

1 CZECH TAX SYSTEM

Talking about taxes, we are somewhere between economy, politics and law. There is no doubt that every government has its own ideas how to create a tax system but political aspects are very subjective and uncertain in time. Taxpayer is not only a subject with his duty to comply with the incomes incurred into the public budgets but a voter, too. We can usually say that the level of tax duties corresponds with the level of state intervention to social life. But sometimes high tax rates can be the result of a former government policy, international situation, etc. When we are thinking about an optimal level of taxation, we must respect not only political criteria but economic aspects, as well. An economic model is more important than anything else. The limits of taxation are in effectiveness of economic system.¹

As we can see, not only in the Czech Republic especially the fiscal function of taxes is the most important one. Its purpose is to guarantee the incomes of the State and municipal budgets and other (public corporation) budgets because taxes are the most important incomes for these budgets. Thanks to taxes it is possible to affect activities of economic subjects because tax is an instrument for regulation of income and property distribution. The fiscal function is closely connected with the regulation function: using taxes, the State can effectively correct the incomes while transferring money between economical subjects and public funds. A good tax system can affect the effectiveness of economy. But the State must be very careful in tax rates: the tax burden must respect the tax capacity. Too high taxes do not motivate people to work, to run a business. The last one of the basic functions of taxes – the stimulation function means using tax instruments to impress an economic subject. It is executed by using several tax rates that can stimulate the development of some activities or stifle others. Other possibilities are for example the catalogue of tax reduction or exemptions from taxation.

Although there are many tax acts in the Czech Republic, they lack the definition of “**tax**”. The answer to the question what the tax is can be found just in the tax theory: a tax is an obligatory amount defined by an act with a laid down rate which is more or less regularly collected from the incomes of economic subjects to the public budgets on the irrecoverable principle.

We can find something similar to the definition of tax in the Czech legislation; in the Code of Tax Procedure (Act no. 280/2009 Sb., as amended, Section 2(3)) there is legislative shortcut of tax: tax means taxes, fees, transfers, advance payments and other assessments.

The main rule concerning taxes is included in the Charter of Fundamental Rights and Freedoms. Its Article 11(5) assigns that taxes and fees can be imposed only by acts. It means not only taxes, but as well all the fees, must be imposed by acts, not just by ordinances of municipalities or ministries.

We have the same problem with the definition of tax as with the definition of “**fee**”. The tax theory describes the fee² as an obligatory irrecoverable amount defined by an act and collected by the State or other public corporations for certain legal acts. In contrast to tax this amount is irregular (ad hoc) and the fee payor is eligible to ask for some consideration. It

¹ See Mrkývka, P. in: Mrkývka P. a kol. Finanční právo a finanční správa – 2nd part. Brno: Masarykova univerzita v Brně, 2004. ISBN: 80-210-3579-X. P. 7. Široký, J. Daňové teorie s praktickou aplikací. Praha: C. H. Beck, 2003.

² The term “fee” means the same as the term “charge”.

means that fee is very similar to the price and sometimes we can even see somebody to collect “fee” for baggage deposit or coat deposit (though it is not the right term).³

To tell the truth, the difference between “tax” and “fee” is really more theoretical than practical. For example in a lot of municipalities the “dog charge” is in fact the “dog tax”: the holders of dogs (the taxpayers) do not get any plastic bags for the excrements, municipality does not install waste baskets, does not clean pedestrians and roads, etc. On the other hand, the “road tax” is rather “road charge” because the whole revenue must be invested by the State Fund of Transport Infrastructure to modernization of existing roads and building new ones.

All Czech legal acts dealing with taxes and fees do have very similar structure according to the basic **structural components**:

- Object of taxation is a legally relevant situation described by law that is connected with a tax duty. It is usually obvious what the object of taxation is just from the title of the tax. Incomes, possession or using property, transfers with property, consumption, etc. can be the object of taxation;
- Correction components are some possibilities for the taxpayer not to pay the tax or pay less than it is usual. Tax reduction and exemptions from taxation are most common. Sometimes but not very often, the correction components can have the opposite effect: they can increase the tax duty;
- Czech tax administration knows two types of taxpayers:⁴
 - a natural person or legal entity whose income, property or legal acts (legal transactions) are object of taxation (taxpayer),
 - a natural person or legal entity that has responsibility to calculate the tax, collect it or withheld it and transfer it in time to the tax administrator (payor);
- Talking about the tax base, we mean the quantity of the object of taxation. As the tax base is usually economic income (for income taxes), value (for VAT, inheritance tax, gift tax, real estate transfer tax, partly excise taxes), area (real estate tax) or something different (for example combination of weight and number of axles or engine capacity for the road tax);
- Tax rate determines the amount of the tax to the tax base. Several kinds of tax rate are distinguished:
 - fixed tax rate – fixed amount of money irrespective of the quantity of the tax base,
 - percent tax rate – tax includes several percent of the tax base and there are three possibilities for percent tax rate:
 - linear tax rate – the same percentage for a different tax base,
 - progressive tax rate – the higher the tax base, the higher the percentage,
 - degressive tax rate – the higher the tax base, the lower the percentage (this kind of tax rate is not used because of its injustice);

³ See Mrkývka, P. in: Mrkývka P. a kol. Finanční právo a finanční správa – 2nd part. Brno: Masarykova univerzita v Brně, 2004. ISBN: 80-210-3579-X. P. 6.

⁴ These terms are no more in Czech legal order, but legal acts are still operating with them and using them.

- Payment conditions are usually terms and fundamentals of payment. Some taxes are paid in one term, others can be paid in several part payments. Sometimes the taxpayer is obliged to pay advance payments before he knows his annual tax duty.
- We have numerous tax administrators in the Czech Republic but most often the tax administrator is the tax office. In other situation taxes can be administrated by other public administration bodies, by courts or by customs offices. The most important task for a tax administrator is to make everything so that all the taxes will be collected in time and in the right amount;
- The budget destination is very important for all citizens; it means which of the public funds will get collected money. These are usually the state budget and local budgets (municipal budgets and region budgets).⁵

Tax	Municipal budget	Region budget	State budget
Personal income tax (withholding tax)	21,4 % ⁶	8,92 %	69,68 %
Personal income tax (from business activities)	30 % ⁷		10 %
- remaining 60 %	21,4 %	8,92 %	69,68 %
Personal income tax (from dependent activity)	21,4 % + 1,5 % ⁸	8,92 %	68,18 %
Corporate income tax ⁹	21,4	8,92 %	69,68 %
Real estate tax	100 % ¹⁰		
Inheritance tax			100 %
Gift tax			100 %
Real estate transfer tax			100 %
Road tax			100 %
VAT	21,4 %	8,92 %	69,68 %
Excise taxes			100 %

Table 1: Budget Destination in the Czech Republic

There are numerous possibilities how to **classify taxes**. Some are more practical, some are less. Just two of them will be mentioned in the following text:

- Classification according to impact,
- Classification according to object of taxation.

The most typical and the most common class is the classification according to tax impact. We may distinguish between direct taxes and indirect taxes. Direct taxes are assessed to every taxpayer according to his / her incomes, property and they usually respect the personal situation of the taxpayer. The group of direct taxes includes income taxes, road tax, real estate tax, transfer taxes, etc. On the other hand indirect taxes are paid and collected in the prices of

⁵ Vide in Pařízková, I. Finance územních samosprávných celků. Brno: Masarykova univerzita, 1998. ISBN: 80-210-1997-2. Pařízková, I. Finanční právo: finance územní samosprávy. Brno: Masarykova univerzita, 2005. ISBN: 80-210-3601-X. Marková, H., Boháč, R. Rozpočtové právo. Praha: C.H. Beck, 2007. ISBN: 978-80-7179-598-8. Netolický, M. Rozpočty obcí v naší legislativě. Brno: Tribun EU, 2008. ISBN: 978-80-7399-340-5.

⁶ Tax incomes are distributed according to:

1. Area of the municipality,
2. Number of inhabitants in the municipality,
3. Multiples of gradations; valid for all 21,4 %.

⁷ According to permanent address of the entrepreneur.

⁸ According to number of employers working in the municipality.

⁹ Corporate income taxes paid by municipalities and regions are the incomes of their budgets.

¹⁰ According to location of the real estate.

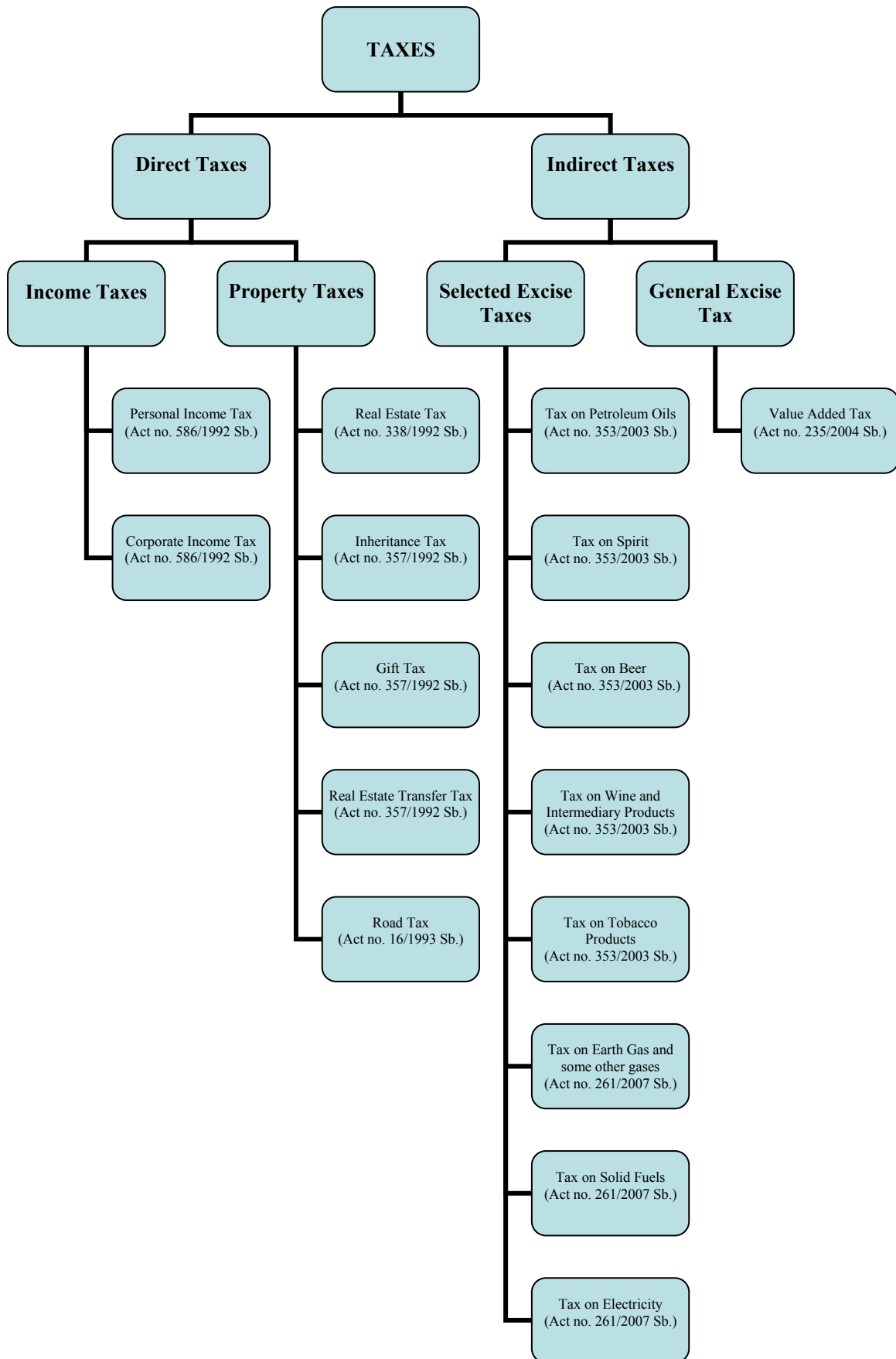
goods, service, etc. and does not respect personal situation of the taxpayer. The most important indirect taxes are VAT and excise taxes.

The other useful classification of taxes is the classification according to the object of taxation. There are:

- Income taxes – taxes on income of natural persons and legal entities, usually not only income in money but income in kind and emoluments of office-holders, too. There are two income taxes in the Czech Republic: personal income tax and corporate income tax;
- Property taxes – taxes on ownership, holding, lease or using of property. Real estate tax and road tax are the most typical property taxes in the Czech Republic. Transfer taxes (inheritance tax, gift tax and real estate transfer tax) and several local charges such as dog charge are very often mentioned between property taxes;
- Transfer taxes are collected from transfer or transference of ownership title, the main transfer taxes are inheritance tax, gift tax and real estate transfer tax;
- Subject taxes are paid because of the existence of a subject, they do not exist any more not only in the Czech Republic;
- Turnover taxes are paid from the value added by every processor, the turnover tax is value added tax (VAT);
- Excises (excise taxes) are imposed on the consumption of selected commodities such as petroleum oils, spirit, beer, wine and tobacco products, since the beginning of 2008 on the consumption of gas, coal and electricity, too.

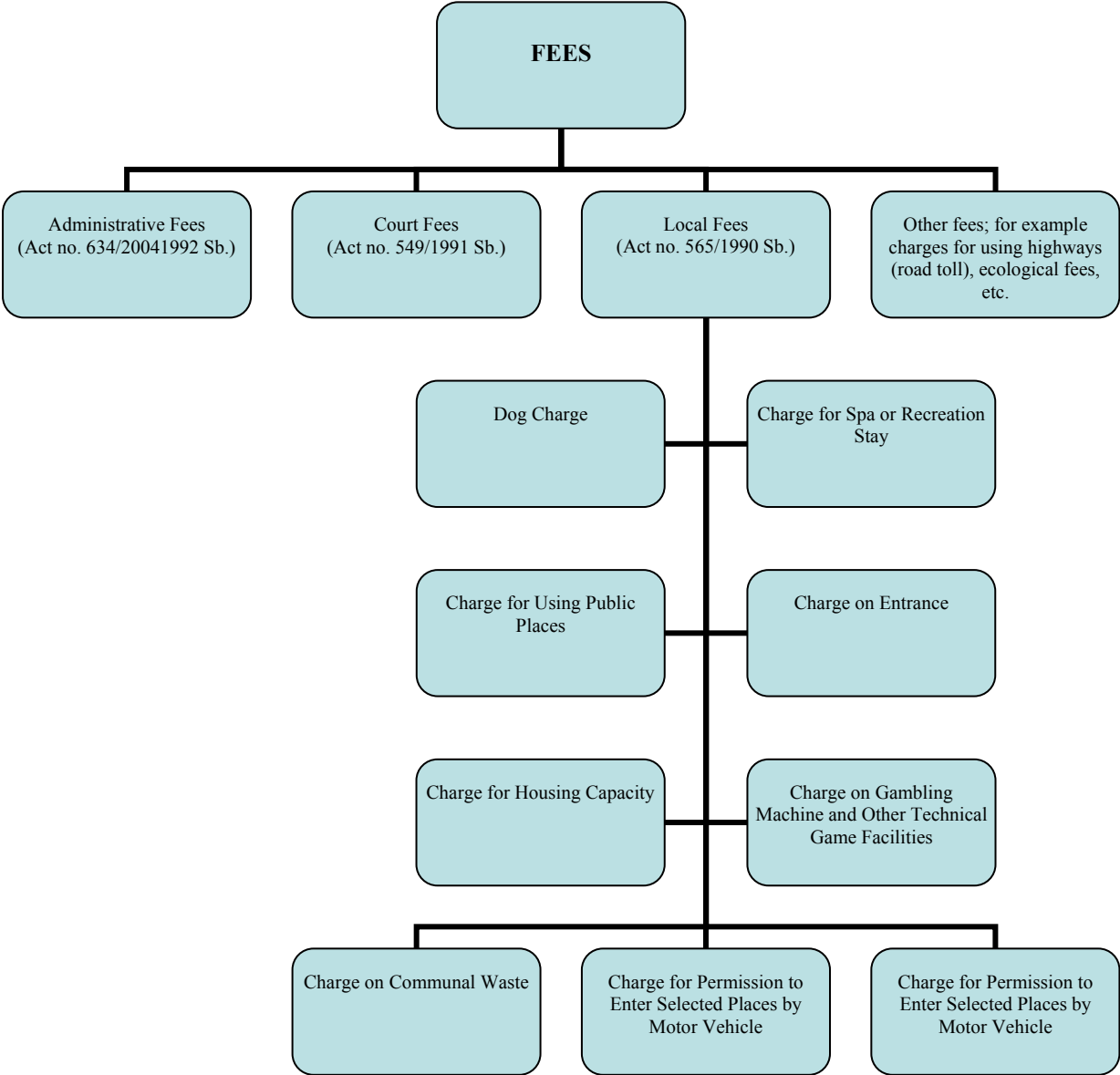
The system of taxes and fees in the Czech Republic is very similar to the ones in other developed European countries. To tell the truth, nowadays there is no act dealing with the tax system in the Czech Republic. There used to be Act No. 212/1992 Sb. that created the whole system of taxes in 1993. But this Act had no practical importance; there was no problem to approve some new tax acts. That is why that Act was abolished in 2003.

Nowadays the **system of taxes** in the Czech Republic looks as follows (for better orientation the classification according to impact is used):



Graph 1: System of Taxes in the Czech Republic

The definition of fees was mentioned above. Considering the tax system, just local fees are important but there are some other kinds of fees. In the following graph the **system of fees** is described:



Graph 2: System of Fees in the Czech Republic