

Czech Republic

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.

Czech Republic 2020

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
1. Gross wage earnings		269 515	402 261	671 776	269 515
2. Standard tax allowances					
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
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3 + 13)		360 611	538 225	898 837	360 611
5. Central government income tax liability (exclusive of tax credits)		54 092	80 734	134 825	54 092
6. Tax credits					
Basic credit					
Married or head of family					
Children					
Other		24 840	24 840	24 840	74 048
	Total	24 840	24 840	24 840	74 048
7. Central government income tax finally paid (5-6)		29 252	55 894	109 985	- 19 956
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		29 647	44 249	73 895	29 647
Taxable income					
	Total	29 647	44 249	73 895	29 647
10. Total payments to general government (7 + 8 + 9)		58 898	100 143	183 881	9 690
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	21 840
	Total	0	0	0	21 840
12. Take-home pay (1-10+11)		210 617	302 119	487 895	281 665
13. Employer's compulsory social security contributions		91 096	135 964	227 060	91 096
14. Average rates					
Income tax		10.9%	13.9%	16.4%	-7.4%
Employees' social security contributions		11.0%	11.0%	11.0%	11.0%
Total payments less cash transfers		21.9%	24.9%	27.4%	-4.5%
Total tax wedge including employer's social security contributions		41.6%	43.9%	45.7%	21.9%
15. Marginal rates					
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.

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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
1. Gross wage earnings		402 261	671 776	804 522	671 776
2. Standard tax allowances					
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
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3 + 13)		538 225	898 837	1 076 451	898 837
5. Central government income tax liability (exclusive of tax credits)		80 734	134 825	161 468	134 825
6. Tax credits					
Basic credit					
Married or head of family					
Children					
Other		98 888	74 048	74 048	24 840
	Total	98 888	74 048	74 048	24 840
7. Central government income tax finally paid (5-6)		- 18 154	35 937	62 580	85 145
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		44 249	73 895	88 497	73 895
Taxable income					
	Total	44 249	73 895	88 497	73 895
10. Total payments to general government (7 + 8 + 9)		26 095	109 833	151 077	159 041
11. Cash transfers from general government					
For head of family					
For two children		21 840	21 840	21 840	0
	Total	21 840	21 840	21 840	0
12. Take-home pay (1-10+11)		398 007	583 783	675 285	512 735
13. Employer's compulsory social security contributions		135 964	227 060	271 929	227 060
14. Average rates					
Income tax		-4.5%	5.3%	7.8%	12.7%
Employees' social security contributions		11.0%	11.0%	11.0%	11.0%
Total payments less cash transfers		1.1%	13.1%	16.1%	23.7%
Total tax wedge including employer's social security contributions		26.1%	35.1%	37.3%	43.0%
15. Marginal rates					
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 2020, CZK 23.38 were equal to USD 1. In that year, the average worker earned CZK 402 261 (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 24 000, 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 24 000.
- 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 2020: MW CZK 14 600)

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 results¹.

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 1 672 080 for the year 2020. 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 3860/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	
Basic personal requirement	
Single	3 860
First person in household	3 550
Second and other persons who are not a dependent child	3 200
Child aged below 6	1 970
Child aged between 6 and 15	2 420
Child aged between 15 and 26	2 770
Household expenses	
One person household	3 860
Two person household	6 750
Three person household	8 720
Four person household	11 140
Five person household	13 910

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 2020

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 Taxing Wages:

- 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 14 600 for the year 2020. The tax authority only verifies the name of a preschool childcare 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 school 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.).

4.1. Changes to labour taxation due to the covid-19 pandemic

No changes

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 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.

2020 Parameter values

	Ave_earn	402 261	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	3 860	
	basic_household	6 750	
	basic_child	2 420	
	house_exp	1	3 860
		2	6 750
		3	8 720
		4	11 140
		5	13 910
Cash transfers	transf_1	910	
Social security, social insurance - ceiling	soc_sec_si_ceil	1 672 080	
Minimum Wage	tax_cr_preschool	14 600	

2020 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.

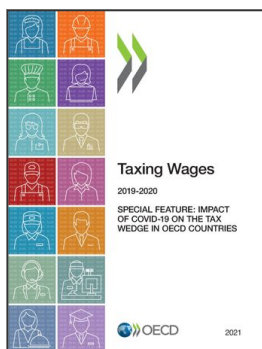
The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with 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.

Notes

¹ The Solidarity Surcharge is not included in the Taxing Wages models, but does not apply at any of the income levels for which the Taxing Wage indicators are calculated.



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