

Tax allowances in the Czech Republic 2011 – 2015

English summary

Since 2014, the Czech Republic has been obliged to publish an analysis of tax allowances. This requirement stems from the 2011/85/EU Directive. It is necessary to take a systematic analysis as well as basis for various recommendations for fiscal policy, simplifying the budgetary process, formulating tax reforms and boosting transparency towards the public.

This year thus marks the first occasion that a report on tax allowances including value added tax, personal income tax and corporate income tax on the level of public budget has been published. An estimate of the amount of tax allowances has been made for 2011 and 2012 while the report also includes an outlook of tax allowances for 2013 - 2015.

It is difficult to calculate an aggregate amount of tax allowances in the Czech Republic. Individual allowances mutually influence each other and therefore it is not methodologically right to simply add up the amounts of quantified allowances. The simple sum of tax allowances may be used merely to offer an idea as to the overall distortions caused by the tax system.

Due to the method of loss of income used, the **individual amounts of tax allowances do not represent the estimate raise of tax yields which would be caused by their potential abolition**. Since it was necessary to calculate a lot of figures regarding different taxes and types of tax allowances, a **static approach** has been used for simplifying and maintaining consistency and to allow comparisons to be drawn. The static approach does not take into account the reaction of subjects to a potential abolition or change to tax allowance. It is probable that in the event of several changes at once, synergic effects may arise, thus it would be convenient to use a suitable mathematic model to evaluate the impact of several changes at once. You can find more information about the methodology used in the special document Methodological description – Tax expenditures.

The amounts of tax allowances are stated for public budgets in millions of CZK. Only those entries which are possible to calculate are included in the tables. Calculation of certain tax allowances is not possible since the data is not available or to obtain it would lead to an excessive increase in terms of administrative load for the affected subjects. In such cases, however, the impact is mostly negligible. The Automatic tax information system (ADIS) has been used to evaluate most tax allowances. Data from this source was gained on 10. 12. 2013.

A simple sum of the amounts of individual quantified tax allowances has been provided in the following table.

Table 1: The amount of tax allowances 2011, 2012 – summary data.

In mil. CZK	2011			2012		
	Support of other public policies	Higher efficiency of tax system	Combination of previous	Support of other public policies	Higher efficiency of tax system	Combination of previous ones
Value added tax	105 694	-	30 688	77 258	-	28 365
Personal income tax	15 753	103 559	177 056	15 908	107 935	189 511
Corporate income tax	13 906	99	616	9 657	3 280	1 494
Total	135 353	103 657	208 360	102 823	111 215	219 370
Total per year	447 371			433 408		

Value added tax

In terms of tax allowances connected to VAT, the reduced tax rate has been identified as the highest. In 2012 it amounted to almost CZK 40 billion. Change of amount of the reduced tax rate from 10 % to 14 % between 2011 and 2012 also offers an explanation for the decrease in the total estimate of tax allowances connected to VAT between these years.

Table 1 Estimate of tax allowances by value added tax in 2011 and 2012

In mil. CZK	2011	2012
Support of other public policies	105 694	77 258
Higher efficiency of tax system	-	-
Combination of previous allowances	30 688	28 365
Total	136 382	105 623

Personal income tax

In terms of tax allowances related to personal income tax, the basic tax rebate on taxpayer whose estimate in 2012 amounted to CZK 121 billion was identified as the highest as well as the allowance for benefits and services from pension insurance whose amounts were estimated CZK 56 billion in the same year.

Even though the total amount of tax allowances by personal tax income may seem to be high, it is important to mention that 85 % of these allowances refer to allowances of a social character (e. g. basic tax rebate, rebate on spouse, tax concession on child, exemption for benefits and services from pension insurance etc.).

Table 2 Estimate amount of allowances by personal income tax in 2011 and 2012

In mil. CZK	2011	2012
Support of other public policies	15 753	15 908
Higher efficiency of tax system	103 559	107 935
Combination of previous allowances	177 056	189 511
Total	296 368	313 354

Corporate income tax

In terms of tax allowances connected to corporate income tax, investment incentives were identified as the highest. In 2012 their amount was estimated at CZK 5.5 billion.

Due to a lack of reliable data, the estimates do not include exemption for incomes from profit share between subsidiary and parent companies. We estimate the amount of this allowance to be **tens of billions of CZK**, meaning more than sum of estimable tax allowances connected to corporate income tax.

Table 3 Estimate amount of tax allowance by the corporate income tax in 2011 and 2012

In mil. CZK	2011	2012
Support of other public policies	13 906	9 657
Higher efficiency of tax system	99	3 280
Combination of previous allowances	616	1 494
Total	14 622	14 431