

We've done math: Here's what the abolition of super-gross wages, reductions in social security contributions and the introduction of tax holidays will really cause¹

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Summary

- In the past year, the Czech Republic has seen plenty of changes in how employment income is taxed. Tax legislation adopted in December 2020 and July 2021 will reduce public revenues in 2022 by about 116 billion CZK. In other words, in 2022 employees will pay less than half the income tax that they would have paid without these tax changes.
- Average tax rates have been reduced for all income groups, although low-income employees will gain a disproportionately small slice of this savings pie. Employees in the lowest income quintile will save 500 CZK per month on average, whereas those in the highest income quintile will save an average of 4,000 CZK each month.
- The newly adopted tax legislation has substantially increased the share of employees who pay zero or negative income tax (i.e. receive what is known as the child tax bonus). There is thus little room for any further income tax reduction, especially for taxpayers who claim tax relief for their children or low-earning spouse.
- Any real impact of the proposed introduction of tax holidays for families who are receiving the parental allowance or who have 3 or more children, as set out in the policy statement issued by the new Czech government led by Petr Fiala, would therefore be extremely limited. Such tax holidays would benefit almost exclusively employees in the highest fifth by income. In the other income groups, the effect of such tax holidays would be negligible or zero. Furthermore, if such tax holidays were limited to within a certain income bracket, as the

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policy statement implies, then it is highly likely that such a policy would have practically no effect.

- Given that the proposed tax holidays are targeted at families who are in receipt of the parental allowance or who have 3 or more children, this policy overlaps almost completely with existing tax support for families (tax relief for children and for a low-earning spouse).
- The second proposal in the government's policy statement, which suggests a 2 percentage point reduction in the social security rates paid by employers, would - on the contrary - have a very substantial impact on employee taxation. This policy would cost about 38 billion CZK in 2022 and would reduce the average tax rate by approximately 1 percentage point for all employees. The average employee in the lowest fifth by income would save approximately 215 CZK per month, while for those in the highest quintile the saving would be 1,350 CZK per month.