

Study 1/2024

Analysis of the 2024 State Budget Revenue in Light of the 2019 Pre-Crisis Year²

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Summary

- This analysis compares planned state budget revenues in 2024 with the state budget outcomes of 2019. It charts a period in which the Czech economy and public budgets have been heavily impacted by the consequences of several major crises (coronavirus, the invasion of Ukraine and the war, an energy crisis, and an inflationary wave) as well as by significant parametric changes in the Czech tax system. 2019 can be considered the last pre-crisis year and 2024 the first post-crisis year, so they correspond to 'normal times' more closely than the years in between. This analysis builds on a previous analysis of the state budget expenditure development between 2019 and 2024 and includes a brief synthesis of findings on revenues and expenditures.
- The nominal value changes in state budget revenue items between 2019 and 2024 are significantly burdened by the inflationary wave. Therefore, we compare the percentage increases with both the 40.6% increase in the price level and the 33.9% increase in nominal gross domestic product (GDP). The comparison with inflation is determinant of the change in real value: an increase of more than 40.6% implies an increase in the real value of the revenue, and a smaller increase results in a decrease in real value. Similarly, deviations from the increase in nominal GDP indicate whether the share of income in GDP is increasing or decreasing.
- Between 2019 and 2024, the Czech Ministry of Finance estimated an overall increase in state budget revenues of 28.9%, which is in fact less than the 43.0% increase in state budget expenditures. The revenue increase is also slightly lower than nominal GDP growth and significantly lower than price level rises.

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- State budget revenue primarily consists of tax revenues. However, the collection of individual taxes has varied considerably over the period under review. The change in personal income tax revenue has a major negative impact on the state budget revenue. Personal income tax revenue to the state budget will fall in both real and nominal terms: from CZK 165 billion in 2019 to CZK 156 billion in 2024 (-5%, - CZK 9 billion). The most likely cause is the tax changes enacted in the autumn of 2020, particularly the abolition of the super gross wage, the increase in the taxpayer rebate, and the introduction of the possibility of a flat-rate tax option for self-employed persons.
- Similar stagnation was recorded in excise revenues. Despite high inflation, the increase is only 1% (+ CZK 2 billion). Unlike other taxes, excise duties are generally defined as a fixed amount per unit of goods, and revenues do not automatically rise with the price of goods. An example is the excise duty on diesel fuel, which rate (CZK 9.95/l) is nominally the same in 2024 as in 2004.
- Only four revenue items (in order of absolute increase) account for 95% of the increase in the planned state budget revenues for 2024 (CZK 1 940 billion) compared to the 2019 reality (CZK 1 505 billion) by CZK 435 billion (+28.9%):
 - Mandatory social security contributions (+37%, +205 billion CZK)
 - Value added tax (+33%, +95 billion CZK)
 - Corporate income tax (+74%, +92 billion CZK, of which +17 billion CZK is from a windfall tax)
 - Emission credit sales (+153%, +25 billion CZK)
- Some 2024 state budget revenues will remain at a roughly similar level in nominal terms as they were in 2019, which, with the significant increase in nominal GDP and an even larger increase in price levels, represents a significant decline in revenue in real terms:
 - Personal income tax (-5%, -9 billion CZK)
 - Consumption tax (+1%, +2 billion CZK)
- The real value of most revenue items in the state budget fell, while key expenditure items rose in real terms. This has contributed to a significant widening of the state budget deficit, despite the fact that the 2024 outcome will be affected by the consolidation package and other governmental austerity measures. In other words, the increase in state budget revenues will be able to cover only 66% of the increase in expenditure.

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