

TAX ON HIGH INCOMES: REFORMING THE REFORM

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LIBOR DUŠEK AND JIŘÍ ŠATAVA¹

Abstract

The effective tax rate imposed on high-earning taxpayers has in recent years changed repeatedly from year to year, and greatly so, by tens of percentage points. Further changes for the years 2015 and 2016 have already been approved. Employees whose gross annual salary exceeds CZK 1.2 million will be subject to a tax increase in the order of hundreds of thousands of crowns. In contrast, self-employed individuals with similar income levels will see their tax reduced by a similar amount. The end result will be that the income of the highest paid employees will be taxed at an effective marginal rate of 38.6 percent, while the income of equivalent self-employed individuals will be taxed at 19.0 percent. Among other problematic features of the approved changes, a levy on total salary is to replace today's employer-paid insurance. In real terms, this will remove all caps on social security and health insurance contributions. It is highly desirable, when planning the taxation of high-income earners, to draw on long-term consensus and to stabilize tax regulations. The stability and predictability of taxes are in many respects at least as important as the tax rates themselves. The optimal marginal tax rate for earners with high incomes is in the range of 32-38 percent. A more appropriate tool for the optimization of taxes would be not a progressive income tax rate, but rather the retention of the recently introduced solidarity supplement.

[Download](#) the complete study (in Czech only).

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