you ever employed people? Do you know the basics of marketing?

.....





How did you do? What have you learnt about yourself? What skills do you have already? What would you like to learn? Do not be overcome with doubts if there are still many things to learn. No entrepreneur knows all these things at the beginning, everyone has to learn them gradually. Fortunately, there is a lot of business literature available today where you can find "how-to" hints and tips. Simple instructions can be found also in this handbook.

At this point it is good to know where you stand and what your skills are before you embark on the path of an entrepreneur. In the next chapter we are going to examine what a good business idea means, how to get one and what it can bring you.

## 2.3 A good business idea

Business resembles a journey. Before we set off on our journey we usually know where we want to go, and we prepare for it accordingly. However, the first step is that we know where we want to go.

In business it is very important to have an idea, and not just any idea, but a good one. To open a restaurant is good and you can achieve success. However, if you open a restaurant with a twist you can achieve far greater success.

To come up with a good idea is, however, something else. You cannot „sit it out at the computer,“ and you cannot insist that you want it within a week and that's it. A good idea simply comes. It can happen while you are driving a car, when waking up, or while cleaning your teeth. It can also come to you when doing a market survey, but there will be more on that in the next chapter.

A good business idea (or goal) has one typical feature: a similar service or product does not exist on the market and therefore it fills a "gap". It fulfils the demand for something that people want or need. In the next chapter you can evaluate your idea to see whether it is realistic and whether it will spark a demand. Explore your competition to make sure that what you want to do has not already been done by many people.

# 3

## HOW TO CONDUCT MARKET RESEARCH?

With a good idea you are already half way there. All you then need to do is the work... As already mentioned business resembles a journey. The first part of it involves planning. It is important to create a business plan that can guide you during the course of your business if you don't know what to do next.

It is necessary for you to collect certain information before you start writing a business plan. This information concerns your future customers, competitors and the market in general. The more information you collect in advance the easier it will be for you to do business. It will be easier to make decisions in critical situations, to reduce risks, and to create a better plan for the start of your business. This collection of information is commonly known as market research.

Market research is not necessarily complicated, demanding, and expensive. During the business start-up things can be done in a simple way. For example, if you want to open a restaurant you can stand in front of the chosen location and count how many people pass by. Do this at different times of the day. Did you count ten people per hour? Twenty people? A hundred people? How many of them would come into your restaurant?

If you have enough time it is also a very good idea to prepare a questionnaire and to ask the passers-by what type of restaurant they would like to visit, what they would like to order, and what their favourite restaurant should look like. Record all the answers, even those that you did not expect. People can give you plenty of good advice and it is even possible that some of these ideas may bring you a lot of profit. Especially if the information was heard from several interviewees.

Such research can provide you with plenty of information as to whether your restaurant could earn living. And it is always much easier to find another location for its operation if there are very few people walking past rather than trying to get new clients when you see that your restaurant is empty and there are no people walking around.

If you want to offer a product, you can make few pieces and give them to different people to try for free. You can then ask them how they liked the product, what was good about it, what wasn't, and what should be different. Or alternatively you could ask them for how much money they would buy it, and whether they would recommend it to other people. This gives you valuable information. You may find that you would like to modify your product, to change or improve something.

Lots of information is available on the Internet, or in the library, and on the websites of the government departments. From time to time it is worth looking into specialized journals and contacting various professional groups and associations. However, all this depends on what you want to do. For example, if you want to work as a masseur, all you need to find out is how many masseurs work in your area and how much they charge for their services. If you want to penetrate the international market, you will not only need more time for a survey, but also a large amount of information about the market. You might also find a successful entrepreneur in your area of business, who is located in different city or village and who can be your inspiration.

When conducting research it is essential to recognize all three parts of it, namely the competition, the market itself, and the customers. Let's start with the competition.

### 3.1 Do you know your competition?

In this section we will focus on examining your competition. We will also try to exploit the weaknesses of competitors in our favour. The truth is that whatever service or product you plan to sell, it is very unlikely that you will encounter no competition. Just look on the internet or in a newspaper. Besides, you also need to know what your nearest competition is up to. As a starting entrepreneur you probably wouldn't want to encompass the whole world, but rather only what is in your vicinity.

Before you start a business for yourself you can visit your competitors and request their service or product that you want to sell yourself. Carefully explore everything the competition does, but also those things that it doesn't do.

### WHILE ASSESSING THE COMPETITION BE PREPARED TO ANSWER THESE QUESTIONS:

- What products do your competitors sell?
- What are their prices?
- Do they give discounts?
- How do they premises look?
- How do they treat customers?
- How do they respond to your question: "How is business going?"
- What are they lacking in your opinion?
- How many people come to their shop?
- How well are they stocked?
- What type of customers do your competitors focus on?

It is obvious that some of these questions are especially useful for those who offer services, and conversely others you can use for those who sell products. After answering these basic questions it should be clearer how your competitors behaves and, possibly, what they lack. Try to discover what mistakes they make. And finally, think about how you can take advantage of their mistakes and turn them into your favour.

If your competition errs in some way, then you can attract a large number of clients by just avoiding the same mistake.

If you cannot find any weakness, try to explore where you are different and better at than your competition. It need be only a small thing, for example, your service will be a bit faster and different than the one already provided by others. It does not cost you any extra money, but thanks to this move, you can get a much larger number of clients.

For example, in the Czech Republic there are not many restaurants that offer tapped water. If you introduce it in your restaurant, many customers will be pleased and they will be happy to come back because you gave them something extra.

## 3.2 How to analyze the market

Besides the competition, it is also necessary to know the market. The market is a place where one party sells and the other buys. And in addition, money also plays a part in it — how much the seller sells for and the buyer buys for. An entrepreneur should know what is happening in the market in general or in a particular part of it.

### **IN THE SAME WAY, AS IN THE PREVIOUS CHAPTER, YOU CAN CONSIDER THE FOLLOWING QUESTIONS:**

- Is there a market for your product?
- How big is the market?
- How many potential clients are there?
- When is the best time for selling the product — in which season?
- How will the market develop in the next six months? In the next year?
- Is it an emerging market? Or is the market very saturated and there are similar services offered by many other entrepreneurs?

Do not forget that the market is divided into smaller parts, called segments. Surely you are not going to sell cars as well as food and at the same time give financial advice. If so, you would not be able to focus your attention on one thing and this would not make you look very trustworthy.

Pay your attention to those customers that you want to attract. If you offer your product to a large number of different groups of people (different segments), it is very likely that the product will ultimately attract none.

You are much more likely to succeed if you focus on one or two specific segments. Thereby you will offer an attractive product and become the leading company in the market. And if you focus on one segment it does not mean that you will not draw customers from other segments. Conversely, if you lack a specific focus you risk attracting no customers at all.

## 3.3 How to create a customer profile?

Out of the three prerequisites: markets, competitors, and customers, the customers form a very specific part. Without them we would not be able to sell any product or service. Every customer is different, but with every one of them we can build a relationship. When examining a customer, their profile plays an important role. It is not possible to know every detail about your customers, you need a simple, fast and effective way to find out whether a given customer will buy from you or not.

Every customer is different, moreover, their tastes and preferences may change over time. Nevertheless, customers can be divided into groups of people that have something in common. They have similar habits, they enjoy similar things, have similar friends or experiences.

Describing your customer accurately will make it easier for you to put together advertising and to sell your goods or services. But how to create such a profile?

### **ANSWERING THE FOLLOWING QUESTIONS CAN HELP:**

#### **WHO?**

- Who are your customers, what are their gender, age, and occupation?
- Are they single or married?
- What are their incomes?
- If you sell to a company — where is the company located? What is its turnover?
- And what are its key products? How much money do they spend?

#### **WHAT?**

- What do they buy and in what quantity?



## WHY?

- Why should they choose to buy from you and not someone else?
- Who makes “purchasing decisions”?
- Who affects its selection?

## WHERE?

- Where do they buy?
- Directly from a supplier? Or distributor?

## HOW?

- Do they pay cash or by card? Before or on delivery? Or in instalments?
- Do they expect a discount?
- Would they insist on a bulk volume discount?

## WHEN?

- When do they mainly buy?
- How long does it take them to make a decision to buy a product?
- How often do they buy this product?

After answering these questions carefully it will become clear to you who exactly is your customer, what is important to them, and most importantly, why would they buy from you. You can rely on this knowledge when preparing promotion or advertising. You will learn more about advertising and promotion on the following pages.

# 4

## HOW DO I REACH CUSTOMERS?

If you know what you want to do, and you have carried out preliminary market research, you can now customize your product so that it meets your customers' needs and preferences. It is always easier to adapt your product to the customers rather than persuading your customers to buy a product that is not suitable.

The following pages describe how to use the information obtained during market research, and how to reach customers with information regarding the products or services offered by you.

There is a general rule about reaching customers. It says that the right information must be transmitted to the right person using the right method.

### YOU CAN USE THE FOLLOWING STEPS TO REACH CUSTOMERS:

- **Step no. 1 — How to tailor a product?**  
How to choose the right product for the right person
- **Step no. 2 — What advantages should I mention?**  
Choose the right information to communicate
- **Step no. 3 — What are the possibilities for advertising and promotion?**  
Prepare the correct advertising

## 4.1 How to tailor a product?

During the market research you figured out what the competition is doing, what is happening in your market, or some parts of it. You've probably also decided to focus on a certain type of customer. The finished profile of your customers will now be very useful. When you offer the customer a product that is tailor-made you will have a great advantage over the competition. Such a product will be much more appealing and interesting to your customer.

It is a common mistake made by entrepreneurs to offer their services to all — all the people from a village or town, young and old. What usually happens is that such a product is not appealing for anyone.

## 4.2 What advantages should I mention?

When compiling the information that you would like to provide to your future customers it is important to be very attentive and careful. Make sure that you pass along the right information to your customer. If you want to sell a family car to customers, it is a good idea to emphasize, in particular, its safety, and spaciousness during the presentation.

### **EXPLORE YOUR OWN PRODUCT. YOU MAY CONSIDER THESE ISSUES:**

- What are the advantages of your product when compared to other products?
- What are the characteristics of your product?
- For example, how much time or money does it save? What does it mean to your customer?
- In what way will the purchase of your product make the customer's life easier?
- How would their prestige increase?

Once your list is compiled and ready, go through it again and try to think whether the information that is included in your list is of real benefit to customers. And whether such information persuades a customer to buy what you're offering.

Customers buy goods for many reasons, for example, to simplify their lives or to treat themselves, to reduce their workload, or to increase their prestige. Based on the customer profile that you have in your hand, you can determine exactly what your customers look for and what is important to them. Use this information and name the advantages in such a way that they would appeal to your future customers.

Allocate enough time and space so that you can determine what benefits your product offers. For example when selling plastic windows it is not necessary to say that heat does not escape through the windows, but instead that at the current energy prices the customer will save 5,000 CZK. Such information is much more likely to convince your customer than a mere statement that heat escapes through his old windows.

### **WHAT ARE THE POSSIBILITIES FOR ADVERTISING AND PROMOTION?**

In the first two steps we discussed how to convey the right information to the right customers. In the third step we will discuss the possibility of cheap publicity. We come into a contact with advertising all the time — on TV, in newspapers, magazines, posters, areas like bus stations, etc. In all these places we encounter advertising. However, all of this can be quite expensive.

But what about a starting entrepreneur who wants to promote their business on a budget? What are the options, for example, for a beginning entrepreneur who can invest only 20 000 CZK into a promotion?

#### ***And what is actually most important?***

### **MARKETING PLAN**

Many entrepreneurs conduct their promotions and advertising somewhat haphazardly, depending on whatever idea occurs to them. They do not check how many customers this or that advertising campaign brought or if it paid off at all. For the starting entrepreneurs it is a very good idea to write down how much they want to invest in advertising and what the first steps are.

Ideally, the entrepreneur will create a marketing plan, in which the individual steps will be exactly planned. They will describe when and how each activity will be done, how long it will take and how money it will cost.

Of course, the plan will vary in different fields, but for most entrepreneurs it is important to at least plan for business cards and websites in their budget. Business cards are a matter of a few hundred crowns, but in terms of establishing good contacts they are very effective. Whenever you go out, take your business cards with you, so that you can pass one to every person you meet. You never know to whom you might appeal so much that they might ask you for ten business cards for their acquaintances. Therefore, do not waste this precious opportunity just because you do not have your business cards on you.

Another inexpensive option is to go out and meet people — go to the trade fairs and exhibitions, join professional organizations where you meet other people, establish alliances, gain tips on how to do promotion in your area and the best way to attract clients. For example, you can make an agreement with another entrepreneur that the two of you will send each other customers. You can also make an arrangement with a colleague in the same industry, who is very busy, that he will send you clients in return for a commission.

Another option is to print out vouchers with, for example, ten or twenty percent discount on your products or services. The client might then use the discount voucher or give it to a friend because it helps them to save money. You can also explore options such as loyalty programs, discounts on purchases over a certain amount of money, etc.

There is also a wealth of information on the internet regarding promotion and advertising. Aspiring entrepreneurs can, for example, refer to the [www.navolnenoze.cz](http://www.navolnenoze.cz) pages, which provide a lot of useful tips and advice.

## INTERNET MARKETING

### *What is Internet marketing?*

As the name suggests, Internet marketing means marketing on the Internet. It is also called online marketing. It is one thing to have your own website or e-shop, but it is another thing to make sales. Thus, how to promote the site so that your target audience, or if you like, the greatest possible number of your potential customers, learn about it? Let us therefore look at ways

of using internet marketing tools in order to reach out to your customers with the aim of achieving greater sales of products or services.

### *Trust building*

Before we go into the details of each Internet marketing instrument, we must emphasize that whatever you do your activity should lead to a deepening of trust between you and your customers. Trust building is an essential, fundamental pillar of a successful sale. A good businessman never approaches customers anonymously, but always makes them feel that they are interesting and welcome, and acts accordingly. Brian Tracy, a world-renowned businessman and motivational speaker, even encourages sellers to imagine that each customer wants to spend a million crowns with them.

Experienced and skilled retailers build their database of clients with whom they keep online or personal contact, and if necessary, they are able to adapt an offer to fulfil customers' requirements and to do all they can for the customers' utmost satisfaction. They do not say for nothing that "Our customer is our master." Of course, we are not talking about servility and that the retailer must jump as the customer whistles. We're talking about a self-confident retailer who treats their customers with respect and assistance, and even pampers them.

## WHAT ARE THE POSSIBILITIES OF INTERNET MARKETING?

### *Creating a website*

A website is the face of every business, an information channel of its sales offers and at the same time it often serves as a sales tool with orders and the purchases of goods or services being created directly on the website. In order to create web pages you need to solve three basic issues:

#### **1. What is the content?**

No one will create the actual content of the website for you. You have to know what you want. If you do not need to update the content of the website frequently you can present customers a simple, i.e. a static website (without basic knowledge of HTML code you cannot make any changes, but the costs are lower). However, if you want to modify its content frequently, e.g. supply texts or photographs, it's a good idea to have a website with a content management system that allows you, after logging in, to update the content easily and without any knowledge of HTML programming.

## 2. Which domain do you choose, i.e. web site address that is entered into the address bar in the browser (e.g. [www.gle.cz](http://www.gle.cz))?

You can either have your own domain in the form of <http://www.gle.cz> (i.e. 2nd level domain), or a domain from a hosting provider in the form of <http://gle.webnode.cz> (i.e. sub domains, or 3rd level domain). The domains may have different endings: .cz (national ending) .com, .net, .info, .org, .eu.

The price for the acquisition of a free domain is approximately 200 CZK/year and must be regularly extended.

## 3. Who will provide you with (web) hosting, i.e. a place to store your website content?

All the content that appears on the website must be stored somewhere so that it is accessible by everyone. Hosting costs around 1 000 CZK/year; however, with certain limitations and at the risk that everything will not work flawlessly, it is possible to arrange free hosting. Some web hosting companies also offer domain registration or the possibility to create your own website. When deciding what hosting to use you may find the [www.hostingy.cz](http://www.hostingy.cz) pages helpful.

### *How to arrange it?*

You have several options. You can arrange everything yourself — buy a domain and hosting, create your own website, i.e. program it (e.g. in HTML, CSS, PHP), or you can install a ready-made content management system (e.g. WordPress) for creating and editing pages on your site.

Alternatively you can use some of the complex web services called Web generators. A number of providers offer free hosting, simple website creation (you just click on your choices in a template), and a domain (e.g. <http://bytyletna.webnode.cz>). If the customer wants their own domain, or any other services (e.g. larger space, e-shop, more e-mails, etc.), then these are charged for. Some examples are: [www.webnode.cz](http://www.webnode.cz), [www.webgarden.cz](http://www.webgarden.cz), [www.estranky.cz](http://www.estranky.cz), and others.

You can also use the services of the experts and approach a specialized firm or a specialist regarding the creation of your website. Then it depends on your agreement, whether you organise the domain and web hosting or whether the company handles everything. When choosing a company it is advisable to follow customer references.

These methods can also be combined in various ways. Both the domain registrar and the web hosting can be changed. However, if you have a domain from a web hosting provider (3rd level domain) and a generated website, the change is much more difficult than if you have your own website or web from a specialized company. The most popular content management system for managing your own website is currently WordPress (it is used by nearly a quarter of all websites on the Internet). Some web hosting providers offer to preinstall this CMS onto your domain.

## COPYWRITING

The content and clarity of a website are the cornerstones that determine its effectiveness. People welcome that they can quickly and easily find exactly what they are looking for and at the same time they appreciate regular updates of the content that they find interesting and beneficial. At present the most interesting types of content are videos, articles, and case studies. Copywriting may not be exactly your forte. This is done by experts called copywriters who know how to hit the jackpot with their texts. Copywriting is thus concerned with writing texts in such a way as to address customers, capture their interest, and evoke in them a desire to buy the advertised product or service. It is also necessary to know how to use keywords that are picked on by the internet search engines. Copywriting requires some “skill” — the ability to express clearly and concisely the mission of the entrepreneur, what they do, for whom it is intended and why the customer should buy there. The written texts must conform to the overall ‘image’ of the company. If this is a company that focuses more on the young, then the texts will be more brisk and funny, etc. If it is a company with a long tradition, then the texts should reflect it by inducing a sense of professionalism, tradition, and security. These days we associate many companies unwittingly and automatically with their slogans. Remember the highly successful Mattoni advertising with the slogan “Where there is life, there is Mattoni.”

## SOCIAL NETWORKS

Social networking is used by a large number of people in the Czech Republic, (in 2015 the figure reached 4 mil. people), and therefore not using such a possibility for Internet marketing is certainly not the best sales strategy. The social networks are mainly Facebook, Twitter, or LinkedIn.

### **Facebook**

Thanks to social networks you can communicate with your customers,

keep them informed about any novelties and engage their interest in your products. In order to connect to [www.facebook.com](http://www.facebook.com) you need to create an account, but the registration is simple and free. Registered users can connect with other users through this network (confirmation by the other party is needed), they can write their own posts and read their friend's posts. This network also allows to you chat with friends, share messages, documents, photos, videos, and other content. Users can express their opinion about various subjects, photographs, and other items (post a comment) or mark it with an "I Like" comment. After setting up your own private profile, you can open a page for your business. Here it is important to remember what Facebook provides. Firstly it is a tool that has, if used correctly, the power to engage and inform your potential clients. In addition to the activities that can be done for free, it also offers a number of paid services for entrepreneurs that can be used to reach potential customers. What attracts their attention is the content, of course, which requires constant attention so that it does not become static, but urges users to revisit the site. In the case of setting up a Facebook profile for the purpose of promoting an enterprise it is necessary to read the conditions of the site carefully. Not all activities are permitted by the operator.

Besides creating the actual page for the company it may be particularly useful to write Posts or to insert Events. Thus the company can become known by a large number of potential customers for free (if you the company knows how to work with Facebook and its profile or pages are regularly updated). In addition, Facebook offers the opportunity for paid advertising, whose advantage is extremely precise customer targeting and various payment options (per view or click).

### **Search engine advertising**

Have you noticed that when you enter a query into a search engine, what appears first are highlighted links labelled as advertising or there are also results showing on the side of the search engine window? This option can be also used to attract customers to your website or to introduce a special offer to them. This is a paid service and is based on the number of listings, which means how many times you appear in a privileged position during searches or on the number of clicks, which means that a user clicks on the displayed link and looks at your website. Before an entrepreneur decides to set up and use these services they must consider what they expect from the campaign. Whether the aim is just to remind their customers or to attract them to the site. The price depends on the service provider, but also on other aspects, such as the popularity of the search word and the like. The most commonly used services are Sklik from Seznam and Adwords from Google.

### **Direct mailing**

Direct mailing means sending promotional materials by mail (e.g. letters) or e-mail. It is necessary to respect the valid legislation, in particular the Law on Information Society Services and Electronic Communications Act, both of which implement EU directives and set up the two modes for sending promotional materials, the so called opt-in and opt-out regimes. As for the e-mail option, you may not send unsolicited commercial offers to an e-mail address, whose owner has not given you provable consent. The most commonly used tool for direct mailing at present is a "newsletter". However, beware of sending newsletters too frequent as it may bother your customers! Therefore, send it only when you provide your customer with truly valuable content, with some special offer on your services or a seasonal sale of your products. The most common "newsletter" strategy is to bring readers some interesting information (for example, an original recipe) and then to offer them the opportunity to buy your products (e.g. the ingredients needed to cook a tempting recipe). It goes without saying that it must be written without typos and grammatical errors.

### **Traffic analysis**

Good promotion includes an assessment phase that measures the success of a chosen strategy and its impact on sales of the promoted product. For the purpose of advertising and promotion, it is necessary to know how many potential clients came to your site and how many of them eventually became your clients by actually purchasing something. Especially in the case of e-shops these numbers are important. Repeated evaluation of your selected marketing strategies gives you feedback on how well you are doing, and also what kind of communication channel works best for you, and therefore its worth for investing more energy and money.





# 5

## CREATING YOUR OWN BRAND

**“Work for 20 years to build your name  
and it will work another 20 years for you.”**

*Japanese proverb*

### 5.1

#### What is your brand?

Your brand should be comprehensible, clear, and attractive, it should be able to reach customers and inspire them to shop with you.

A trademark does not just mean your company name or how the design and content of your website looks and what impression it creates. You, yourself, are mainly your brand — your personality, your attitude to life, your dealings with clients. Customers love to choose and today's market offers them a variety of options, and therefore it is very important to be able to differentiate ourselves from others in order to succeed among the competition. Customers are not just looking for the best price, but they are also looking for quality, originality, and certainly they are interested in your references. Therefore, collect your clients' references and place them, with their consent, on your website. Do not be shy to speak highly of yourself and say what you are good at! Show it to the world, to your customers, and in this way gain their confidence. And do not forget that only a very few customers make a purchase on their first visit to your store or e-shop. Customers need time to think things through, thus do not put pressure on them and do not be disappointed if they do not buy anything on their first visit. There is still a high probability that they will come back to you! Be patient, persistent, and do not give up after a few setbacks.

However, if your sales are not doing well over a long period of time, then you need to look carefully at what is wrong. If you find that building a brand is beyond your capabilities, hire professionals who know how to orientate themselves in this field, and get advice on how to approach and present your brand in a better way.

### 5.2

#### Who is your customer?

For your brand to attract customers it is necessary to know your target audience. Who is your customer? What is their age, education, hobbies, or income? If you know your customer better you can target your product or service. Your brand is that which is visible, it is an important tool for communicating with others. Via your brand you advertise to the world who you are, what is your taste and your approach to customers. The brand philosophy must therefore be uniform, it cannot contain fundamental discrepancies such as that you are the best seamstress in the world, but your clothes cost less than those in a second hand shop.

### 5.3

#### Graphic design sells!

Graphic design is another piece of the jigsaw puzzle, which any customer notices when evaluating a business. The graphic coherence of all materials that are geared towards customers, partners, competitors or suppliers, helps the entrepreneur to present their business and to spread the awareness of their brand. At the beginning it might just include business cards, letterheads, and flyers, but as the business grows the need for materials increases. When you go to open a bank account you get a pile of contracts that are uniformly written, they have the same colour scheme, plus you get a folder, flyers, as well as other products and maybe even a pen. All of this is of uniform colour with logos and possibly with other identifiers. Whenever you find this folder at home you know that it comes from that specific bank.

When creating these visual elements it is again necessary to take into consideration the customers that you want to reach. What are their expectations and how are they going to respond to your choice of colour and graphic design? Here it might pay off to contact an expert on graphics who can create templates that can then be used for further communication.

#### **BUSINESS CARDS AND FLYERS**

What does your business card look like? Remember that your business card is part of your brand. It shows your professionalism, it indicates that you want



people to know about you and that you are always ready to pass on your contact information. And what about your flyers — do they look professional? Do you improvise, or do you hire a graphic who prepares the design and prints the flyers on high quality paper? When you give something to others, try to think how this would work for you, or ask the opinions of people in your area.

#### 5.4 How do you communicate?

Pleasant and open communication undoubtedly helps to generate goodwill. All of us today routinely communicate via phone, e-mail or social networks. If you're promoting your products, definitely do not avoid these communication channels, on the contrary, use them to their maximum! Do not be afraid of a proactive approach including phone calls, writing e-mails or inserting valuable content on a social network such as Facebook or Twitter! Your website is obviously another powerful means of communication between you and your clients, therefore, try to make the most of them. Insert questionnaires, guestbooks, allow your clients to respond with comments to your articles and encourage your website visitors to write to you through simple contact forms if they have any questions or comments. Simply send out a signal that you're thankful to them for any feedback. If you keep the possibility open for people to comment on your articles or products on your website or social networks, you are letting them know that you welcome their feedback. The willingness to stay open is an indispensable part of successful marketing because, in this way, you convey a message to your clients that you are interested in their opinions, and thus in their needs, and that you are trying to satisfy them. Likewise, whenever you send an e-mail have your signature readily available and make sure it includes not only your name but also a link to your website or even your telephone number. Again, in this way you confirm that you are always open to further communication!

## 6 A SUCCESSFUL START TO BUSINESS

If you want to start a business it is important to prepare everything well, and to think things through and to write everything down. In this chapter we will discuss the business plan, what it is for and why it should be written.

Remember that a successful start-up phase of a business takes a year or two. Entrepreneurs, who have not done business before and have finished the first year or two, are often surprised that the beginnings are modest. The first paid job may come after several months.

Before you start a business, make sure that you have enough money to "survive" for the first six months. It is important to have money not only for the business but also for rent, food, and everything else that you need for everyday life. More on this in the Chapter No. 7. on finance.

### **BUSINESS PLAN**

Why do you need a business plan? There are entrepreneurs who never had a business plan and never even gave it a thought. However, there are also others who can't imagine doing without a business plan.

A business plan is a document which provides all the information about where and at what stage your business is, where it is going, how much money you plan to make and when. In short, it's about a 15-page document on your entire business (the scope of the business plan depends on what you'll need it for, for whom, and for what type of business).

A business plan is a necessity if you want to apply for a bank loan or if you want to find an investor.

Caution! It is not a document that is important only for these purposes. The business plan is primarily a document written for your needs. It is a guide

and handbook that helps you to navigate your business towards its goal. Many entrepreneurs appreciate having a business plan because at difficult times, when they have problems and do not know what to do next, they can refer to it for guidance.

Our handbook is unfortunately too short to be able to go into great depth about a business plan. However, you can draw inspiration from many specialized books or other handbooks that describe the business plan in detail. Remember that every business plan is unique because it always reflects your unique aim.

#### HERE ARE THE KEY AREAS WHICH EVERY BUSINESS PLAN SHOULD INCLUDE:

1. **Summary** — a summary of the business plan on a maximum of one page.
2. **Basic information** — description of your business, of you as a person, what are your experiences — whether gained in the field or from your own business.
3. **The product** — detailed description of the product or service.
4. **Production process** — description of how the service will be provided or how the product will be manufactured.
5. **The market** — analysis of the market and competition, and what sets you apart from your competitors and in what way your service is more interesting and appealing.
6. **Sale and marketing** — sales and marketing strategy.
7. **Risks analysis** — SWOT analysis with a careful assessment of the risks that may occur and a plan for minimizing these risks.
8. **Finance** — an initial budget, “survival” budget, planned budget and a cash flow statement for the first year of business.
9. **Appendices** — e.g. certificates of specialized training, curriculum vitae, summary of experience, etc.

If you have done market research and now you would like to write a business plan, read the following chapters to learn how to deal with finances and financial plans so that your business plan is complete.

A business plan can take many forms, and every author or book describes individual chapters and subchapters differently. If you would like to consult somebody about your business plan, you can visit our business advisors who will happily help you in this matter.

## 7

# CAN I SET UP A BUSINESS IN THE CZECH REPUBLIC?

As already mentioned in the introductory chapter, this handbook is divided into two parts. We are now ready to start the second, which deals primarily with the possibilities and methods for setting up a business in the Czech Republic, i.e. which steps need to be taken in order to start a business. Furthermore, we will also discuss the issue of financing; where to find different sources of financing for the start-up of your business. Here you can also find basic information about taxes and how to keep accounting records.

At the start of your business you will need to have a clear idea of what you want to do and to have your plan ready. But first of all, before you can really start your business, you need to check that you will be granted permission to do business in the chosen field.

#### YOU CAN FIND OUT WHETHER YOU MEET THE PREREQUISITES REQUIRED TO RECEIVE A PERMIT BY ANSWERING THE FOLLOWING QUESTIONS:

- Have you reached the age of 18?
- Are you legally competent? (i.e. you can act for yourself, sign contracts and other documents and you have not been assigned a guardian by court, and your rights have not been otherwise restricted in terms of your actions)
- Are you legally irreproachable? (you do not have a criminal record or other similar records — more information on this in the chapter “How to start a business”)?
- Are you competent to do business in the chosen field?
- What kind of professional competence do you need (qualification-education, work experience, etc.) in order to be issued a business license?

If you do not have the necessary qualifications, how quickly and where can you obtain them?

The Law of the Czech Republic (hereinafter CR) clearly defines what qualifications (education, experience in the field or other certificates) you need if you want to do business in the chosen field. A lack of qualification that is needed in order to get the permit for your business can be rectified by e.g. adequate experience in the field, by completing retraining courses, secondary school, or university education.

If you do not have the necessary qualifications and to obtain them is difficult (e.g. in terms of the time it takes to acquire experience in the field or to gain a university degree, if required), the door to doing business in your dreamt of field is not completely closed. In this case, it is sufficient to find a person who has the necessary qualifications. This person must then agree to become the so called responsible representative who will be responsible for the proper operation of your business and its compliance with the applicable laws. Are you wondering where to find such a person? You can look among your relatives and friends, or alternatively, it can be someone who is already a responsible person in someone else's company.

### ***I AM A FOREIGNER — AM I ENTITLED TO DO BUSINESS IN THE CZECH REPUBLIC?***

If you are a foreigner and you want to do business you must have a permanent residence permit in the Czech Republic, a visa that is valid for more than 90 days, or you must have been granted asylum or subsidiary protection (this obligation does not apply to you if you are a citizen of another country of the European Union, Switzerland, or another State party to the Agreement on the European Economic Area).

### ***I'M ON MATERNITY LEAVE — CAN I START A BUSINESS?***

Mothers (or fathers) on parental leave also have the opportunity to start a business under the same conditions as any other citizen of the Czech Republic, this means that there is no limitation.

#### **However, to keep your entitlement to parental allowance you must meet the following conditions:**

That you take full-time care of a child under 3 years of age, at the same time a child younger than 2 years of age may attend nursery or similar institution for pre-school children a maximum of 46 hours per month. For older children there is no legal limit. As the legislation on maternity and parental leaves changes quite frequently we recommend that you follow the site of the Ministry of Labour and Social Affairs — [www.mpsv.cz](http://www.mpsv.cz) or the Labour Office — [www/Portal.mpsv.cz / upcr](http://www/Portal.mpsv.cz/upcr).

## 8

# BUSINESS OWNER VS COMPANY?

For you as a starting entrepreneur there are several options for starting a business. In this handbook we will focus on the two most common ways of doing business in the Czech Republic: a business owner (small business) or company.

### **8.1 BUSINESS OWNER**

A business owner carries out an independent self sustained activity in their own name, under their own responsibility, with the purpose of making a profit. It is important to realize that as a business owner you are liable for the obligations of your business and you guarantee them with all your assets.

Some trades do not require professional competence; this means that in these fields you can start a business basically as soon as you decide to. On the contrary, in other trades you must meet the qualification requirements (usually in the form of formal training and/or experience in the field).

#### ***SMALL BUSINESSES ARE DIVIDED AS FOLLOWS:***

##### **Announced trades**

If you would like to begin any of these trades all you need to do is announce it. The Trade License Office will then proceed with a registration in the Trade Register within 5 days of the trade notification, or will prompt the entrepreneur to remedy, if the announcement does not have all the necessary requirements.

- **Free trades** (no need to demonstrate professional competence)
- **Crafts** (necessary to demonstrate professional competence)

- **Regulated trades** (necessary to demonstrate professional competence)

### Licensed trades

It is necessary to demonstrate competence. Licensed trades are not established based on announcement, but the applicant must wait for the decision of the Trade Office on the issuing of a concession, which will be done within 30 days of receiving the application.

The fields/activities pertaining to different groups of trades can be found in the annexes of the Trade Act<sup>1</sup>. Likewise, for the precise definition of competencies for different kinds of businesses, see the Trade Act or its annexes. Alternatively, you can contact any Trade License Office or your business consultant<sup>2</sup>.

## 8.2 Company

A trading company acts on its behalf and in its own name. As owners you do not always guarantee the obligations of the company with all your assets, it depends on the type of company that you set up. Some companies are required to deposit money on their establishment (i.e. nominal capital).

### IF YOU DECIDE TO ESTABLISH A COMPANY YOU CAN CHOOSE FROM SEVERAL VARIANTS:

- Limited liability company
- Joint stock company
- Public company
- Limited partnership

<sup>1</sup> | Act no. 455/1991 Coll., On Trades: [portal.gov.cz](http://portal.gov.cz)

<sup>2</sup> | By a business advisor we mean both a GLE consultant and a consultant from any other organization or association.

Another, although less used variant of a business is the cooperative, which we are not going to discuss in detail in this handbook.

Trading companies and cooperatives are collectively referred to as legal entities and each of the above companies has its specifics; these include tax treatment of profit, liability of owners regarding the obligations of the company, and authorities making decisions on behalf of the company.

Next we will focus mainly on the limited liability company (s.r.o.), which is the most common form of company found in the Czech Republic. The differences between various trading companies and them compared to cooperatives can be found in the Business Corporations Act or gained from your business advisor.

### *Small business — advantages*

- easy to establish
- one owner
- low registration fees
- no need to have a lot of money at the beginning
- all the profit goes directly to the sole owner
- sole owner has absolute discretion
- simple administration (no need to keep accounts — more in Chapter 9)
- easy to stop the business if necessary

### *Small business — disadvantages*

- you guarantee the business debt with all your assets
- all decisions must be made by the sole owner
- the issue of running the business in case the sole owner is ill or has suffered injury

- all profits together form a single tax base for the owner (profits from business, employment, rent, etc.)

#### **Limited liability company (s.r.o.) — advantages**

- owners (members) are liable for the debts of the company only up to the amount of the nominal capital
- usually there are multiple owners (members); more ideas, plans, higher flexibility (in the case of illness, accident, etc.)
- more owners can combine their experience, knowledge, and vision
- profit goes to the company and may subsequently be divided between the owners (members)

#### **Limited liability company (s.r.o.) — disadvantages**

- more difficult to establish
- usually there are multiple owners (members); differing opinions and plans (e.g. regarding the management, development, etc.)
- registration fees are higher than those for small businesses
- profits are taxed at the rate for legal entities

### **8.3 How to establish a small business?**

The procedure is not very complicated. All you need to do is to hand in a completed registration form along with the required documents, either at any Trade License Office or via public administration contact points (Czech POINT), which can be found, besides other locations, at the post office.

Using a single registration form you can register with the Trade License Office, Social Security Administration, Labour Office (if you are looking for employees), and a health insurance company. When registering with the tax authority you must use another form. The possibilities for registration and the instructions for filling the single registration form can be found on the website of the Ministry of Industry and Trade. The form together with instructions for completion is also available at any Trade License Office. We recommend that you keep a copy of the filed form in case some issues associated with the registration appear in the future (a copy of the form can simply prove that the registration was done properly).

The Trade License Office will issue a document currently known as a Statement from the Trade Register, which proves that you have registered your business activities. This statement lists all the businesses activities that you are allowed to perform. In the past a trade licence used to be the document confirming your business.

### **WHAT DOCUMENTS WILL YOU NEED WHEN ANNOUNCING YOUR BUSINESS?**

#### **Free trade:**

- Announcement — a pre-filled form or a form filled in at the place of submission
- Extract from the criminal records or equivalent document issued by another state if you are a foreigner (the document must not be older than 3 months). The requirements vary according to the residential status and situation of the specific foreigner.
- A document showing your right to the premises that will serve as the official place of your business.
- Proof of payment of the administrative fee (1,000 CZK for an initial announcement of a trade, further announcement costs 500 CZK regardless of whether one or more trades are being announced).
- Foreigners must submit their residence permit in the Czech Republic (except for citizens of the European Union, Switzerland, or any other state of the European Economic Area).

- If the above listed documents are not in the Czech language they must be officially translated.

***In the case of regulated trades and crafts you must also provide:***

- A professional competence certificate of the entrepreneur (or their responsible representative).
- If you need a representative, then you must also provide the responsible representative's statement that they agree to be appointed; the signature on the statement must be officially verified unless the statement is made in person in the presence of a Trade License Office official. At the same time you must submit the authorized representative's extract from the criminal records.

***When filing an application for a licensed trade you must additionally provide:***

- A professional competence certificate of the entrepreneur (or their responsible representative).
- If you need a representative then you must also provide the responsible representative's statement that they agree to be appointed; the signature on the statement must be officially verified unless the statement is made in person in the presence of a Trade Licensing Office official. At the same time you must submit the authorized representative's extract from the criminal records.

The precise definition of competences required by different types of trade can be found in the Trade Act or the Annexes to this Act.

**IF YOU DO NOT USE THE SINGLE REGISTRATION FORM FOR THE ANNOUNCEMENT OF YOUR BUSINESS YOU WILL HAVE TO REGISTER SEPARATELY WITH THE FOLLOWING INSTITUTIONS:**

***Trade License Office***

After obtaining a business license you have to register at:

- The tax office (locally competent tax authority according to your place of residence. You must register within 30 days).

- The Czech Social Security Administration (locally competent District Social Security Administration according to your place of residence. You must register before the 8th day of the month following the month in which you commenced your business).
- The health insurance company with which you are registered (you must register within 8 days after the commencement of your business. With regards to foreigners it depends on their type of residence permit in the Czech Republic whether they will be required to register and participate in the general health insurance. It is advisable to consult your personal situation with your health insurance or business advisor).

In the event that some changes occur during the course of your business (e.g. change of registered address, change of name, change of place of business, business interruption, termination of business), you have to announce these facts to the above mentioned institutions within strict time limits. (These periods are not shorter than 8 days. However, they can vary, so it is advisable to contact the relevant institution by phone or email regarding the actual length of time).

**8.4**

**How to establish a limited liability company?**

The process of establishing a limited liability company (hereinafter "company") is not simple. In this handbook we can only give a brief overview of the individual steps to be taken when establishing a limited liability company. The actual process of setting up a company should be consulted with a business advisor, notary or a lawyer.

**WHAT DOCUMENTS WILL YOU NEED WHEN SETTING UP A COMPANY AND WHAT NEEDS TO BE DONE?**

- Extracts from criminal records of all future executives
- Affidavits and specimen signatures (notarized) of all future executives
- Determination of the company headquarters (a proof of the property ownership by the lessor in the form of an extract from the property registrar must be provided)



# 9

## FINANCES

### 9.1

#### How much do I need to start with?

Normally, but not always, you need considerable financial resources when starting a business, as they say you need “something to get you started”. The amount needed for the implementation of your business idea can vary considerably (e.g. for the opening of a restaurant you would need more money than if you decide to do business designing websites).

Write down everything that you will need for your business. It is important to really write down everything. You must then convert these items and services that you wrote down into money (how much can you purchase them for?). This gives you an idea about the money you need, and it also represents your overall costs.

#### **WHEN WRITING DOWN YOUR LIST OF ALL THE NECESSITIES YOU CAN BASE IT ON THE FOLLOWING:**

- Start up expenses (expenses incurred by you as a result of starting a business — e.g. the cost of starting a business (trade), furnishings of premises, etc.)
- Expenses associated with running the business — e.g. the cost of materials, rent, telephone, electricity, heat, water, internet, office supplies, etc.

At the same time try to also estimate your earnings at the start of your business. Although you might not have a large number of customers and your earnings might be low, it is possible to include them in your calculation as they reduce the amount of money you will need at the beginning.

The estimated costs and earnings at the start of your business will be based on the budget, which should be drawn up for each month of the first year

- The first general meeting will agree the content of the memorandum of association, as well as its drafting and verification
- Opening of a bank account for the deposition of capital, the bank will then issue a written statement confirming deposits paid by the individual members
- Announcement of the trade, or a request for a concession at the Trade Office
- Within 90 days of the company being founded (i.e. the date of the draft and approval of the memorandum of association) you must apply to be entered into the Commercial Register with all the required formalities
- Within 8 days after the registration in the Commercial Register it is necessary to register the newly formed company with the Social Security Administration and the health insurance company (if the company has employees)
- Within 30 days after the registration in the Commercial Register it is necessary to register the newly formed company with the relevant tax office (tax office jurisdiction is determined by the company's headquarters)
- The newly formed company may have registration obligations in relation to other institutions or companies. It depends on the business sector (e.g. it might be a registration at the municipal office for the payment of fees for waste production, or a registration requirement regarding the introduction of new packaging on the market, or a registration requirement regarding the production or trade in feed, etc.)

There is also the option to buy an already established company. These are mostly companies that have been founded only to be sold to applicants who do not want to go through the whole founding process. The advantage is that you can begin your business activities almost immediately after buying the company. The disadvantage is the higher price you pay for the purchase of these companies in comparison with the costs of their founding.



of your business (or you can put together a budget for days, weeks and even for more than one year).

Now we will try to draw up a budget. We have described above how to write down your expenses. However, in the first month (or months), your expenses are increased by your start up costs. This is one side of the budget.

The other side of the budget shows revenues. These, unfortunately, cannot be determined as accurately as expenses. Here you have to estimate as accurately as possible how many customers you will have per month (or week or day), how many of your products you will sell on these days and what your income will be in each month. When estimating the number of customers use the results of your market research.

After deducting expenses from revenues, you can find out how much you will earn in each month (i.e., what will be your gross profit).

Please find below a simplified budget for the first five months of running a business:

EXPENSES in CZK	Month				
	January	February	March	April	May
<b>One-off start up expenses</b>	51 256 Kč	120 403 Kč	0 Kč	0 Kč	0 Kč
<b>Rent</b>	30 000 Kč	30 000 Kč	30 000 Kč	30 000 Kč	30 000 Kč
<b>Employees' wages</b>	30 000 Kč	30 000 Kč	75 000 Kč	75 000 Kč	75 000 Kč
<b>Transport</b>	10 000 Kč	10 000 Kč	25 000 Kč	25 000 Kč	25 000 Kč
<b>Material</b>	0 Kč	0 Kč	150 000 Kč	150 000 Kč	150 000 Kč
<b>Electricity</b>	5 000 Kč	7 000 Kč	10 000 Kč	10 000 Kč	10 000 Kč
<b>Gas</b>	0 Kč	0 Kč	3 000 Kč	3 000 Kč	3 000 Kč
<b>Water and sewer charges</b>	0 Kč	0 Kč	2 000 Kč	2 000 Kč	2 000 Kč
<b>Waste fees</b>	500 Kč	500 Kč	500 Kč	500 Kč	500 Kč
<b>Telephone</b>	2 500 Kč	2 500 Kč	2 500 Kč	2 500 Kč	2 500 Kč
<b>Total expenses</b>	<b>129 256 Kč</b>	<b>200 403 Kč</b>	<b>298 000 Kč</b>	<b>298 000 Kč</b>	<b>298 000 Kč</b>
<b>REVENUE</b>					
<b>Revenue from sales of products</b>	0 Kč	0 Kč	150 000 Kč	290 000 Kč	370 000 Kč
<b>Total revenues</b>	<b>0 Kč</b>	<b>0 Kč</b>	<b>150 000 Kč</b>	<b>290 000 Kč</b>	<b>370 000 Kč</b>
<b>Gross profit</b>	-129 256 Kč	-200 403 Kč	-148 000 Kč	-8 000 Kč	72 000 Kč

Every business has its own very specific budget, because the costs and revenues of each company are different. It is important to capture all the costs that can be expected in the budget and at the same time to estimate the revenues as accurately as possible. Each item in the budget should also be easily justified. For example if your investor asks you the question, why do you estimate the cost of transport in March to be 25 000 CZK, you should be able to justify this amount (e.g. by calculating the cost of transport multiplied the number of kilometres).

You can also include other items in the budget, such as tax and net profit, in order to see how much you will pay in taxes.

If you are not sure about preparing the budget on your own, we recommend that you contact a business consultant.

When thinking about the money that you will need during the start up of your business, you also need to think about the money that you will need for your ordinary family expenses. It is entirely normal that in the first few months after setting up your business you will not have much income (e.g. until you complete the alterations of the leased premises before the opening, until you reach a sufficient number of customers). It is therefore appropriate to plan with a so called "survival" budget.

#### **YOU CAN FIND OUT WHAT YOUR „SURVIVAL“ BUDGET IS BY ANSWERING THE FOLLOWING QUESTIONS:**

- How much do you need for the normal functioning of your household to make sure that your family will not be too affected in the initial period, when your business earns little or no income?
- How long will this period last; is it going to be days, weeks, months, or years?
- What amount of money should you put aside in case the income from your business turns out to be lower than expected?

A "survival" budget is the money you set aside that gives you the certainty that even in the case of unexpected events you will be provided for. Conversely, if all goes according to the plan, or your business is more successful than expected, then your "survival" budget becomes a nice amount of money that has been saved up.

## WHAT IS A CASH FLOW?

You have just planned your budget. Why you should then plan a cash flow? And what is it?

A cash flow is a type of plan that tells you how much money will “flow out” of your business as well as how much money will “flow in”. If your business only has one bank account, then cash flow would indicate how much money, for a certain period (e.g. a month), was paid into this account, and how much money was paid out to someone else. What then is a cash flow plan good for?

It is good idea to plan the cash flow because it helps you to ensure that you always have enough money (whether in a bank account or as cash) to pay your suppliers, your employees, or for your living expenses (simply said, that you have the money to pay your obligations).

What can happen is that you could agree on an extended payment date (e.g. 30 days) with some of your customers, but that you still need to pay your suppliers within 10 days. Likewise, there may a situation where your customer is late with a payment. You should account for these situations by planning your cash flow. You should know how much you will have to pay and by when, and whether you will have enough money on the due dates to meet these payments.

## 9.2 Where to get the money to start with?

After you have determined how much money you need to start your business you must ask yourself, where will the money come from.

### IN PRINCIPLE, IT IS NECESSARY TO ANSWER THESE QUESTIONS:

- How much of your personal savings are you willing to put into your business?
- From whom can you borrow money?
- Can you find an investor for your plan?
- Are there other possibilities for obtaining money?

## HOW MUCH OF YOUR PERSONAL SAVINGS ARE YOU WILLING TO PUT INTO YOUR BUSINESS?

You might realize that you do not have enough money to start your business or you have enough money, but for some reason you do not want to invest all your savings into the business (i.e. they are beneficially invested). When deciding how much of your money you can put into the business you also need to consider your “survival” budget, mentioned earlier.

### IF YOU DO NOT HAVE ENOUGH MONEY TO START WITH, IN MOST CASES, IT IS POSSIBLE TO BORROW IT. MONEY CAN BE BORROWED E.G. FROM:

#### *Family and friends*

Family members and friends are a group that is the most frequent source of money for aspiring entrepreneurs. To avoid potential future conflicts it is a good idea, even with family members or friends, to agree on clear terms for the borrowing of money (for how long, under what conditions, etc.).

#### *Banks*

Banks are another potential source of money for businesses. Money is usually provided in the form of a loan. The types of loans vary significantly and the choice of a loan depends primarily on how the lent money is going to be used by the entrepreneur. The most common types of loans are:

- **Investiční úvěry** — investiční úvěry jsou určeny na stavbu nebo přestavbu míst pro podnikání, případně na nákup výrobních strojů atd.
- **Investment loans** — the investment loans are intended for the construction or reconstruction of places of business or the purchase of production machinery, etc.
- **Operating loans** — the operating loans are intended for financing normal business operations (e.g. purchase of supplies, materials and raw materials, payment of employees’ wages).
- **Bank overdrafts** — are intended to cover random, unexpected events associated with a sudden shortage of cash (they are usually more expensive than operating loans).
- **Consumer loans** — provided to private individuals. Sometimes they can be a good source of funding, if for example, a family member asks for this loan and then lends the funds to the business owner. The disadvantage is the higher cost of these loans.

A loan, as one of the possible forms of financing your business, has one indisputable advantage — the company remains fully under your control. This is not the case when an investor enters your business. On the other hand, with regards to a loan there are precisely given repayment periods regardless of the current state of your business at any given time.

The Bank assesses all credit applications according to its regulations. The decision whether you will or will not be granted a loan is entirely up to the bank. Generally, in the Czech Republic the willingness of the banks to lend to new entrepreneurs is at a lower level than e.g. in the UK, and many start-up entrepreneurs, who do not provide an adequate form of guarantee, find that getting a loan is very difficult.

### **CAN YOU FIND AN INVESTOR FOR YOUR PLAN?**

Another way of raising funds is with the help of investors. Compared to banks, their great advantage is that they are willing to accept greater risks if they like your business idea the way it is presented in your business plan. Investors provide their money and run the risk of losing their investment, if your business plan is not successful. And that's why they usually demand higher returns on their investment than banks do on their loans. In most cases the investor also becomes part owner of your business. Although they usually own a minority stake, you have to reckon with the presence of another person who has the right to participate in planning the future of your business.

### **ARE THERE OTHER OPTIONS FOR GETTING MONEY?**

Below you can find several tools that can be used to either reduce the costs associated with running a business, to divide the amount of funds that you need to do business, or to secure your financial resources in the form of non-repayable financial assistance or reciprocity in return for another service.

#### **Leasing**

There are several kinds of leasing in the financial market; with financial leasing being the most frequently used type. It is mostly used for the purchase of tangible goods, such as a car. Financial leasing is widely used, not only by entrepreneurs, and its principle lies in the gradual repayment of a specific item, e.g. car, while the car, during the repayment period, still belongs to the company that provided the leasing. It is only with the last instalment that you actually buy the car and become its owner. This means that financial

leasing allows you to buy an item that you do not have enough cash for at the moment, and therefore it can help you to solve your cash-flow issue.

Entrepreneurs often buy cars using operating leasing. The difference when compared to financial leasing is that you never become the owner of the car. It is actually just a rental for specific time. The advantage is that the payments to the leasing company also include costs associated with servicing and wear and tear of the car. Leasing can be used, of course, for other types of material things, e.g. production machinery and buildings. When choosing a leasing company consider the fees for their services, these vary from one provider to another.

#### **Business incubators and coworking centres**

The benefits of incubators and coworking centres for entrepreneurs lie particularly in cost savings. Both places offer cheaper rent and possibly other services that are either completely free or for a specific fee. Coworking centres have grown like mushrooms after rain in the last couple of years, and can be used for both continuous work or just for meetings with clients. Business incubators are more enclosed and industry-specific, such as IT specialists and so on.

#### **Crowdfunding**

Crowdfunding is a form of public financing. The principle consists in reaching the general public that will then contribute towards the emerging project. For example, if you are looking for 10 000 CZK, it may be a high amount for someone. However, if they only have to contribute 100 CZK then they will not be so hesitant. Conditions vary according to the service provider.

Aimed at the Czech market:

- [www.hithit.com](http://www.hithit.com)
- [www.startovac.cz](http://www.startovac.cz)
- [www.nakopni.me](http://www.nakopni.me)

International exposure:

- [www.kickstarter.com](http://www.kickstarter.com)

#### **Public sources**

The state usually prepares business support programs as part of its effort to support local entrepreneurs. The programs can be implemented by the government, ministry, region, municipality or other public institutions. In most cases the purpose of these programs lies in providing entrepreneurs with easier access to information and money, which allows for the fast growth of their businesses.

Budding entrepreneurs may apply for the following support programs:

- The Labour Office of the Czech Republic — as part of an active employment

policy a person who is starting their own business can apply for financial support. Only job seekers registered at the labour office may apply.

- European funds also represent an interesting opportunity for new entrepreneurs. Since May 2015, a new program period has been in preparation, and we recommend that you monitor the [www.strukturalni-fondy.cz](http://www.strukturalni-fondy.cz) website, where you can find an overview of all known operational programs and their focus.
- Českomoravská záruční a rozvojová banka provides support for starting entrepreneurs. For more information go to the [www.cmzrb.cz](http://www.cmzrb.cz) website.



# 10

## HOW TO PAY TAXES?

If you are doing business in the Czech Republic you will come across various taxes. In this handbook we will explain the taxes which entrepreneurs encounter most frequently. You can find an overview of all applicable taxes and the conditions under which you have to pay them in the publication called „tax laws“ . As taxes in the Czech Republic are a complicated subject we only provide a simplified explanation in this handbook; it should serve as a basic introduction to taxes and other charges that must be paid in this country. In case you need more detailed information we recommend that you contact a business or tax advisor.

### **PLEASE FIND BELOW A LIST OF TAXES AND OTHER CHARGES, WHICH WILL BE EXPLAINED IN THIS HANDBOOK.**

Next to each individual tax you can also find the relevant institution where the entrepreneur needs to register:

- Income Taxes — Tax Office
- General health insurance — the health insurance company of the entrepreneur or employee
- Social Security — Social Security Administration
- Value added tax — Tax Office
- Road tax — Tax Office

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3 | [www.mfcr.cz](http://www.mfcr.cz) (section “Taxes and charges”, “The tax system in the Czech Republic”); the Tax laws publication can be purchased at bookstores throughout the Czech Republic



## INCOME TAX, DEDUCTIONS FOR GENERAL HEALTH INSURANCE AND SOCIAL SECURITY

In the following text we are going to describe who is liable to pay income tax and other charges. You can find detailed calculations in the appendix called "How much tax will you pay?".

Income tax and contributions to general health insurance and social security are based on the income of the entrepreneur (or employee). As the amounts of taxes paid by natural persons (mostly traders) differ from the amounts paid by limited liability companies (LLC), we will explain these taxes separately for each group.

Below you can find a simplified comparison of income taxes and other charges paid by a tradesman and by a limited liability company (LLC). It is important to realize that if a member (owner) of LLC also works for the company then they will pay similar taxes on their income as if they were an employee. The LLC profit tax stated below therefore relates to the company, not to the income of the member (owner).

### *Business owner*

- A business owner pays tax on profit (on their income after deducting expenses related to their business activities, or on their revenues after deducting expenses in case they keep accounts).
- Income tax
- The following charges are paid on half the profit:
  - general health insurance
  - social security
  - sickness insurance (voluntary)

### *Limited liability company*

- The company pays taxes on profits (on the revenues after deducting expenses related to the business).
- Income tax
- If a member (owner) of LLC works for the company then they pay similar

taxes on their income as if they were an employee.

- income tax
- general health insurance
- social security
- sickness insurance

Revenue is a monetary expression of output in connection with doing business (this is primarily the sale of products and services). Sales of goods become revenue at the time of issuing an invoice, even though we receive the actual money for the goods or services later upon payment of the invoice by the customer. Thus, the revenue is generated at the time of issuing the invoice, while income (i.e. the real increase in money) is generated only when the invoice is paid. Put simply, it is the sum of money that we have received in our bank account or in cash, and the money that we are due to receive for provided outputs (e.g. based on our invoices).

An expense is a monetary expression of consumption in connection with doing business (e.g. the purchase of raw materials or payment of rent). An invoice received from a supplier represents an expense, even though the actual money for the consumed (purchased) goods, alternatively services, will be spent later when we pay the suppliers' invoices. An expense therefore arises upon receipt of an invoice, while expenditure (i.e. the actual outlay of money) arises at the moment of payment.

It follows that, in determining profit, an income is a monetary expression of outputs related to the business performance, which has been paid to us. Expenditure, on the other hand, represents a consumption that we have already paid for.

As we have mentioned at the beginning, taxes are complicated in the Czech Republic, and therefore the comparison provided above is very general and does not give much detail (e.g. we did not talk about tax discounts, the combination of employment and entrepreneurship etc.). With regards to foreigners, it also depends on the type of residence permit in the Czech Republic, as to whether they will be required to participate in the general health insurance or whether they will be required to use other forms of health insurance (detailed information can be obtained at health insurance companies, possibly from a business advisor). If necessary, we recommend that you consult any tax issues with a business or tax advisor.

It is clear from the above comparison that the taxation of business owners is quite different compared to a limited liability company. But we must realize that business owners can use their taxed profits in full for their personal use, while the after-tax profit of a limited liability company remains in the company,



and if the members (owners) want to share it, then it becomes a subject to other taxes.

## VALUE ADDED TAX

If the turnover of your business exceeds, in the last 12 calendar months, the amount of 1 000 000 CZK, then you must register to pay value added tax<sup>4</sup>. If your turnover does not exceed this amount, you do not have to register.

Value added tax is calculated on the price of the products that you sell. For example, if you want to sell mobile phones at 10 000 CZK, you must add value added tax to the price. Then the sales price increases by this tax, for example at 21% tax the final selling price will be  $10,000 \times 1.21 = 12\,100$  CZK. Of this amount, you pay 2100 CZK tax (to the local revenue office) and 10 000 CZK will be your income from the sale of the product.

If you buy goods or services in connection with your business you can ask for a refund of the value added tax. If you bought the aforementioned phone for 12,100 CZK as part of your business activities you can then ask for a refund to the amount of 2,100 CZK (this only applies under the condition that you buy the goods or services from a person who is also registered for value added tax).

The rate of value added tax in 2015 stands at 21% for most goods and services. However, for some types of goods and services reduced rates of 15% or 10% apply. The exact definition of the goods and services that fall into the category of 21%, 15% or 10% can be found in the Annex of the Value Added Tax Act.

If you are not registered for value added tax then you can forget the information above as you do not add any tax to the price of your products or services. If you decide to sell e.g. a computer for 15 000 CZK, then sell it for 15,000 CZK.

## ROAD TAX

If you use a vehicle as part of the conduct of your business (whether a private vehicle or a vehicle purchased for your company) you need to register to pay road tax<sup>5</sup>. The amount of the tax to be paid varies according to the technical parameters of the vehicle.

4 | Act no. 235/2004 Coll., on Value Added Tax: [portal.gov.cz](http://portal.gov.cz)  
5 | Act no. 16/1993 Coll., on Road Tax: [portal.gov.cz](http://portal.gov.cz)

# 11

## HOW TO MANAGE ACCOUNTING?

Every entrepreneur in the Czech Republic must keep certain records of their activities, mainly revenue and expenses (or income and expenditure), assets and debts. People mostly use the term accounting for this type of record keeping.

If you're a business owner, then in most cases you are not required to keep accounts, and you can choose one of the bookkeeping methods listed below:

### Accounting

This is the most complicated record keeping system of the three listed here (in the past you could have come across the term double-entry bookkeeping).

### Tax records

This is a simpler version of accounting that is commonly used by business owners who want to show their expenses related to the business (in the past you could have come across the term simple accounting).

### Expenditure charged as a percentage of revenue

This is a legal possibility that allows the business owner to determine their expenses as a specifically defined percentage of income that the owner earned during the calendar year. The aforementioned percentage is specified by the Income Tax Act<sup>6</sup> and it varies according to the type of trade.

6 | Act no. 586/1992 Coll., On Income Tax

It depends on the tradesman's decision which of the above methods of accounting they decide to keep. It is also possible to change the method of accounting once per year for the new calendar year. The change of evidence can be voluntary or mandatory by law. If necessary, we recommend that you consult this matter with a business or tax advisor.

A Limited Liability Company is required to keep accounts.

A company can adopt one of the above mentioned methods for keeping accounts and either employ their own resources (in the case of small businesses it is usually done by the owner of the company), or the services of an external consultant. This is either a tax advisor or a company engaged in accounting and tax records. These consulting companies can also prepare tax returns and other documents that the enterprise is obliged to submit. Prices for these services are mostly derived from the method of accounting and the number of processed documents<sup>7</sup>.

To meet the legal requirements related to the accounting and to the requirements of your customers, it is also necessary to know how to work with the so called accounting and tax documents that you submit to your customers and that you receive from your suppliers. Also, you must remember to make a stamp of your company since you will be using it almost every day.

The basic documents that you should prepare for your business are an invoice, income cash voucher, sales slip (or some other type of receipt for payments received from a customer), expenditure cash voucher, and a credit note.

If you accept cash payments, most cash registers automatically generate some type of bill and at the same time they collect information on how much the goods were sold for, how many receipts were issued and what the overall cash balance is for a certain period (e.g. a day, week). However, if you do not have an automatic cash register you must monitor cash in another way. In practice this is not a very complicated job. All you need to do is to keep track of the individual incomes, expenditures, and the final balance of cash. You can either write everything down on paper, or you can use a computer. The following table is an example of simple cash evidence:

**XY COMPANY CASH BOOK (non-payer of VAT)**

Date	Description	Money in	Money out	Balance
1.1.2015	Opening balance			50 000 Kč
2.1.2015	Sale of goods	2 000 Kč		52 000 Kč
2.1.2015	Sale of goods	1 000 Kč		53 000 Kč
3.1.2015	Sale of goods	5 000 Kč		58 000 Kč
4.1.2015	Postage		150 Kč	57 850 Kč
4.1.2015	Rent		15 000 Kč	42 850 Kč
4.1.2015	Sale of goods	2 000 Kč		44 850 Kč



**7 |** The prices for these services depend on the number of accounting documents and are not standard.

Currently (2015) they come to (the listed prices are valid for small businesses):  
 – Accounting: 15 000-25 000 CZK/year  
 – Tax records: 3 000-10 000 CZK/year  
 – Preparation of a tax return: 1 500-5 000 CZK/year.

# 12

## SUMMARY OF THE STEPS REQUIRED TO ESTABLISH A SMALL BUSINESS OR COMPANY

Now that you have the necessary information that enables you to better orient yourself in the situation of setting up a business or company. You know what you need to think through and what you need to do to ensure that your company is successful and that it fulfils its purpose in the future. At this point we are going to revise the steps that are needed to start a business. You can use this list to tick off what you've already done and what awaits you.

### **NOW YOU CAN GO THROUGH THE IMPORTANT STEPS THAT YOU HAVE TO TAKE WHEN STARTING YOUR BUSINESS:**

- Thought-out business idea
- Creation of a business plan (including location, number of employees, type of advertising, etc.).
  - Summary
  - Basic information
  - Product
  - Manufacturing process
  - Market
  - Sales and marketing
  - Risk analysis
  - Finance
  - Appendixes

- Preparation of the documents necessary for the establishment of a small business or company (you can find the exact list in the chapters "How to establish a small business" and "How to establish a limited liability company")
- Registration and location of the company
  - Registration of a small business (at the Trade License Office) or
  - Formation and incorporation of a company (visiting a notary and the Trade License Office)
  - Registration with the relevant institutions — tax office, local social security, health insurance (the possibility to use a single registration form when registering at the Trade License Office)
- Preparation for the implementation of the business idea — furnishings, material purchase, product or service promotion
- Acquisition of forms necessary for operating the business (e.g. expenditure and income receipts, invoices, log book, etc.).
- Checking all steps and their accuracy
- Starting the actual business activities



# 13

## CONCLUSION

In this guide, we described a business as an option of getting out into the open labour market, and we tried to briefly and clearly outline the process that you must go through if you decide to take this route. This is obviously a simplistic outline as there are many details in the legislation that could be added. Our aim rather was to show the possibilities and to describe the basics so that those who read it will know roughly what to do or where to turn and where to get some more information. Some of the points mentioned in this handbook (administrative fees or taxes, business registration options, etc.) can be subject to frequent amendments based on changes in the legislation of the Czech Republic. In this case it is good to know where to turn to for advice with regards to the changing situation. There are a number of references stated in the Annex, which should prove useful in the future.

We hope that we managed to fulfil the aim of our handbook, which was to provide readers with information on business options in the Czech Republic. We have tried to explain what is needed to start a business (be it legislation, finances, or a good business plan) and have hopefully helped you to oriented yourself better in this area. This handbook should serve a large group of people as a practical guide that they can always turn to in case of doubt.

# 14

## GLOSSARY

**Marketing** — these days a much needed concept of business policy of a company. Its task is to secure the maximum economic effect for the company by creating demand for its products.

**Responsible Representative** — a person appointed by the entrepreneur, who is responsible for the proper operation of the business and for the adherence to the trade license regulations and who is in a contractual relationship with the entrepreneur.

**Running a business** — a systematic activity carried out independently by an entrepreneur in their own name and on their own responsibility for profit.

**Enterprise** — set of tangible, personal, and intangible components of a business. An enterprise contains objects, rights, and other property values owned by an entrepreneur and used to operate a business or due to their nature intended for this purpose. The company is a complex matter.

**Business Plan** — a document that describes the basic purpose of doing business, its long-term goal and the path to achieving it. It explains the business idea in terms of the competition and the necessary financial resources.

**Advertising** — sales promotion carried out for the purpose of improving the economic situation of the company.

**SWOT analysis** — a study that helps to assess the success of a company or a certain project by recognizing its strengths and weaknesses (S, W), opportunities, and threats (O, T).

**Small business** — a systematic activity carried out independently, in one's own name, on their own responsibility, for the purpose of gaining a profit under the conditions stipulated by the Act no. 455/1991 Coll., On Trades.

# 15 - APPENDIX

## HOW MUCH TAX WILL YOU PAY?

### 15.1 Introduction to Appendix

This appendix complements the chapter "How to pay taxes?", which can be found in the second half of the handbook. The Appendix deals with the calculation of taxes and other charges for entrepreneurs and employees. With the help of this Appendix you will be able to calculate how much income tax and other charges you must pay.

We would like to point out that the calculations presented in this Appendix are valid in terms of legislation as of 30.4.2015. Changes in the law will gradually lead to changes in tax rates and other charges. With this the method of calculation might also change. It is therefore advisable to check that the calculations presented here are still up-to-date. The fact that there are frequent changes in the Czech law has led us to placing the calculations, which are of great interest to the aspiring entrepreneurs, separately into an Appendix in order to ensure the constant relevancy of the main text in this handbook.

For the sake of greater clarity we have had to make simplifications in this Appendix; therefore it is necessary to consider the calculated amount as an approximate figure.

### 15.2 How to use this Appendix?

As the described issue is not simple, we recommend that readers first read

the text in the Appendix. It may happen that at the beginning of the text, and maybe even after reading it for the first time, you will not quite understand the subject. In this case, we recommend that you return to the examples presented at the end of the Appendix and try to calculate them on your own using the available information.

### 15.3

#### How much tax and other charges do business owners pay?

In the following text, we assume that the person runs business under a trade license, lives alone and has no income other than the income earned by their business and that the business was in operation throughout 2015.

#### GENERAL HEALTH INSURANCE

We always calculate the contributions to general health insurance for the given calendar year (i.e. we take into account the whole revenue from 1.1.XX till 31.12.XX). You can calculate the amount of contributions using the prescribed form that is available at your health insurance company (there is usually the option to download the form on the website of the insurance company). The form should be handed over by 1.5.XX (as this day is a public holiday, the submission deadline is moved to the next day which is 2.5.) + 1 year (i.e. by 1.5. of the following year). The amount that we calculate determines the amount of advances that we have to pay monthly in the following year and it must not be paid later than the 8th day of the following month.

The amount, which we use to calculate our contribution to general health insurance, is called the assessment base. The assessment base represents 50% of our revenues from business activities after deducting expenses. If we multiply the assessment base by 13.5% we get the actual contribution to general health insurance.

#### *Important information concerning the minimum and maximum contributions to general health insurance:*

- Rate of 13.5%

- The minimum monthly advance for 2015 is in the amount of 1 797 CZK; the advance is due on the 8th day of the following month (if we start our business on 1.7.2015, our monthly advance for July is due no later than 8.8.2015. If we pay the advance later interest is charged on late payments)
- The minimum annual assessment base for 2015 is 159 666 CZK
- The maximum assessment base for 2015 is 48 times the average salary to the amount of 1 277 328 CZK (for amounts in the excess of the above no contribution needs be paid to general health insurance).

#### *Calculation formula for 2015:*

- **(revenue - expenses) × 0.5 × 0.135** = amount of the annual contribution to general health insurance
- **The annual contribution/12** (number of months, during which we have run our business) = the amount of the monthly advance payment of health insurance in 2015

Submit the form to your health insurance company by 1.4.2016.

#### *Furthermore, you are required to pay, within 8 days, the contribution to the general health insurance for the year 2015 to the amount of:*

Annual contribution - monthly advances paid in 2015 = balance due to be paid for 2015.

Note: This depends on the type of residence permit of each foreigner, and if they are required or not to participate in general health insurance.

#### SOCIAL SECURITY

As is the case for general health insurance the calculation for social security is also based on the assessment base, which is determined in the same manner, i.e. 50% of the revenue after expenses. The social security contributions are calculated using a form issued by the Czech Social Security



Administration (the form can also be downloaded from the Internet or [www.cssz.cz](http://www.cssz.cz) or it can be filled in online via an interactive form). This form for the period of 1.1.XX – 31.12.XX must be submitted to the branch of the Czech Social Security Administration, where you are registered, by 1.5.XX + 1 year (i.e. 1.5. of the following year, with the 1.5. being a public holiday, the deadline has been moved to 2.5.).

### *Social security contributions consist of:*

#### **Contributions to pension insurance and state employment policy:**

- Rate of 29,2%
- The minimum monthly advance for 2015 is 1 943 CZK; the advance is due on the 20th day of the following month (if we start our business on 1.7.2015, our monthly advance for July is due no later than 20.8.2015. If we pay the advance later interest is charged on late payments)
- The minimum annual assessment base for 2015 is 79 836 CZK
- The maximum assessment base for 2015 is 48 times the average salary to the amount of 1 277 328 CZK (for amounts in the excess of the above no contribution needs be paid to general health insurance).
- **Sickness insurance** — 2.3% (participation in sickness insurance is voluntary for the self-employed)

#### **Calculation formula for 2015:**

- **(revenue - expenses) × 0.5 × 0.292** = amount of the annual contribution to pension insurance and state employment policy
- **(revenue - expenses) × 0.5 × 0.023** = amount of the annual contribution to sickness insurance
- **The annual contribution/12** = the amount of the monthly advance

Next we will only focus on calculations for the mandatory contributions to pension insurance and the state employment policy (we will not deal with the calculations for sickness insurance, which is voluntary).

Not later than by 1.5.2016 (with the 1.5. being a public holiday, the deadline has been moved to 2.5) you are required to submit the form to the branch of the Czech Social Security Administration where you are registered, and within 8 days of the form being submitted you must pay any balance due on the contribution to pension insurance and state employment policy for the year 2015. The balance is calculated as follows:

Annual contribution - monthly advances paid in 2015 = balance due to be paid for 2015 (or overpayment).

### **INCOME TAX**

The business income tax is paid on the difference between revenues and expenditures for the calendar year. You make the calculations by filling out the form "Tax returns on personal income." This form is available at every tax office and can also be downloaded on the website of the Ministry of Finance<sup>8</sup>.

The form must be completed and submitted and the tax must be paid by 1.4.XX + 1 year (i.e. by 1.4. of the following year).

Personal income tax is currently set at 15%.

#### **Calculation formula:**

- 1. revenue - expenses** = tax base
- 2. tax base - items deductible from the tax** = adjusted tax base
- 3. adjusted tax basis × 0.15** = tax liability
- 4. tax liability - tax allowances** = tax liability after tax allowances
- 5. tax liability after tax allowances – advances paid** = actual tax liability

#### **Example calculation (CZK):**

Revenue: 600 000 CZK;  
expenses: 300 000 CZK;  
tax allowance per taxpayer in 2015: 24 840 CZK.

1.  $600\ 000 - 300\ 000 = 300\ 000$
2.  $300\ 000 - 0 = 300\ 000$
3.  $300\ 000 \times 0,15 = 45\ 000$
4.  $45\ 000 - 24\ 840 = 20\ 160$
5.  $20\ 160 - 0 = 20\ 160$

The actual tax liability in the amount of 20 160 CZK must be paid no later than is the deadline for submitting the tax returns for 2015, which is 1.4.2016.

If the tax liability does not exceed 30 000 CZK, it is not required to pay advance income tax during 2015.

## 15.4 EXAMPLE 1

A business owner has run his business under a trade license since 1.7.2014. Since the only income he receives comes from his business he had to start paying, from that month onwards, advances on general health insurance of 1 752 CZK/month and also advances on pension insurance and state employment policy with the minimum payment of 1 894 CZK/month. The business owner decided that he would not make contributions to sickness insurance. By 31.12.2014 the total revenue from his business came to 650 000 CZK and the expenses amounted to 325 000 CZK.

1. How much will the business owner contribute to general health insurance, pension insurance and state employment policy?
2. How much will the monthly advances be for these contributions in 2015?
3. What will the tax liability be for the business owner in terms of income tax?
4. What are the deadlines for submitting the tax form and contribution forms?

### How much will the business owner contribute to general health insurance?

- $(650\ 000 - 325\ 000) \times 0,5 \times 0,135 = 21\ 938$  Kč (total contribution for 2014, rounded up to a whole crown)  
Monthly advances paid in 2014 for the period from 1.7 to 31.12.2014 (a total of 6 months):
- $6 \times 1\ 752 = 10\ 512$  Kč (amount of advances paid in 2014)

- $21\ 938 - 10\ 512 = 11\ 426$  Kč (balance to be paid by the business owner after submitting the overview = total contribution for 2014 - the advances paid in 2014)

The business owner must submit the form to his health insurance company by 1.4.2015 and pay 11 426 CZK by 8.4.2015.

### How much will the monthly advances be in 2015?

- $21\ 938 / 6 = 3\ 656$  CZK
- We must divide the total contribution for 2014 by six — because the business owner ran his business for only 6 months of 2014. The calculated advances are, however, valid for all 12 months of the following year.

The business owner must pay a monthly deposit of 3 656 CZK for April 2015. This advance is due on 8.5.2015. The following monthly advances will be to the amount of 3 656 CZK, until the next form submission in 2016.

### How much will the business owner contribute to pension insurance and the state employment policy?

- $(650\ 000 - 325\ 000) \times 0,5 \times 0,292 = 47\ 450$  CZK (total contributions for 2014)

Monthly advances paid in 2014 for the period from 1.7 to 31.12.2014 (a total of 6 months):

- $6 \times 1\ 894 = 11\ 364$  CZK (amount of advances paid in 2014)
- $47\ 450 - 11\ 364 = 36\ 086$  CZK (balance to be paid = total contribution for 2014 - the advances paid in 2014)

The business owner must submit the form to the Czech Social Security Administration by 1.5.2015 (with the 1.5. being a public holiday, the deadline has been moved to 2.5) and pay 36 086 CZK by 8.5.2015.

### How much will be the monthly advances in 2015?

- $47\ 450 / 6 = 7\ 908$  CZK
- We must divide the total contribution for 2014 by six — because the business

owner ran his business only 6 months of 2014. The calculated advances are, however, valid for all 12 months of the following year.

- The business owner will pay over the coming months advances of 7 908 CZK. This advance will be always due on 20th day of the following month.

#### **What will the tax liability be for the business owner in terms of income tax?**

- The business owner does not reduce his tax base with e.g. donations and he only applies the basic tax allowance of 24 840 CZK.
- $(650\,000 - 325\,000) \times 0,15 - 24\,840 = 23\,910$  CZK.
- The business owner must submit the Tax return on personal income form by 1.4.2015 and by the same date he must pay tax in the amount of 23 910 CZK.

## **15.5 EXAMPLE 2**

A business owner has run his business since 25.2.2014. Next we apply the same conditions as in Example 1 but with different amounts of revenues and expenses. During the period from 25.2. to 31.12.2014 the total revenue came to 250 000 CZK and the total expenses amounted to 150 000 CZK.

1. How much will the business owner contribute to general health insurance, pension insurance and state employment policy?
2. How much will the monthly advances be on these contributions in 2015?
3. What will the tax liability be for the business owner in terms of income tax?
4. What are the deadlines for submitting the tax form and contribution forms?

#### **How much will the business owner contribute to general health insurance?**

- $(250\,000 - 150\,000) \times 0,5 \times 0,135 = 6\,750$  CZK (total contributions for 2014)

Monthly advances paid in 2014 for the period from 25.2. to 31.12.2014 (a total of 11 months):

- $11 \times 1\,752 = 19\,272$  CZK (amount of advances paid in 2014)

As the amount of 19 272 CZK paid in the form of minimum monthly advances is higher than the amount calculated on the basis of the income actually earned by the business owner, the business owner will neither pay any balance, nor will he receive any money back since the advance cannot be less than the minimum amount.

The business owner must submit the form to his health insurance company by 1.5.2015 (with the 1.5. being a public holiday, the deadline has been moved to 2.5).

#### *How much will be the monthly advances in 2015?*

- The business owner will again pay only the minimum monthly advances in 2015. The amount of these advances will be published by the health insurance companies at the beginning of 2015.
- The business owner must already pay, in April 2015, the monthly advance of the minimum amount for the year 2015. This advance is due on 8.5.2015.

#### **How much will the business owner contribute to pension insurance and the state employment policy?**

- $(250\,000 - 150\,000) \times 0,5 \times 0,292 = 14\,600$  CZK (total contributions for 2014)

Monthly advances paid in 2014 for the period from 25.2. to 31.12.2014 (a total of 11 months):

- $11 \times 1\,894 = 20\,834$  CZK (amount of advances paid in 2014)

As the amount of 20 834 CZK, paid in the form of minimum monthly advances, is higher than the amount calculated on the basis of the income actually earned by the business owner, the business owner will neither pay any balance, nor will he receive any money back since the advance cannot be less than the minimum amount.

The business owner must submit the form to the Czech Social Security Administration by 1.5.2015 (with the 1.5. being a public holiday, the deadline has been moved to 2.5)

### *How much will be the monthly advances in 2015?*

- The business owner will again pay only the minimum monthly advances in 2015. The amount of these advances will be published by the Czech Social Security Administration at the beginning of 2015.

### **What will the tax liability be for the business owner in terms of income tax?**

- The business owner does not reduce his tax base with e.g. donations and he only applies the basic tax allowance of 24 840 CZK.
- $(250\,000 - 150\,000) \times 0,15 - 24\,840 = -9\,840$  CZK (tax liability is 0 CZK).

The business owner must submit the Tax return on personal income form by 1.4.2015. The business owner has no tax liability (he does not have to pay any tax) and he is not entitled to any refund.

## **15.6**

### **How much will you pay in taxes and other contributions related to your employees?**

Let's assume that your employees work on a full-time basis (to make things simple we will neither discuss the specifics of part-time employees or the subject of compulsory injury insurance).

The employer and employee agree on the so called gross salary before signing a contract. The gross salary is then used by the employer to determine the employer's contribution to the relevant institutions and the amounts that will be sent on behalf of the employee. All contributions and taxes related to employees are paid monthly. The employer then has the obligation to prepare the so called Annual statement of the employee's income tax paid at the employee's request...

### **The business owner pays in relation to his employees the following:**

#### *Income tax*

- On behalf of the employees: 15% (paid out of the so called super gross salary)

#### *Contribution to general health insurance*

- On behalf of the employees: 4,5% (paid out of the gross salary)
- Employer's contribution: 9% (the basis for calculating this contribution is the gross salary)

#### *Contribution to social insurance*

- On behalf of the employees: 6,5% (paid out of the gross salary)
- Employer's contribution: 25% (the basis for calculating this contribution is the gross salary)

### **Here is an example:**

Let's assume that the employee has a gross monthly salary of 15 000 CZK and has no other income and lives alone.

Gross salary: 15 000 CZK

Employer's contributions:

- General health insurance:  $15\,000 \times 0,09 = 1\,350$  CZK
- Social insurance:  $15\,000 \times 0,25 = 3\,750$  CZK

Employee's contributions and tax:

- General health insurance:  $15\,000 \times 0,045 = 675$  CZK
- Social insurance:  $15\,000 \times 0,065 = 975$  CZK

Income tax:

- Step 1:  $15\,000 \times 1,34 = 20\,100$  CZK (the so called super gross salary) (34% is the sum of 25% of social security and 9% of health insurance per employee)
- Step 2:  $20\,100 \times 0,15 = 3\,015$  CZK (advance payment of income tax)
- Step 3:  $3\,015 - 2\,070 = 945$  CZK (the resulting advance on income tax (the amount of 2070 CZK, in step 3, is the monthly tax allowance that we get when we divide the annual tax allowance amounting to 24 840 by 12 months —  $24\,840/12 = 2\,070$ ))

The employee's net salary:  $15\,000 - 675 - 975 - 945 = 12\,405$  CZK

- (Gross salary - contributions on behalf of the employee - tax = net salary)
- The total employer's costs per employee per month at gross wages of 15 000 CZK come to 20 100 CZK.
- If we, as aspiring business owners, would like to know what the total cost of having a staff will be at a particular amount of gross salary, then we can get the answer using a simple calculation:
- Gross salary  $\times 1,34$  = the total cost per employee per month (in our example,  $15\,000 \times 1,34 = 20\,100$  CZK)

We recommend that new business owners consult their specific situations related to the calculation of duties, taxes, and filling out forms for individual institutions with an accounts, tax, or business advisor. The calculations and especially the completion of the forms is not a simple matter.

# 16

## REFERENCES/LINKS

### *State Institutions:*

[www.mpo.cz](http://www.mpo.cz) – Ministry of Industry and Trade

[www.mpsv.cz](http://www.mpsv.cz) – Ministry of Labour and Social Affairs

[www.mvcr.cz](http://www.mvcr.cz) – Ministry of Interior

[www.mzv.cz](http://www.mzv.cz) – Ministry of Foreign Affairs

[www.cnb.cz](http://www.cnb.cz) – Czech National Bank

[www.cssz.cz](http://www.cssz.cz) – Czech Social Security Administration

[portal.gov.cz](http://portal.gov.cz) – Public Administration Portal

### *Business support:*

[www.businessinfo.cz](http://www.businessinfo.cz) – Business and export portal

[www.komora.cz](http://www.komora.cz) – Czech Chamber of Commerce

[http://ec.europa.eu/enterprise/sme/promoting\\_cs.htm](http://ec.europa.eu/enterprise/sme/promoting_cs.htm) – European portal for SMEs

### *Financing options:*

[www.czechinvest.cz](http://www.czechinvest.cz) – Investment and Business Development Agency

[www.strukturalnifondy.cz](http://www.strukturalnifondy.cz) – European Union funds available in the Czech Republic

[www.oppa.cz](http://www.oppa.cz) – European Union funds available in the City of Prague

[www.cnb.cz](http://www.cnb.cz) – Czech National Bank (the list of banks in the Czech Republic)

[www.cmzrb.cz](http://www.cmzrb.cz) – Czech-Moravian guarantee and development bank (Českomoravská záruční a rozvojová banka)

[www.cvca.cz](http://www.cvca.cz) – Czech Private Equity and Venture Capital Association

### *Other links:*

[www.vzp.cz](http://www.vzp.cz) – General Health Insurance Company

[www.navolnenoze.cz](http://www.navolnenoze.cz) – Information about business and marketing for business owners

### *An overview of the most important laws related to business:*

Act no. č. 89/2012 Coll., Civil Code

Act no. 90/2012 Coll., Act on Business Corporations

Act no. 455/1991 Coll., On Trades

Act no. 563/1991 Coll., On Accounting

Act no. 586/1992 Coll., On Income Taxes

Act no. 235/2004 Coll., On Value Added Tax

Act no. 16/1993 Coll., On road tax

Act no. 262/2006 Coll., The Labour Code

Act no. 185/2001 Coll., on Waste and on the Amendment of Certain Other Acts

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