

---

# The consequences of the postponed abolishment of super gross wages<sup>2</sup>

SEPTEMBER 2018

KLÁRA KALÍŠKOVÁ AND MICHAL ŠOLTÉS

---

## Summary

- There have already been a number of attempts to abolish the concept of super gross wages used for personal income tax purposes since 2008. The most recent proposal to abolish super gross wages and introduce a progressive tax system was put forward in February 2018 as part of a tax package suggested by the Czech Ministry of Finance and subsequently appeared in the current government's policy statement. By August 2018 this intention had disappeared from the government's legislative package, but we can expect this amendment to be brought back to the table in the future.
- As a whole, this amendment would result in major changes in the way income tax is calculated, but the economic consequences for the taxation of personal incomes would themselves be rather small or even zero for the vast majority of taxpayers. The key characteristics of the Czech direct taxation system, personal income tax (PIT) and social and health insurance contributions, would remain unchanged: the relatively low value of PIT in comparison to the obligatory insurance contributions, the relatively low level of progressivity, the relatively high marginal and participational taxation of individuals with low incomes.
- The proposal to abolish super gross wages and its accompanying changes would reduce the tax burden for almost all employees and self-employed individuals. The amendment would not increase the tax burden for any taxpayer.
- The amendment would be particularly advantageous for self-employed individuals, whose average tax rate would fall by 1.6 percentage points, such that they would save an average of 7,000 CZK per year. The average tax rate on employees' income would fall by just 0.7 percentage points, representing a reduction in the tax burden of some 3,500 CZK per year on average.

---

<sup>2</sup> We are grateful to Martin Jareš and Daniel Münich for their useful comments on the draft version of this paper. Any remaining ambiguities or errors are the authors' own, as are any opinions and claims expressed in the study. The study was produced within and supported by the Strategy AV21 – a programme for excellent research of the Czech Academy of Sciences.

- The amendment would not help employees or self-employed individuals with very low incomes, who currently pay no income tax, nor those self-employed individuals who pay social and health insurance contributions at the obligatory minimum level. These individuals would not see their tax rate or their insurance contributions reduced, and the amendment would thus have no consequences for them.
- The new possibility of deducting 75 % of paid insurance contributions would change the way that the self-employed calculate their tax base from their gross profit. The same gross profit would now result in a lower contribution base, and so it is likely that after the amendment came into force we would see an increase in the number of self-employed individuals who pay insurance contributions at the obligatory minimum level.
- The existence of the obligatory minimum contribution level for insurance means that the consequences of the amendment would vary widely among self-employed individuals with low incomes. For some, the changes would not result in any reduction in taxation, while for others with a similar gross profit it could reduce taxation by as much as 1.7 percentage points.
- The proposed amendment would reduce public budget revenues by some 21 billion CZK per year.