

WHAT WOULD BE THE CONSEQUENCES OF THE APPROVED 2015 REFORM OF DIRECT TAXES?

October 3, 2013

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Abstract

This study provides the first and to date only evaluation of the impact of the reform of direct taxes – that is, taxes on personal income and insurance contributions – which was approved by the Parliament in 2011, and which, in the absence of any intervention from the new government and Chamber of Deputies in the wake of the preterm elections, will automatically enter into effect on January 1, 2015. As a result of the reform, an average self-employed individual would pay CZK 11,452 per year less in income tax and social security/health insurance contributions than she does today, while the average employee would pay CZK 2 012 per year less. The reform would cut taxes most substantially for self-employed individuals whose annual income exceeds CZK 220 000, i.e. about half the registered self-employed. In absolute terms, their taxes should decrease on average by between CZK 4,367 per year (5th income decile) and CZK 45,919 per year (10th decile). In percentage terms, their tax burden would be reduced in most cases by 4.4 percentage points; today they face a rate of between 24 and 32 percent. The change in tax burden for self-employed individuals with lower incomes is significantly different and varies between +/- 5 percentage points. The reform would only marginally reduce the tax burden for most employees. It would however radically increase the tax burden of employees earning more than CZK 1,242,000, by hundreds of thousands of crowns. The reform would reduce state revenue by approximately CZK 19 billion.

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

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¹ The study was prepared with the support of TD010033 research grant of the Technology Agency of the Czech Republic.