

The Unfortunate Legacy of Abolishing the Super-Gross Wage¹

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Summary

The significant reduction in personal income taxes that resulted from abolition of the super-gross wage tax, along with other changes introduced in 2021 and 2022, has caused a permanent shortfall in Czech state budget revenues of roughly 1.3% of GDP per year. This represents a loss of CZK 110 billion in 2026. Abolishing the super-gross wage tax caused a further decrease in an already-low level of tax and contribution progressivity. The resulting decrease in state budget revenues, with no corresponding reduction in expenditures, is the main cause of significantly higher budget deficits long-term. As a result of reduced tax intake, Czechia's debt level has risen markedly since 2020. The imbalance created between revenues and expenditures now constrains the amount of public support for education, science, and other drivers of long term economic growth, as well as for defense. Internal or external economic circumstances will ultimately necessitate more substantial adjustments to the parameters on both revenue and expenditure sides of the state budget.

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