

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 2021

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		291 659	435 312	726 971	291 659
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)		291 659	435 312	726 971	291 659
5. Central government income tax liability (exclusive of tax credits)		43 749	65 297	109 046	43 749
6. Tax credits					
Basic credit					
Married or head of family					
Children					
Other		27 840	27 840	27 840	80 564
	Total	27 840	27 840	27 840	80 564
7. Central government income tax finally paid (5-6)		15 909	37 457	81 206	- 36 815
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		32 083	47 884	79 967	32 083
Taxable income					
	Total	32 083	47 884	79 967	32 083
10. Total payments to general government (7 + 8 + 9)		47 991	85 341	161 173	- 4 733
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	30 480
	Total	0	0	0	30 480
12. Take-home pay (1-10+11)		243 668	349 971	565 799	326 872
13. Employer's compulsory social security contributions		98 581	147 135	245 716	98 581
14. Average rates					
Income tax		5.5%	8.6%	11.2%	-12.6%
Employees' social security contributions		11.0%	11.0%	11.0%	11.0%
Total payments less cash transfers		16.5%	19.6%	22.2%	-12.1%
Total tax wedge including employer's social security contributions		37.6%	39.9%	41.8%	16.2%
15. Marginal rates					
Total payments less cash transfers: Principal earner		26.0%	26.0%	26.0%	26.0%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		44.7%	44.7%	44.7%	44.7%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Czech Republic 2021

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		435 312	726 971	870 624	726 971
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)		435 312	726 971	870 624	726 971
5. Central government income tax liability (exclusive of tax credits)		65 297	109 046	130 594	109 046
6. Tax credits					
Basic credit					
Married or head of family					
Children					
Other		105 404	80 564	80 564	27 840
	Total	105 404	80 564	80 564	27 840
7. Central government income tax finally paid (5-6)		- 37 524	3 642	25 190	56 366
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		47 884	79 967	95 769	79 967
Taxable income					
	Total	47 884	79 967	95 769	79 967
10. Total payments to general government (7 + 8 + 9)		10 360	83 609	120 958	136 333
11. Cash transfers from general government					
For head of family					
For two children		30 480	30 480	30 480	0
	Total	30 480	30 480	30 480	0
12. Take-home pay (1-10+11)		455 432	673 843	780 146	590 639
13. Employer's compulsory social security contributions		147 135	245 716	294 271	245 716
14. Average rates					
Income tax		-8.6%	0.5%	2.9%	7.8%
Employees' social security contributions		11.0%	11.0%	11.0%	11.0%
Total payments less cash transfers		-4.6%	7.3%	10.4%	18.8%
Total tax wedge including employer's social security contributions		21.8%	30.7%	33.0%	39.3%
15. Marginal rates					
Total payments less cash transfers: Principal earner		11.0%	26.0%	26.0%	26.0%
Total payments less cash transfers: Spouse		25.1%	26.0%	26.0%	26.0%
Total tax wedge: Principal earner		33.5%	44.7%	44.7%	44.7%
Total tax wedge: Spouse		44.0%	44.7%	44.7%	44.7%

The national currency is the Czech koruna (CZK). In 2021, CZK 21.6 were equal to USD 1. In that year, the average worker earned CZK 435 312 (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 150 000 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 150 000.
- 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 24 000 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

Since 2008, the Czech Republic has used a concept of the so-called 'super-gross salary' in determining the personal income tax (PIT) base from employment income. As of 1 January 2021, the Czech Republic is abandoning this concept of the super-gross salary. Instead, the tax base is now determined based on

gross income only. For the period 2008-2020, 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 was subject to tax at the rate of 15%.

As of 2021, the Czech Republic returns to progressive taxation, with the introduction of marginal rate of 23 %, as follows:

- Gross income up to the social security payment cap (the threshold for 2021 is CZK 1 701 168 – the 48 times the average wage for that year) will be subject to a 15% rate
- Gross income exceeding CZK 1 701 168 will be subject to a rate of 23%

As the progressive tax rate will be applicable to all types of income, some passive income, like capital gains or rental income (combined with employment income), may incur a higher tax burden. However, for most individuals with employment income only, this change will lead to effective lower employment taxation.

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 27 840 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 22 320 for second child, credit of CZK 27 840 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 2021: MW CZK 15 200)

The non-standard tax 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 1 701 168 for the year 2021. 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 3.4 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 3.4 LM
Age of child	Total payment CZK per month
below 6 year of age	1 130
6–15 years	1 270
15–26 years	1 380

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 2021

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:

- Abolition of the super gross wage concept
- Basic tax rate of 15% for gross income up to CZK 1.7 million annually remains
- Marginal rate of 23% for income over CZK 1.7 million annually was introduced
- Increasing the tax credit for the taxpayer from CZK 24 840 to CZK 27 840 (see chapter 1.1.2.4)
- Increasing the tax credit for the second child from CZK 19 404 to CZK 22 320 (see chapter 1.1.2.4)

- Increasing the tax credit for the third and each additional child from CZK 24 204 to CZK 27 840 (see chapter 1.1.2.4)
- 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 15 200 for the year 2021. 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.)
- Increasing the child benefit from CZK 900 to CZK 1 270 (see chapter 3.2)
- Increase in the proportion of social benefits paid in relation to the minimum living standards – from 2.7 to 3.4 (see chapter 3.2)

4.1. Changes to labour taxation due to the COVID pandemic in 2020 and 2021

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.

2021 Parameter values

	Ave_earn	435 312	Secretariat's estimate
Income tax rate - base	tax_rate_base	0.15	
Income tax rate – second bracket	Tax_rate_secbracket	0.23	
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	22 320	
- third child	child_cr_3	27 840	
Tax credit for individuals	tax_cr_base	27 840	
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	1 270	
Social security, social insurance - ceiling	soc_sec_si_ceil	1 701 168	
Minimum Wage	tax_cr_preschool	15 200	

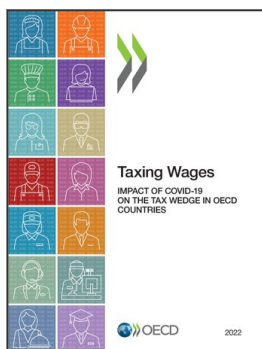
2021 Tax equations

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.

		Variable name	Range	Equation
1.	Earnings	earn	B	
2 a	CG taxable income base	tax_inc_princ_base	B	IF(earn<soc_se_si_ceil;earn;IF(earn>soc_se_si_ceil;soc_sec_si_ceil))
2b	CG taxable income second bracket	Tax_inc_princ_sec	B	IF(earn>soc_se_si_ceil;earn-soc_se_si_ceil;0)
	CG tax before credits			
	CG tax before credits principal	CG_tax_excl_princ	B	Tax(tax_inc_princ_base, tax_rate_base)+Tax(tax_inc_princ_se,tax_rate_sec)
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	B	MIN(earn,soc_sec_si_ceil)*SSs_rate
		SSh	B	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<=(3,4)*LM*12,' transf_1*12)
11.	Employer's social security	SSs_empr	B	MIN(earn,soc_sec_sir_ceil)*SSs_empr_rate
		SSh_empr	B	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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