

Unintended Impact of Tax Systems: Examples from the Czech Republic

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Basic Facts about Czech Labour Market

- Low employment of mothers with children under 4 (under 20%)
- Low employment of older workers (60-64) (16% less than EU-28 average)
- High gender pay (raw is 30%) and unemployment gap (2 perc.points)
- High proportion of self-employed (approximately 900 000 out of 5.5mil in Labour Force)
- Low proportion of part time workers (around 5%)

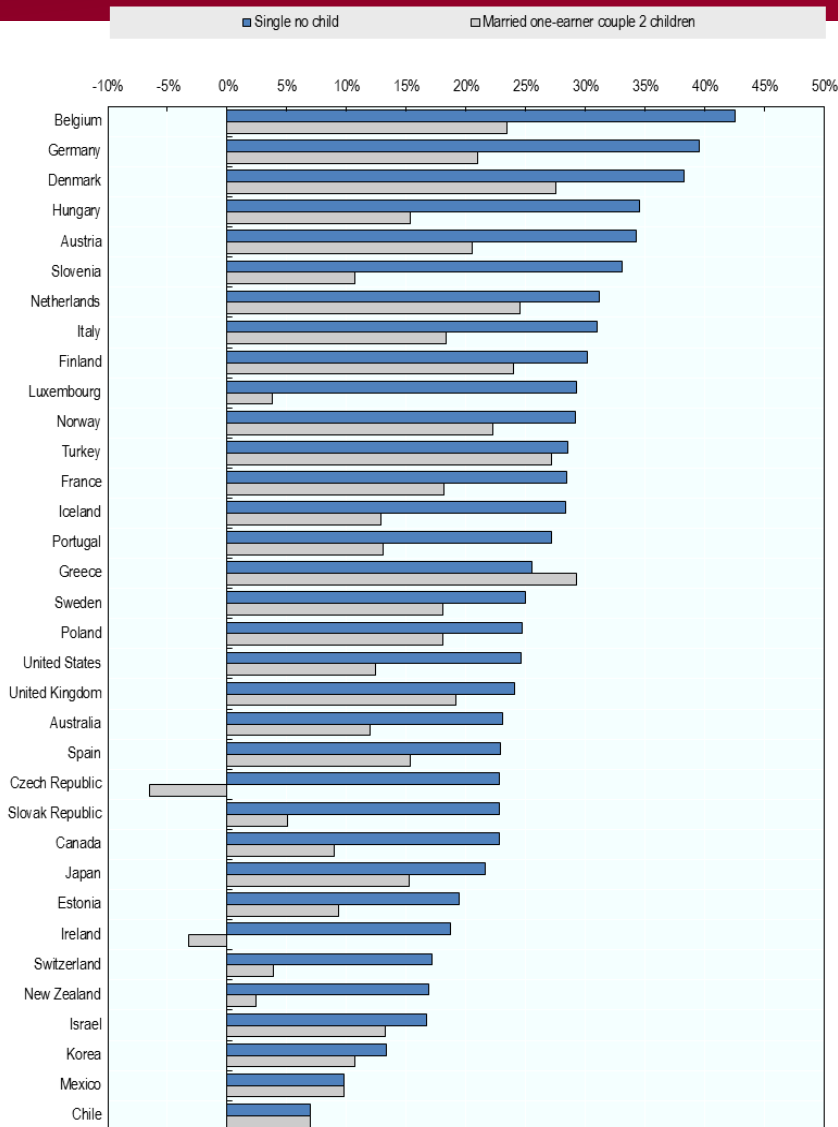
Other interesting facts:

- Low fertility rate (1.53)
- High divorce rate (50%)

Basic facts about Czech tax system

- Substantial support for families with children regardless of their income (deductions per every child in family)
- Deductions for non-working spouse
- Relatively high effective taxes for workers eligible for pension benefits
- Much lower taxes for business income versus employment income

Tax support for families with children is high



Families collect benefits no matter how much they earn

Household benefits and net taxes - positive values only

Household income decile	Share with positive benefits		Benefits received per unit if positive		Share with positive net taxes	
	Households without children	Households with children	Households without children	Households with children	Households without children	Households with children
1	52%	99%	34,941	38,680	19%	10%
2	40%	87%	24,043	22,006	89%	61%
3	29%	78%	18,938	19,872	97%	90%
4	20%	51%	24,900	22,760	98%	96%
5	22%	34%	17,224	24,540	99%	100%
6	23%	24%	15,683	25,268	100%	99%
7	16%	24%	9,640	25,098	100%	100%
8	8%	23%	14,731	30,775	100%	100%
9	8%	22%	22,024	33,961	100%	100%
10	5%	28%	26,641	39,923	100%	100%
Average	21%	50%	23,683	25,963	89%	86%

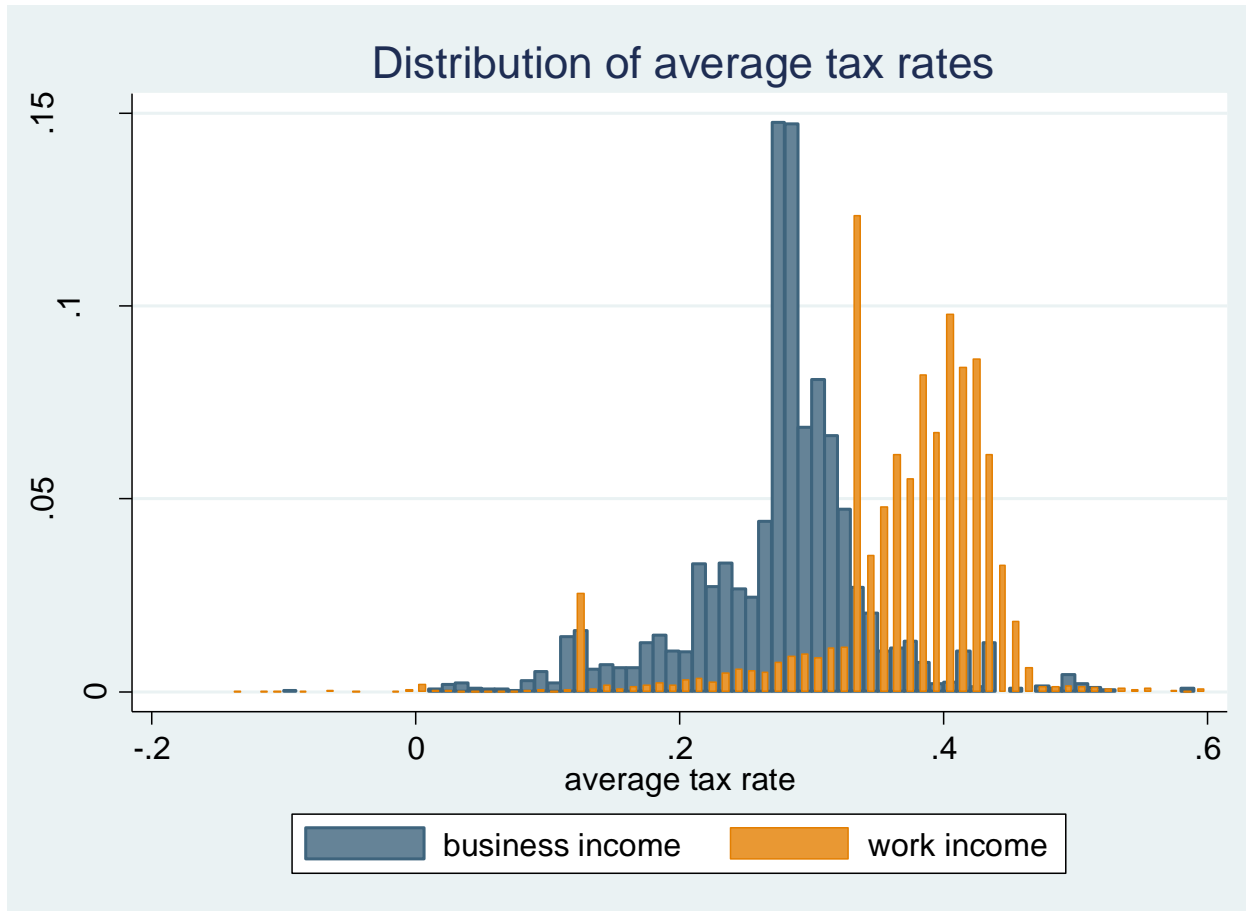
Note: Only non-pensioner households. Household income deciles are defined based on gross equivalised household earnings. Benefit values are in CZK and correspond to yearly values. All values are weighted by population weights.

Source: SILC 2011, TAXBEN model based on 2013 legislation.

Taxes of Families - Implications

- Tax system is redistributing from childless to families with children (not that much from rich to poor)
- Tax deductions are usually collected by fathers, who also deduct tax benefit for non-working spouses
- High effective participation marginal tax for spouses
- No provision of daycare – substantial labor participation disincentives for mothers
- Is it effective support for family?
 - Still low fertility and high divorce rate

Why there are so many self-employed?



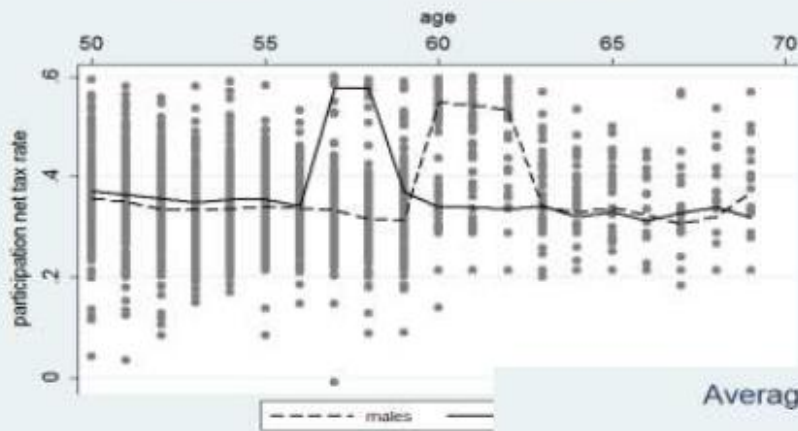
Source: SILC and Tax-Benefit model, Dusek et al.
(2013)

Other Issues Related to Business versus Income Taxes

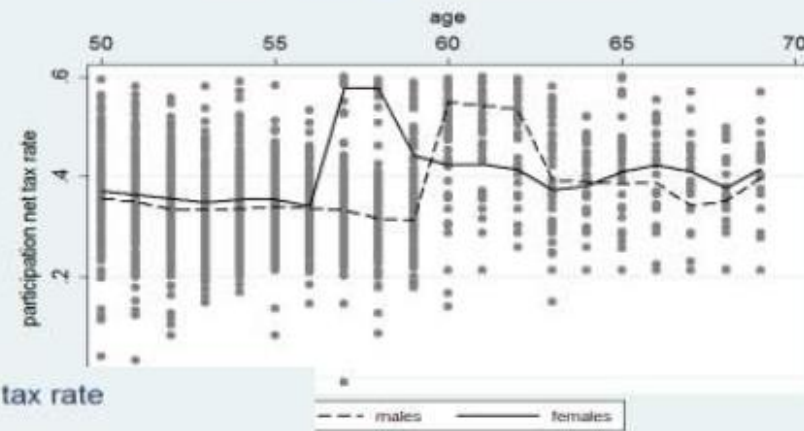
- High taxation of regular employment - high costs of labor (marginal tax 48.5%)
- Professions where self-employment is impossible or illegal are disadvantaged
- Fresh graduates and women after parental leave are expensive (difficult to start own business)

Small activity rate of older workers

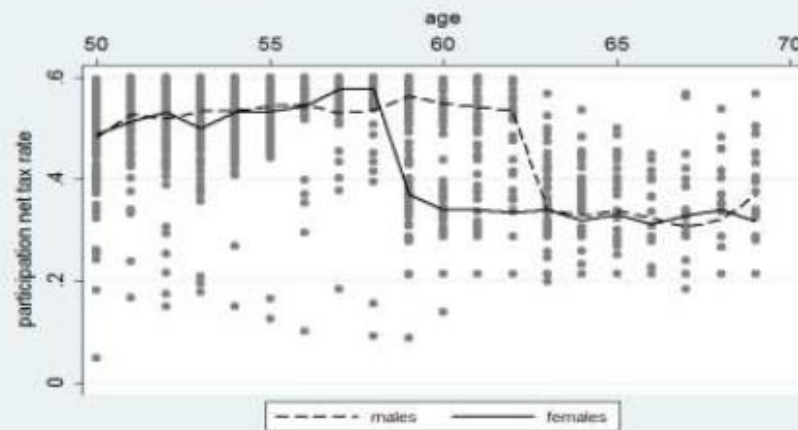
Average participation net tax rate



Average participation net tax rate



Average participation net tax rate



Conclusion

- Small activity rate of mothers – taxes definitely play a role.
- Taxation of self-employed is much lower than of employees – high incentives to shrink
- Part-timers are too expensive

Thank you for your attention
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