

Abstract: The tax system and agreements on the avoidance of double taxation

This diploma thesis “*The tax system and agreements on the avoidance of double taxation*” is focused on practical issues in the field of using international corporate structure in order to decrease the tax liability applicable on entrepreneurs.

The diploma thesis includes the basic description of the legal rules applicable in the Czech Republic, such as acts and also international treaties. In the field of EU law, the diploma thesis described briefly EU directives based on which it is possible to transfer dividends, interest and royalties between mother and daughter companies without withholding tax payable in the Czech Republic. International treaties described in this diploma thesis were double taxation avoidance treaties between the Czech Republic and Cyprus and between Cyprus and Seychelles.

First part of the diploma thesis is describing legal regulation of income taxes applicable in the Czech Republic. It is aimed mainly on interests, dividends and royalties. The first part of the diploma thesis is of theoretical nature which gives basics for the second and third part which practically analyze possibilities to decrease tax burdens of entrepreneurs.

Second part of the diploma thesis brings analysis of individual model situations which can be used in order to decrease taxes payable by entrepreneurs in the Czech Republic. For the purposes of practical calculations the author determined gross profit of CZK 600,000 and used this number to calculate the final tax burdens of natural person acting as an entrepreneur (taxes in amount of CZK 193,260) and of company where more alternatives were used: (i) all profit is paid to the shareholder based on the shareholder’s employment in the company (taxes in amount of CZK 312,636), (ii) profit is paid to the shareholder by combination of employment and dividends (taxes in amount of CZK 191,505 Kč) and (iii) a part of profit is transferred as a payment for the lease of assets owned by the shareholder to the company (taxes in amount of CZK 150.222).

Third part of the diploma thesis briefly describes specific ways of taxation decrease in the international context. Author chose Cyprus and Seychelles jurisdictions as the most appropriate for the purpose of minimising the taxation burden. The holding would be placed in the Seychelles, where the Cyprus would be the daughter company and

in the Czech Republic would be the granddaughter company. It was discovered by the author that it is impossible to completely avoid tax burden. The reason is the income corporate tax of 10 % in the Cyprus and also 5 % withholding tax applicable on royalties paid from Cyprus to Seychelles.

Using the Seychelles-Cyprus structure the author calculated that the taxation burden of the entity described in the previous second part of the diploma thesis may be further decreased to CZK 130,474 Kč, i.e. by another CZK 19,748. This amount is not sufficient to cover costs of the international corporate structure. The author concludes that according to her analysis, the international corporate structure may be viable for the companies having EBITDA at least in amount of CZK 3 million.