
Impact of taxes and social benefits on income inequality and relative poverty in the Czech Republic

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Summary

- International comparisons have long shown that income inequality and the proportion of people at risk of relative poverty in the Czech Republic are among the lowest both in the EU and across the world's most developed countries (OECD).
- Data from representative surveys on household incomes and expenditures show that the Czech tax and social benefits system has rather little effect on income equality and the risk of poverty. Relatively low variation in gross income, for which the old-age pension system plays a key role, plays a greater part in maintaining the low rates of both measures.
- If besides direct taxes and social benefits we also take into account the effects of indirect taxation (value added tax and consumer taxes), then we find that the current system reduces income inequality relatively little, and in fact slightly increases the relative poverty risk.
- 80 % of those in relative poverty and 33 % of other individuals are in receipt of at least one social benefit. Only 38 % of total expenditures on state social support are spent on people who are at risk of relative income poverty.
- The most potentially effective benefits for reducing relative income inequality and overall poverty rates are benefits in material need (contributions towards basic living costs and accommodation). The most effective instrument for reducing the proportion of the population at risk of relative income poverty is child benefit.