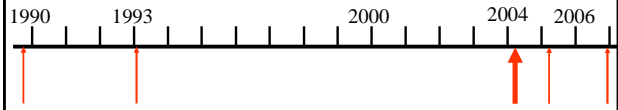


# Tax reform in the CR

## Time line



## Tax system in 1989

- different conditions for different economic subjects
- impact on taxes paid by (state owned) enterprises
  - administrative aspect
  - fiscal illusion
- low property taxes
- space for negotiation

## Income (corporate) tax

- different taxes for diff. companies
  - form of property
  - sector of economy
- how did you define „profit“
- tax rate 55 –100 %

## Tax on salaries

- progressive tax
- not an universal tax
- the applied rate depended more on family status and less on salary (wage differentiation)

## Payroll tax

- addition to income taxes
- financing social system
- difficult system to motivate (controle)

## Turnover taxes

- around 1800 different rates for different goods
- further complicated by „negative“ tax (food, energy, childwear, ...) – „Goulash socialism“
- regulary changes - controle prices of goods
- negotiation
- „subsidies“ were huge

## Other taxes

- low taxes on property, but private ...
- high taxes on private activities

## Tax revenues 1989

■ income taxes	83
■ payroll tax	95
■ turnover tax	86 = 135 – 49
■ tax on salaries	53
■ other	37
■ -----	
■ <b>SUM</b>	<b>354 = 47 % HDP</b>

## Did we need changes?

- system is incompatible with market economies
- entry to EU – VAT
- high tax burden
- soft rules

## New principles of tax system

- Neutral taxes
- Unite tax conditions
- Comparable burden
- Harmonization
  
- purity, efficiency, transparency, equity

## Speed of the reform

- how fast should reform be?
- fast shocking reform ??
  - cutting off from past tax system (negotiations)
  - higher initial cost
  - need of big simplification
- slower gradual reform ??
  - time for education
  - continuity of tax revenue

## Reform timetable

- how fast?
- changes 1990-1992
- preparations
- new taxes 1993
- customization 1993 –

## Cena reformy

- tranzitivní náklady implementace
- nejen náklady VS
- vyšší počet poplatníků
- nový systém více závisí na informacích
- obecně potřeba velkého zjednodušení

## Changes 1990-1992

- small „changes“ of taxes (stop from being an obstacle in building new economic system)
- preparation of the new tax system 1990-1991 - Parliament

## Income taxes

- uniting conditions
- new accounting
- removing of negotiations
- one rate 55 %

## tax on salary

- increasing impact on taxing individual income - progresivity

## turnover tax

- abolishment of negative tax (1990)
- decreasing of number of rates
- 1992 – 4 rates
- changing in rates - shifting

## tax system 1993

- | Direct tax   | Indirect Taxes         |
|--------------|------------------------|
| ■ PIT        | ■ VAT                  |
| ■ CIT        | ■ ED                   |
| ■ Property   | ■ Ecological           |
| ■ <b>SSC</b> | ■ <b>Import duties</b> |

## changes 1993-2004

- fast reform = symple reform
- world is developing
- need of harmonization
- changing of governments (and fiscal policies)

## PIT

- many amendments
- decreasing of tax rates from 6 to 4 – 15, 20, 25, 32, 40, 47%
- Inflation – indexation (borders and deductions)
- erosion of the tax base

## CIT

- decreasing of the rate from 45 % to 31 % (28/26/24%)
- tax write-offs changes
- Risk – special deduction, loss, support of FDI
- coordination with EU, OECD

## VAT

- 23 % X 5 % standard to 22 %
- „intention“ 15–19 % X 8 %
- decreasing of the registration treshold
- moving comodities from lower rate to standard
- main changes this year – EU entry (harmonization)

## ED

- increasing rates with the target of minimal EU rates (harmonization) – tax on fuel, tax on cigarets
- „green“ diesel for agriculture, duty free canceling
- tax on cigarets – two component tax introduction
- alcohol – already on european level

## OECD recommendations (Bronchi-Burns OECD 2000)

- Consider reducing expenditure to lower the overall tax burden
- Reduce the number of goods and services subject to the reduced VAT rate
- Reduce the importance of social security contributions in total tax revenues
- Eliminate the bias in favour of self-employed work forms
- Decrease non-neutralities in the taxation of capital income

## Problems of the present tax policy in CR

- labour taxation
- difference between lower and standard rate (VAT)
- tax burden of self-employed
- tax stimulation of FDI
- taxing tobacco
- tax expenditure
- ecological taxes
- tax evasion
- ...

## future development 2005-2008

- public finance reform, pension reform
- entry to EU – transitional arrangements:
  - Turnover threshold to exempt SMEs from VAT set at € 35 000
  - Reduced VAT rate on heating until 31 December 2007
  - Reduced VAT rate on construction until 31 December 2007
  - Lower excise duty rates on cigarettes until 31 December 2007
  - Special excise regime for fruit growers' distillation for personal consumption
  - VAT exemption on international passenger transport
- we have to cope with energy tax directive