



**SILESIA
UNIVERSITY**

SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

TAX SYSTEM

TAXATION IN THE CZECH REPUBLIC

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INTERNATIONAL TAXATION AND TAX SYSTEMS/NPMZD

OUTLINE OF THE LECTURE

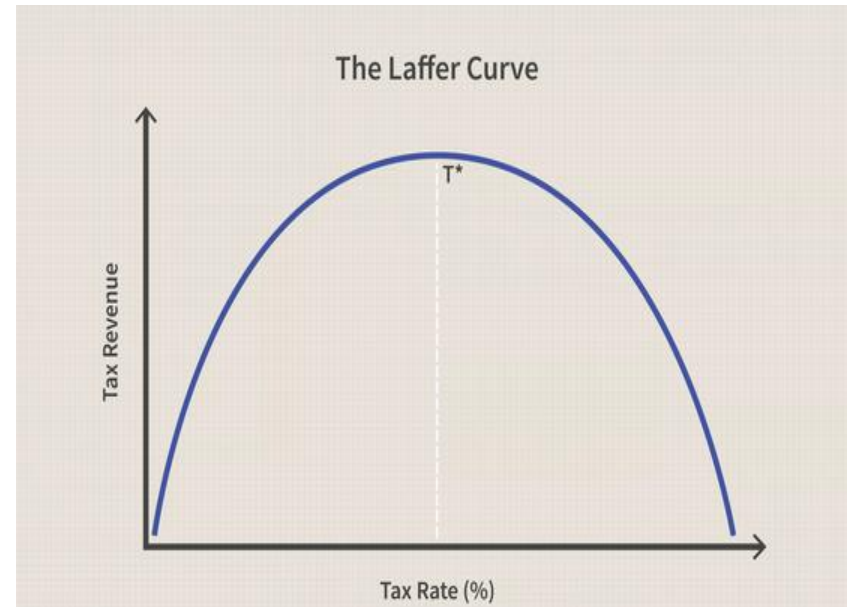
1. TAX SYSTEM
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TAX SYSTEM

- In every country the fiscal function of taxes is the most important one.
- Its purpose is to guarantee the incomes of the state and municipal budgets and other (public corporation) budgets because taxes are the most substantial incomes for these budgets.
- Thanks to taxes, it is possible to affect activities of economic subjects because the tax is an instrument for the regulation of income and property distribution.
- The fiscal function is closely connected with the regulation function: using taxes, the State can effectively correct the incomes while transferring money between economic subjects and public funds.
- A good tax system can affect the effectiveness of the economy. But the State must be very careful in tax rates: the tax burden must respect the tax capacity.
- The stimulation function means using tax instruments to impress an economic subject.

THE LAFFER CURVE

- The Laffer Curve describes the relationship between tax rates and total tax revenue, with an optimal tax rate that maximizes total government tax revenue.
- If taxes are too high along the Laffer Curve, then they will discourage the taxed activities, such as work and investment, enough to actually reduce total tax revenue. In this case, cutting tax rates will both stimulate economic incentives and increase tax revenue.
- The Laffer Curve was used as a basis for tax cuts in the 1980's with apparent success, but criticized on practical grounds on the basis of its simplistic assumptions, and on economic grounds that increasing government revenue might not always be optimal.



TAX SYSTEM IN THE CZECH REPUBLIC

- The tax system of the Czech Republic was established in 1993.
- The VAT and excise duties were adjusted in 2004, upon the Czech Republic's EU accession.
- The tax legislation contains several laws that have been frequently amended since their first implementation.

TAX SYSTEM IN THE CZECH REPUBLIC

Tax system

Direct taxes

Indirect taxes

Income
taxes

Property
taxes

General
excise tax

Selected
excise
taxes

DIRECT TAXES IN THE CZECH REPUBLIC

Direct taxes

Income taxes

Property taxes

Personal
Income
Tax

Corporate
Income
Tax

Gambling
Tax

Real Estate
Tax

DIRECT TAXES IN THE CZECH REPUBLIC

Indirect taxes

General excise tax

Value Added Tax

Selected excise taxes

Excise Duties

On Mineral Oils

On Alcoholic Beverages
- Beer, Spirit, Wine

On Tobacco and
Tobacco Products

On Rough Tobacco

On Heated Tobacco
Products

Energy (Ecological)
Taxes

On Electricity

On Natural Gas

On Solid Fuels

Road Tax

PERSONAL INCOME TAX

In the Czech Republic, the personal income tax is regulated together with the corporate income tax by an act called Income Taxes Act (Act no. 586/1992 Sb., as amended).

Tax period is calendar year.

The taxpayer must submit his tax return before 1 April following the expiry of the taxable period.

The tax administrator is the tax office determined by the residential address of the taxpayer.

TAXPAYERS OF PERSONAL INCOME TAX

There are two types of taxpayers:

- Tax residents – natural persons with a residential address in the Czech Republic or individuals who usually stay in the Czech Republic (it means for at least 183 days in the relevant calendar year, either continuously or intermittently); these persons are liable to tax on income arising from sources in both the Czech Republic and abroad;
- Tax non-residents – natural persons not mentioned above as tax residents, students from abroad, or patients staying in the Czech Republic for medical treatment; they are liable to tax on incomes arising only from sources in the Czech Republic.

PERSONAL INCOME TAX

The total tax base consists of five partial tax bases, each taxing different kind of income. Calculation of personal income tax includes partial tax base on:

- Income from dependent activity (employment)
- Income from independent activity (self-employment)
- Capital income
- Rental income
- Other income.

INCOME FROM INDEPENDENT ACTIVITY

The partial tax base is created by the incomes from business activities reduced by the expenses incurred to generate, assure, and maintain income.

The taxpayer also can use lump-sum expenses:

- 80 % of the income from agricultural production, forestry, and fish farming and from handicraft industry;
- 60 % of the income from other industry and trades;
- 40 % of the income from other business (e.g., lawyers, doctors) and other incomes like incomes from intellectual property, etc.;
- 30 % of the income from business property rents.

The maximum value of lump-sum expenses is set for each category.

TAX ALLOWANCES

- Donations – minimum of 2% of personal income tax base or CZK 1,000, maximum of 30% of personal income tax base (in 2021).
- Interests on a mortgage loan or a loan provided by a housing savings bank CZK 150,000.
- Private pension insurance – except for first CZK 12,000, maximum of CZK 24,000.
- Private life insurance – maximum of CZK 24,000.
- Contributions paid by a member of a trade union organization up to 1.5 % of the taxable income (the maximum amount is 3,000 CZK).
- Remunerations for exams verifying the result of continuing education to 10,000 CZK.

TAX DEDUCTIONS

- Besides tax allowances, the taxpayer can also use items deductible from the tax base to reduce his tax base.
- The most essential item deductible from the tax base is a tax loss recorded and assessed in five previous taxable periods.
- There is one other crucial deductible item: 100 % or even 110 % of costs for research and development.

TAX RATES

- The progressive taxation of individuals has been introduced with the effect from 2021.
- **the tax rate of 15%** is applied to income up to CZK 1,701,168 (approx. EUR 64,331)/monthly employment income up to CZK 141,764 (approx. EUR 5,361)
- **the tax rate of 23%** is applied to income exceeding this amount.

TAX RELIEFS (TAX CREDITS)

- 27,840 CZK for each taxpayer (so-called basic tax reduction);
- 24,840 CZK for a spouse living with the taxpayer in one household (but the spouse's income may not exceed 68,000 CZK in the taxable period), if the spouse is the holder of ZTP/P35 card, the amount is double;
- 2,520 CZK for the beneficiary of a disability pension (1st and 2nd grade of disability);
- 5,040 CZK for the beneficiary of a disability pension (3rd grade of disability);
- 16,140 CZK for the ZTP/P cardholder;
- 4,020 CZK for the student up to 26 years or Ph.D. student up to 28 years.
- and other ...

CHILD TAX CREDIT

- People with children living in their households have the right to use so-called tax preferences for children.
- For the first child, one parent can deduct as the tax reduction an amount of 15,204 CZK in a year (or 1/12 in a month),
 - for the second child 19,404 CZK, and
 - for the next child 24,204 CZK.
- If the tax after this reduction would be in minus, the tax preference is divided into two parts: tax reduction up to zero tax and tax bonus.

CORPORATE INCOME TAX

Tax payers are corporations.

Taxable period is calendar or financial year.

Tax rate is linear 19%.

Income from all activities and from the management of all types of property is liable to tax.

The tax administrator is the tax office determined by the location of the registered office of the taxpayer.

TAXPAYERS OF CORPORATE INCOME TAX

there are two types of taxpayers:

1. Tax residents – entities having their seat or head office in the Czech Republic are liable to tax on income arising from sources in both the Czech Republic and abroad;
2. Tax non-residents – entities not having their seat or head office in the Czech Republic are liable to tax on incomes arising only from sources in the Czech Republic.

CORPORATE INCOME TAX

- The taxpayer can read the economic income (it means incomes reduced by the expenses incurred to generate, assure, and maintain income specified in the Income Tax Act) from the bookkeeping.
- This is the tax base, which is not final; it shall be reduced by items deductible from the tax base.
- The modified tax base is multiplied by a linear tax rate.
- The taxpayer can use tax reliefs (credits) for disabled employee.

REAL ESTATE TAX (IMMOVABLE PROPERTY TAX)

- Taxpayers are mainly owners.
- Taxable period is calendar year.
- Tax is divided into two parts: land tax, buildings and units tax.
- The tax base for land is the actual area of the land in square meters or the actual area of the land in square meters multiplied by the average price per square meter.
- Tax base for buildings is defined as built-up area in square meters.
- Tax rates are differentiated and can be multiplied by coefficients.

REAL ESTATE TAX (IMMOVABLE PROPERTY TAX)

- The tax administrator is the tax office in whose district such property is situated.
- The tax return must be filed by the taxpayer by 31 January of the taxable period (the calendar year). The immovable property tax is assessed according to the situation on 1 January of the calendar year of which it is assessed.
- The tax return does not have to be filed every year; usually, if the tax return was filed in any previous taxable period and there are no changes, the taxpayer does not have this duty. Even if there are changes in the tax rate, in the average price of land, in the coefficients, etc., there is no duty to file the tax return.
- Every year the tax office sends the assessment with the tax duty to every taxpayer.

ROAD TAX

- The primary purpose of the road tax is the taxation of using roads by motor vehicles.
- The tax base and the tax rate depend on how the vehicle damages the roads.
- The road tax has been in operation since 1 January 1993 and it is adjusted in the Road Tax Act (Act no. 16/1993 Sb., Road Tax Act, as amended).
- The objects of the road tax are all motor vehicles registered and operated in the Czech Republic and used for running a business.
- Vehicles of the total weight over 3,5 tons, registered in the Czech Republic, and determined solely for the freight transport are always liable to tax (if they are used for the business activity or not)

GAMBLING TAX

Hazard is often considered to be a socially undesirable phenomenon.

In 2017, a new law of hazard came into force in the Czech Republic. Gambling tax is regulated by the Gambling Tax Act (Act no. 187/2016 Sb., as amended).

The object of the gambling tax is any gambling operation in the territory of the Czech Republic for a gambling participant if a basic license is required to operate such gambling, or such gambling must be notified (i.e., operating without a license is to be taxed, too).

The tax base is the sum of partial tax bases that make up the amount by which the sum of received deposits exceeds the sum of total winnings paid and returned deposits.

VALUE ADDED TAX

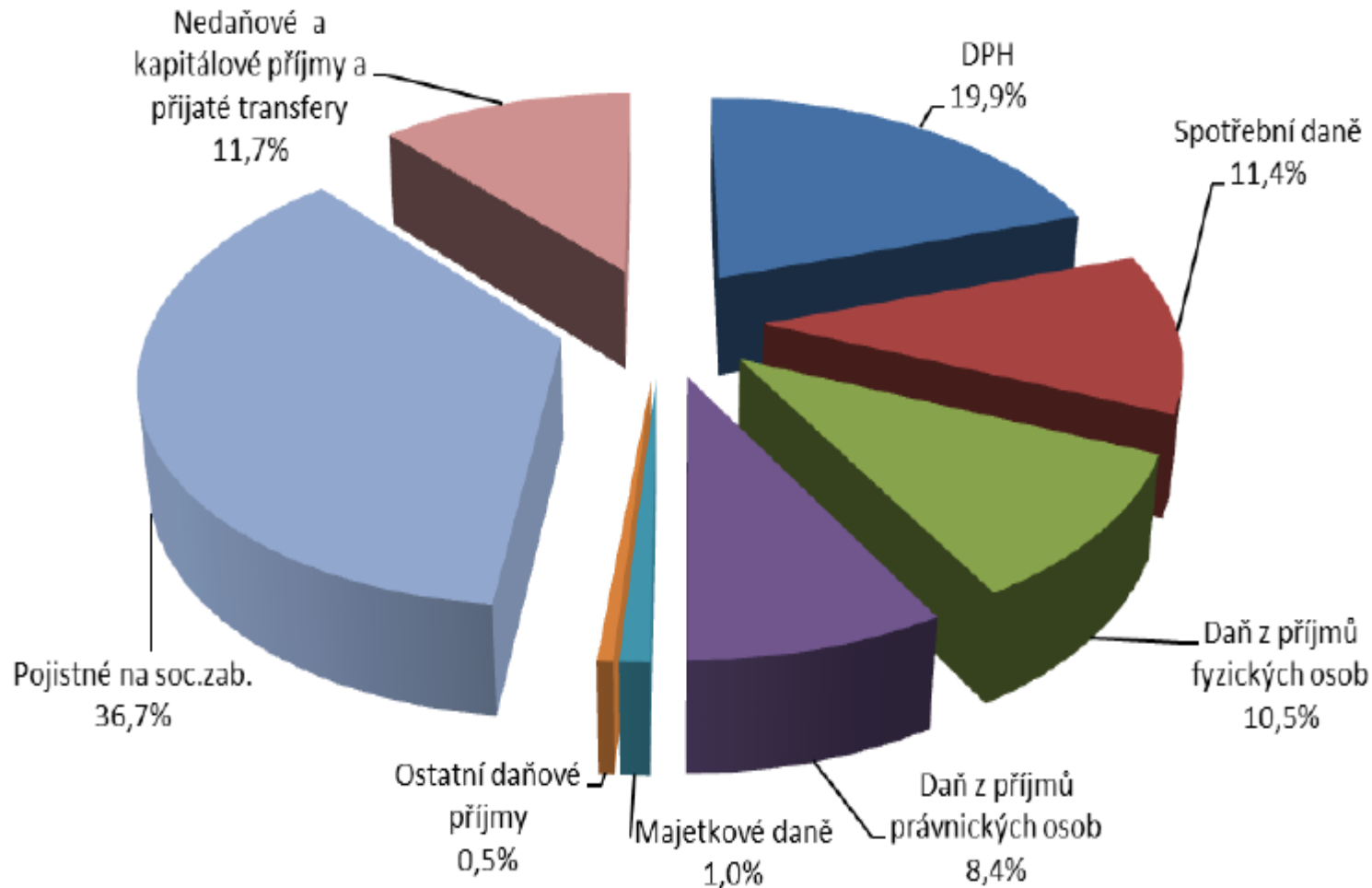
- VAT payers are natural or legal persons who carry out an economic activity and have registered as VAT payers. But the final consumers bear the VAT burden. VAT payers collected the tax, that is included in the price of goods and services.
- Taxable period is calendar month or calendar quarter.
- Tax standard rate is 21% and there are two reduced rates 15% and 10%.

EXCISE DUTIES (TAXES)

- These selected products are the objects of the excise tax if they are produced in the territory of the European Union or if they are imported to the territory of the European Union.
- There are two main groups of taxpayers of excise taxes:
 1. An individual or legal entity – the operator of the tax deposit, recipient or producer of selected products;
 2. An individual or legal entity that has a duty to pay the tax in case of import.

The revenues of the State Budget in 2018

36,7% Social Security contributions, 19,9% VAT, 11,4% Excise duties, 10,5% personal income tax and 8,4% Corporate income tax



TAX ADMINISTRATION

- In the Czech Republic, there is a general act dealing with the tax administration called Act no. 280/2009 Sb., Tax Procedural Code, as amended.
- It is used in situations when there is no special regulation in a special tax act.
- It defines the most important terms, the principles of tax administration, the delivery of tax decrees, the procedure of tax administration such as how to assess the tax, how to pay it, legal remedies, tax execution, etc.

TAX ADMINISTRATION

- The first instance:
 - Financial Administration - territorial branches
 - The Specialized Tax Office
- The second instance - the Appellate Financial Directorate.
- The central body of the **Financial Administration** is the General Financial Directorate.

- The **Customs Administration**:
 - The customs office - the main executive body
 - The General Directorate of Customs – the appellate body.