

Financial and Tax Aspects of Mortgage Credit

Summary

The mortgage credit is quite popular, and many people use it to make their dreams of a new condo or villa come true. The events in the mortgage markets of neither the United States of America nor the other Member States of the European Union had any significant influence on the Czech mortgage market, which means that people in the Czech Republic continue to use mortgage credits however not so often.

The dissertation is divided into four parts. The first part provides general information about the historical evolution, the relevant legislation and the main requirements for the mortgage credit.

The second part deals with the main financial issues surrounding mortgages, particularly in light of the financial crisis and with the legal conditions for the potential nationalization of banks in the Czech Republic in mind.

The third part deals with the tax issues related to mortgages. This final part is divided into three chapters. The basic characteristics of the main Czech taxes are described in the first chapter. I then consider the interest payments relating to the mortgage credit that can be deducted in some circumstances from an individual's income tax payments.

The fourth part collects my conclusions and thinks about potential amendments to the current legal acts.

The last chapter of the third part of the dissertation is practical. I try to compare the burden of taxation in different situations using four examples, in all of which the following general points are identical:

- I calculate the individual income tax of a single childless man with the monthly gross wage of CZK 45,000.00
- the mortgage credit is taken for 30 years
- the value of the purchased real estate is CZK 3,000,000.00

- the individual income tax is calculated for the first year of using the mortgage credit

The mortgage in the first two examples is CZK 3,000,000.00, which is 100 % of the real estate's value. The amount of the mortgage in the other two examples is CZK 1,500,000.00, or 50 % of the real estate's value.

In each of the examples, I also calculated the individual income tax in two situations. In the first, the borrower lives in the real estate; in the second, the real estate is leased to a third person.

After calculating the results of all of the examples, I concluded that, as far as taxes are concerned, it is more beneficial for man X to live in the real estate than to lease it. If man X lives in the real estate, then he has, in all examples, whether for a mortgage of CZK 3,000,000.00 or CZK 1,500,000.00, an overpayment of the tax due. On the other hand, if man X leases the real estate, he is obliged to pay tax arrears.

Although I have done my best to describe the mortgage credit and to find the ideal tax possibilities, the applicable tax optimization for mortgage credits is subject to variation according to individual circumstances and so impossible to specify universally, and it must be calculated separately in each case.