ABSTRACT

In the recent days, there has been culminating a laic and professional discussion to the topic of the fiscal reform in the Czech Republic. A necessary part of a potential public finance reform is then a tax reform, as well.

The submitted paper contains an analysis of fundamental approaches to taxes and their structure from the synthetic point of view of legal and economic science, which has had a long tradition since Czech national economists of the first republic. An objective of the paper is an attempt to promote a scientific methodically balanced approach, as well, namely in the ontological sense, but also in the sense of teleological and normological gnoseology. The above mentioned then enables to modify some recommendations for central authorities in the field of legislative changes and tax policy. The objective of the paper is, on basis of an own empirical analysis, to reformulate recommendations for lawmakers and tax policy makers in the Czech Republic in terms of possible de lege ferenda changes.

The conclusions of this paper can be summarized into five key recommendations for lawmakers and tax policy makers in the Czech Republic. They are: a recommendation of non-increase of the overall tax burden or, as the case may be, of effecting its decrease, of decrease of employment tax burden, and recodification of the relevant legal regulations with a view to relocating the tax burden from social payments to personal pension tax, of a slight increase of indirect tax (but only of VAT, not of the consumption tax), of non-increase of the tax burden on corporations and that is rather focusing on its decrease, of supporting the bureaucracy quality, reduction of corruption and fine-adjustment of the legal framework.

The first item postulating “the non-increase of tax burden” is commonly known but there are frequent arguments stating that with regard to the tax burden within the EU-15 and a possible tax harmonization there is still enough space for at least a slight increase of the tax burden in the Czech Republic. With regard to the comparison with similar countries, for instance the EU-5 countries or Baltic States, it can be undoubtedly observed that there is no such space. Moreover, analyses carried out clearly indicate that the heavy tax burden has in the EU-5 countries (thus also in the Czech Republic) much more adverse effect than in EU-15 or OECD.
Shall a negative development of the expenditure part of public budgets or the development of the public budgets deficit lead to the necessity of it, it will be requisite to utilize a certain VAT reserve by means of either increase of the reduced VAT rate or increase of the base rate or as the case may be by elimination of some evidently unsystematic VAT exemption (postal charges, insurance activities, etc.). It is much more far-sighted to utilize the possible VAT increase for a system change of the employment tax burden, which is in the Czech Republic very heavy and its structure is problematic. On one hand the tax burden by income tax of natural persons is very low; on the other hand the Czech Republic has the absolutely heaviest employment tax burden by means of social security payments. Taking into account the fact that the analysis carried out in EU-5 countries has proved significantly more adverse effects of social security contributions, the importance of the presented recommendation seems even higher.

It is further out of any system to impose a tax on employment by means of social insurance for the reason of clarity, when an employee basically does not interiorize that a remarkable part of it is covered by their employer from their salary and that the employer has to devise “auxiliary tools” such as super-gross salary, which the majority of employees virtually cannot understand. It is also essential to state that social payments have a ceiling or respectively that their character is progressively regressive in most countries. Moreover, this insurance cannot be used as an instrument for various types of policies (e.g. policy supporting natality, policy of supported housing etc.). A seeming advantage of the social security is the yield stability but it becomes indistinct in illegal labour-law related relations.

Tax burden on corporations seems to present a disputable issue, in the Czech Republic particularly by means of the corporate income tax, or as the case may be by the tax on distributed profits. Despite the discussions about the adequacy of purpose of the economic double taxation (domestic) which is in the Czech Republic unlike Slovakia fully implemented through the classic system of corporate taxation, it is necessary to claim that this is, most probably, a long-term reality as to the future. It cannot be successfully assumed that a system change will occur, e.g. a full integration or another modified taxation system. Most probably, the recommendation will then be to preserve the present effective type of taxation system, which is, measured by tax quota or by implicit rates, relatively high in the Czech Republic.