

Income and property tax of Czech citizens after the public finance reform

Resume

The main objective of the paper is to provide a lucid interpretation of the public finance reform in the Czech Republic covering the period 2008 – 2010. It is dealt with from a general point of view as well as in relation to the income and property taxation of Czech citizens.

A tax reform is not a uniphase process. It takes many years to prepare and the process goes through a number of modifications throughout the preparation period, which finishes as of the stated date with a newly codified tax system, covering most parts of the system in its complexity. The process of the *income and property taxation reform* began in 2007 and involved a number of fundamental and partial modifications to the income tax act as well as other acts affecting income and property taxation of Czech citizens. The public finance reform was supposed to fully simplify the legislation to provide transparent legislation that is simple to understand and apply. It was supposed to be built on principles and general rules, i.e. within a tax reform, the most important tax acts were supposed to be newly codified. The anticipated objective of the tax reform was to reduce the tax burden and the number of taxes and deductions.

The first and very important step to implement *the income and property taxation reform* was the adoption of Act No. 261/2007 Coll. on the stabilization of public budgets. This act represented the most extensive amendment to the income tax act since the beginning of the tax system, i.e. since 1993. Not only did it amend the income tax act, but other laws as well. Act 261/2007 Coll. introduced the most modifications to income and property taxation of Czech citizens. In the following years, the government adopted further acts introducing fundamental or partial modifications to income and property taxation of Czech citizens. The most important amendments to income and property taxation were introduced by Act No. 2/2009 Coll. The already adopted *Act No. 362/2009 Coll.* apparently introducing an increase in the tax burden imposed on tax payers in the area of income and property taxation, has indicated whether the original objectives of the reform are met and how the reform is to be enforced in the years to come. Even now, the whole political spectrum calls for a further increase in tax, either direct or indirect. It was proposed to introduce, or reinstitute the original progressive taxation of natural entities with a maximum tax rate as high as 38% or to cancel the “super-gross salary” introduced by the reform.

Apparently, it can hardly be expected either in the near or far future that the objectives of the tax reform stated in the government declaration from 2007, i.e. *to implement an extensive tax reform which would not increase the tax burden imposed on anyone, but on the contrary, would reduce the tax burden of all tax payers*” will not be met.