

# Czech Republic

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This chapter includes data on the income taxes paid by workers, their social security contributions, the family benefits they receive in the form of cash transfers as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for eight different family types.

Methodological information is available for personal income tax systems, compulsory social security contributions to schemes operated within the government sector, universal cash transfers as well as recent changes in the tax/benefit system. The methodology also includes the parameter values and tax equations underlying the data.

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## Czech Republic 2019

## The tax/benefit position of single persons

	Wage level (per cent of average wage)	67	100	167	67
	Number of children	none	none	none	2
<b>1. Gross wage earnings</b>		273 869	408 760	682 629	273 869
<b>2. Standard tax allowances</b>					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	0	0	0	0
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3 + 13)</b>		366 437	546 921	913 358	366 437
<b>5. Central government income tax liability (exclusive of tax credits)</b>		54 966	82 038	137 004	54 966
<b>6. Tax credits</b>					
Basic credit					
Married or head of family					
Children					
Other		24 840	24 840	24 840	72 798
	Total	24 840	24 840	24 840	72 798
<b>7. Central government income tax finally paid (5-6)</b>		30 126	57 198	112 164	- 17 832
<b>8. State and local taxes</b>		0	0	0	0
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings		30 126	44 964	75 089	30 126
Taxable income					
	Total	30 126	44 964	75 089	30 126
<b>10. Total payments to general government (7 + 8 + 9)</b>		60 251	102 162	187 253	12 293
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		0	0	0	21 840
	Total	0	0	0	21 840
<b>12. Take-home pay (1-10+11)</b>		213 618	306 598	495 376	283 416
<b>13. Employer's compulsory social security contributions</b>		92 568	138 161	230 729	92 568
<b>14. Average rates</b>					
Income tax		11.0%	14.0%	16.4%	-6.5%
Employees' social security contributions		11.0%	11.0%	11.0%	11.0%
Total payments less cash transfers		22.0%	25.0%	27.4%	-3.5%
Total tax wedge including employer's social security contributions		41.7%	43.9%	45.8%	22.7%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		31.1%	31.1%	31.1%	31.1%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		48.5%	48.5%	48.5%	48.5%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

## Czech Republic 2019

## The tax/benefit position of married couples

	Wage level (per cent of average wage)	100-0	100-67	100-100	100-67
	Number of children	2	2	2	none
<b>1. Gross wage earnings</b>		408 760	682 629	817 520	682 629
<b>2. Standard tax allowances</b>					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	0	0	0	0
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3 + 13)</b>		546 921	913 358	1 093 842	913 358
<b>5. Central government income tax liability (exclusive of tax credits)</b>		82 038	137 004	164 076	137 004
<b>6. Tax credits</b>					
Basic credit					
Married or head of family					
Children					
Other		97 638	72 798	72 798	24 840
	Total	97 638	72 798	72 798	24 840
<b>7. Central government income tax finally paid (5-6)</b>		- 15 600	39 366	66 438	87 324
<b>8. State and local taxes</b>		0	0	0	0
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings		44 964	75 089	89 927	75 089
Taxable income					
	Total	44 964	75 089	89 927	75 089
<b>10. Total payments to general government (7 + 8 + 9)</b>		29 364	114 455	156 365	162 413
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		21 840	21 840	0	0
	Total	21 840	21 840	0	0
<b>12. Take-home pay (1-10+11)</b>		401 236	590 014	661 155	520 216
<b>13. Employer's compulsory social security contributions</b>		138 161	230 729	276 322	230 729
<b>14. Average rates</b>					
Income tax		-3.8%	5.8%	8.1%	12.8%
Employees' social security contributions		11.0%	11.0%	11.0%	11.0%
Total payments less cash transfers		1.8%	13.6%	19.1%	23.8%
Total tax wedge including employer's social security contributions		26.6%	35.4%	39.6%	43.0%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		31.1%	31.1%	31.1%	31.1%
Total payments less cash transfers: Spouse		31.1%	31.1%	31.1%	31.1%
Total tax wedge: Principal earner		48.5%	48.5%	48.5%	48.5%
Total tax wedge: Spouse		48.5%	48.5%	48.5%	48.5%

The national currency is the Czech koruna (CZK). In 2019, CZK 22.93 were equal to USD 1. In that year, the average worker earned CZK 408 760 (Secretariat estimate).

## 1. Personal Income Tax System

### 1.1. Central government income taxes

#### 1.1.1. Tax unit

- The tax unit is the individual.

#### 1.1.2. Tax allowances and tax credits

##### 1.1.2.1. Standard reliefs

- Relief for social and health security contributions. Employees' social security contributions (see Section 2.1.) are not deductible for income tax purposes.

##### 1.1.2.2. Main non-standard tax reliefs applicable to an AW

- Charitable donations allowance: A tax allowance of up to 10% of taxable income is available for donations made to municipalities or legal entities for the financing of social, health, cultural, humanitarian, religious, ecological and sport activities. The minimum limit for donations is the lesser of 2% of taxable income or CZK 1 000. A similar procedure shall apply for gratuitous performance to finance the removal of the consequences of a natural disaster occurring in the territory of an EU Member State, Norway or Iceland. The total deduction may not exceed 15% of the tax base. As gratuitous performance for healthcare purposes, the value of one blood donation from an unpaid donor is valued at a sum of CZK 2 000 and the value of an organ donation from a living donor is valued at a sum of CZK 20 000.
- Interest payments: Taxpayers may claim an allowance of up to CZK 300 000 for mortgage interest payments or other interest payments related to the purchase or the improvement of their house. The total sum of interest by which the tax base is reduced on all credits of payers in the same jointly managed household must not exceed CZK 300 000.
- Supplementary pension scheme contributions: In a period of taxation, the tax base may be reduced by a contribution, in the maximum total amount of CZK 12 000, paid by a taxpayer to their supplementary pension insurance with a State contribution under a contract on supplementary pension insurance with a State contribution entered into between the payer and a pension company; the sum that may be deducted in this manner equals the total amount of contributions paid by the payer for their supplementary pension insurance with a State contribution in the period of taxation, reduced by CZK 12 000.
- Private life insurance premiums: Taxpayers may claim an allowance of up to CZK 12 000 for premiums paid according to a contract between the taxpayer and an insurance company if the benefit (lump sum or recurrent pension) is paid out 60 months after the signature of the contract and in the year in which the taxpayer reaches the age of 60.

##### 1.1.2.3. Tax schedule

From January 2008, a progressive system of taxation is replaced by a single rate of 15%. The tax base, reduced by the non-taxable part of the tax base (see 1.1.2.2. - Main non-standard tax reliefs), rounded

down to whole hundreds of CZK is subject to tax at the rate of 15%. After that, tax credits (see 1.1.2.4.) can be used to directly reduce a person's tax liability.

#### **1.1.2.4. Tax credits**

- Credit of CZK 24 840 per taxpayer.
- Credit of CZK 24 840 per spouse (husband or wife) living with a taxpayer in a common household provided that the spouse's own income does not exceed CZK 68 000 in the taxable period.
- Credit of CZK 15 204 for first child, credit of CZK 19 404 for second child, credit of CZK 24 204 for third and each additional child (irrespective of the child's own income) living with a taxpayer in a common household on the territory of a Member State of the EU, Norway or Iceland, if the child satisfies one or more of the following criteria (in force since July 1, however, with retroactive effect from January 1):
  - age below 18 year of age,
  - age below 26 year of age and receiving full-time education,
  - age below 26 year of age and physically or mentally disabled provided that the child is not in receipt of a state disability payment
  - If the child is a "ZTP-P" card holder (the child with a certain type of disabilities), the tax credit is doubled. The taxpayer can claim the tax credit in the form of tax reliefs or tax bonuses or their combination.
- Credit of CZK 2 520 if the taxpayer is in receipt of a partial disability pension or is entitled to both an old-age pension and a partial disability pension
- Credit of CZK 5 040 if the taxpayer is in receipt of a full disability pension, or another type of pension conditional on his full disability pension, or if the taxpayer is entitled to both old-age pension and full disability pension or deemed to be fully disabled under statutory provisions, but his application for a full disability pension was rejected for reasons other than that he was not fully disabled (handicapped).
- Credit of CZK 16 140 if the taxpayer is a "ZTP-P" card holder.
- Credit of CZK 4 020 if the taxpayer takes part in a systematic educational or training programme under statutory provisions in order to prepare for his future vocation (profession) by means of such studies or prescribed training until completion of his/her 26 or 28 years (Ph.D. programme).
- The annual tax credit for placing a child into a preschool child care institution in the amount of the expenditure proven to be incurred for attending the preschool, up to the amount of the minimum wage for each placed child (for the year 2019: MW CZK 13 350)

The non-standard tax reliefs and special solidarity surcharge of 7% for income from employment and entrepreneurship exceeding 48 times the average salary within the calendar year are not included in the tax equations underlying the Taxing Wages results.

## **1.2. State and local income tax**

There are no regional or local income taxes.

## 2. Compulsory Social Security Contributions to Schemes Operated within the Government Sector

The maximum annual earnings used to calculate social security contributions are 48 times the national average monthly wage. The maximum ceiling for social security contributions is CZK 1 569 552 for the year 2019. The maximum ceiling for health insurance has not existed since 2013.

### 2.1. Employees' contributions

Compulsory contributions of 11% of gross wages and salaries are paid by all employees into government operated schemes. The total is made up as follows (in %):

Health insurance	4.5
Social insurance	6.5

### 2.2. Employers' contributions

The total contribution for employers is 33,8% of gross earnings.

The contribution consists of the health insurance contribution (9% of gross wages and salaries) and social insurance (24,8 %).

## 3. Universal Cash Transfers

### 3.1. Transfers related to marital status

None.

### 3.2. Transfers for dependent children

Non-taxable child allowances are the basic income-tested benefit provided to a dependent child with the objective to contribute to the coverage of costs incurred in his upbringing and sustenance. Entitlement to the child allowance is bound with certain income criteria. The central government pays this allowance in respect of each dependent child based on the family income level and provided that family's income does not exceed 2.7 times the relevant family's living minimum (LM) and simultaneously fulfils the minimum income condition of CZK 3410/monthly/one of parents.. Family income includes the earnings of both parents net of income tax and the employees' social security and health insurance contributions. Child allowances are provided at three levels depending on the age of the child and are paid as follows:

Family Income	up to 2.7 LM
Age of child	Total payment CZK per month
below 6 year of age	800
6–15 years	910
15–26 years	1000

The monthly family's LM for the AW-type family with children can be calculated by summing the following amounts (in CZK):

Living minimum	
<b>Basic personal requirement</b>	
Single	3 410
First person in household	3 140
Second and other persons who are not a dependent child	2 830

Child aged below 6	1 740
Child aged between 6 and 15	2 140
Child aged between 15 and 26	2 450
<b>Household expenses</b>	
One person household	3 410
Two person household	5 970
Three person household	7 710
Four person household	9 850
Five person household	12 300

The LM is required by law. In case that family income (income of persons assessed together) is not achieved, the amount of family's LM can be put in a request for state social support (housing benefit, family benefits, social assistance and other). The system applies the solidarity principle between the high-income families and low-income families, as well as between the childless families and those with children.

The term "social allowance" was abolished from 1 January 2012. However, this fact has no effect on the tax-benefit system for low-income families. The system of personalized payment was simplified and extended. For examples, in case of loss of income (social allowance) some people may put in a request for increase care allowance up to CZK 2 000. This allowance is addressed for recipients who are dependent children below 18 years of age and parent of dependent children below 18 years of age if the income of the family is under 2.0 family's living minimum. Protection in the housing sector is also addressed in the context of state social support system (housing allowances-benefit) and the system of assistance in material need as additional housing. Also foster care benefits create a separate benefit system; since 1 January 2013 they have ceased to be a component of the state social support system. These allowances (housing, care and foster care) are not included in the Taxing Wages models.

### 3.3. Additional transfers

Additional allowances (means-tested benefits in material need) are paid by the central government to low income families in adverse social and financial situation. The amount transferred is derived from the LM and varies according to total family income including family allowances and own efforts, opportunities and needs are taken into account. This allowance is not included in the computation.

## 4. Main Changes in Tax/Benefit Systems since 2019

In 2018, there were two changes that have a significant effect on the current calculation of Taxing Wages.

List of main changes that have impact on the current computation of TW:

- The tax credit can be applied in the amount of the expenditure prove to be incurred for attending the preschool, up to the amount of the minimum wage for each child increased to CZK 13 350 for the year 2019). The tax authority only verifies the name of a preschool child care institution on the list approved by the MEYS. The age of the child does not effect on the entitlement to the tax credit for pre-school children. The children in preschool institutions are normally between 2 and 5 years old, but Postponement of Scholl Attendance is possible. Introduction of this relief is a part of the Act on provision of childcare in a child society and also the Act on Maternal, Basic, High, Higher Professional, and other Education (see chapter 1.1.2.4.)

## 5. Memorandum Items

### **5.1. Identification of AW and valuation of earnings**

The Ministry of Finance estimates the average earnings of the AW based on the data supplied by the Czech Statistical Office. The calculation of the average earnings AW is made by CZ-NACE division, which is compatible with ISIC classifications Ver. 4.

### **5.2. Employers' contributions to private pension, health and related schemes**

There are supplementary private pension schemes only, but employers' contributions vary. Relevant information is not available.



## 2019 Parameter values

	Ave_earn	408 760	Secretariat's estimate
Income tax rate	tax_rate	0.15	
Social security – social insurance	SSs_rate	0.065	
Social security – health insurance	SSh_rate	0.045	
Employers - social insurance	SSs_empr_rate	0.248	
Employers - health insurance	SSh_empr_rate	0.09	
Child Tax credit - first child	child_cr_1	15 204	
- second child	child_cr_2	19 404	
- third child	child_cr_3	24 204	
Tax credit for individuals	tax_cr_base	24 840	
Tax credit for spouse	tax_cr_spo	24 840	
Tax credit for spouse income ceiling	Tax_cr_spo_inc_ceil	68 000	
Living minimum (LM)			
	basic_adult	3 410	
	basic_household	5 970	
	basic_child	2 140	
	house_exp	1	3 410
		2	5 970
		3	7 710
		4	9 850
		5	12 300
Cash transfers	transf_1	910	
Social security, social insurance - ceiling	soc_sec_si_ceil	1 569 552	
Minimum Wage	tax_cr_preschool	13 350	

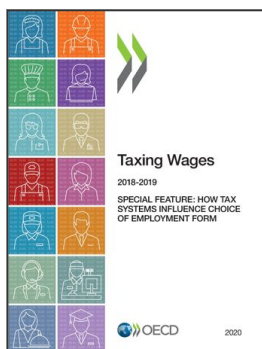
## 2019 Tax equations

The equations for the Czech system are on an individual basis. But the spouse tax credit is relevant only to the calculation for the principal earner and cash transfers are calculated only once. This is shown by the Range indicator in the table below.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “\_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “\_princ” and “\_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “\_spouse” values taken as 0.

		<i>Variable name</i>	<i>Range</i>	<i>Equation</i>
1.	Earnings	earn	B	
2.	CG taxable income	tax_inc_princ	B	Earn+(earn*SSC_empr_rate)
3.	CG tax before credits			
	CG tax before credits principal	CG_tax_excl_princ	B	Tax(tax_inc_princ, tax_rate)
4.	Tax credits:			
	Tax credit for children	tax_cr_ch	P	If (number of children>3; (number of children - 3)*child_cr_3+child_cr_1+child_cr_2+child_cr_3; If (number of children>2;child_cr_1 +child_cr_2 + child_cr_3; If (number of children>1;child_cr_1+child_cr_2; If (number of children=0;0))))
	Tax preschool credit	Tax_cr_preschool	B	tax_cr_preschool*positive(children-1)
	Basic tax credit	tax_cr_bas	B	tax_cr_bas
	Tax credit for spouse	tax_cr_spouse	P	Married*tax_cr_spo
5.	CG tax			
	CG tax principal	CG_tax_princ	B	Max(CG_tax_excl_princ - tax_cr_bas_princ - tax_cr_spo-tax_cr_preschool , 0 ) - tax_cr_ch
6.	State and local taxes	local_tax	B	0
7.	Employees' social security	SSs SSh	B B	MIN(earn,soc_sec_si__ceil)*SSs_rate earn*SSh_rate
8.	Cash transfers			
	Net family income	net_inc	J	earn_total-CG_tax_total-SSC_total
9.	Living minimum (monthly)	LM	J	(1-Married)*basic_adult+Married*basic_household +Children*basic_child+ VLOOKUP((1+Married+Children), house_exp, 2, FALSE)
10.	Total cash transfers	cash_trans	J	Children*IF(net_inc<=(2.7)*LM*12,'transf_1*12)
11.	Employer's social security	SSs_empr SSh_empr	B B	MIN(earn,soc_sec_sir_ceil)*SSs_empr_rate earn*SSh_empr_rate

Key to range of equation: B calculated separately for both principal earner and spouse; P calculated for principal only (value taken as 0 for spouse calculation); J calculated once only on a joint basis.



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