

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Accounting



Diploma Thesis

**Comparison of Selected Direct Taxes
in the Czech Republic and Ireland**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Trade and Accounting
Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Jan Špür, DiS.

Economics and Management

Thesis title

Comparison of Selected Direct Taxes in the Czech Republic and Ireland

Objectives of thesis

The aim of this diploma thesis is to characterize and analyze the legal framework of income taxes in the Czech Republic and Ireland and to compare the personal income tax and corporate income tax in these countries on case studies.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The methods of analysis, synthesis, comparison and deduction will be used to prepare the practical part and to formulate the conclusions of the thesis.

The proposed extent of the thesis

60 – 80 pages

Keywords

Czech taxation, Irish taxation, Direct taxes, Income taxes, Personal income tax, Corporate income tax, tax base, tax rate, tax credits, tax reliefs, payroll.

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Expected date of thesis defence

2015/06 (June)

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Declaration

I hereby declare that I have worked on my diploma thesis titled "Comparison of Selected Direct Taxes in the Czech Republic and Ireland" individually and independently. I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on 30th March 2015

Jan Špůr

Acknowledgement

I would like to state special thanks to my supervisor Ing. Enikő Lőrinczová, Ph.D. for her guidance, countless pieces of valuable advice and support during my work on this thesis. I also would like to thank my family for their support throughout my study.

Comparison of Selected Direct Taxes in the Czech Republic and Ireland

Srovnání vybraných přímých daní v České Republice a Irsku

Summary

The main aim of the diploma thesis is to conduct a comparison study of tax systems of the Czech Republic and Republic of Ireland. The comparison mainly addresses direct taxation, primarily personal income tax.

The thesis consist of three main sections, theoretical section, practical section and proposal section. The theoretical section describes legal tax frameworks in analyzed countries and underlines fundamental dissimilarities in tax systems. Majority of the emphasis is given to a taxpayer's entitlement to tax reliefs and tax credits, since these deductible items strongly influence tax base of the taxpayer, consequently his total tax burden. The practical section of the thesis is divided into two subchapters. The first subchapter is devoted to the comparison of macroeconomic prospective of the taxation system. The second subchapter focuses on the tax burden imposed on four hypothetical households in the Czech Republic and Republic of Ireland. The outcome of the practical section highlights our main drawbacks in the Czech tax system and present proposals for improvement of the tax system.

Souhrn

Hlavním cílem diplomové práce je provést srovnání daňových systémů České republiky a Irska. Srovnání je provedeno v oblasti přímých daní a zejména daně z příjmů fyzických osob.

Diplomová práce se skládá ze tří částí - teoretické části, praktické části a návrhové části. Teoretická část práce popisuje právní daňový rámec v analyzovaných zemích a poukazuje na zásadní odlišnosti v daňových systémech. Největší důraz je kladen na nárok poplatníka na daňové úlevy a slevy na dani, neboť tyto odečitatelné položky silně ovlivňují základ daně poplatníka a jeho celkové daňové zatížení. Praktická část diplomové práce je rozdělena do dvou podkapitol. První podkapitola je věnována makroekonomickému pohledu zdanění v obou zemích. Druhá podkapitola se zaměřuje na daňovou zátěž čtyř hypotetických domácností v České republice a Irsku. Výsledek praktické části poukazuje na nedostatky v českém daňovém systému a jsou zde předloženy návrhy na zlepšení daňového systému.

Keywords:

Czech taxation, Irish taxation, Direct tax, Income taxes, Personal income tax, Corporate income tax, tax base, tax rate, tax credits, tax relief, payroll

Klíčová slova:

Česká daňová soustava, Irská daňová soustava, přímé daně, daň z příjmů fyzických osob, daň z příjmů právnických osob, základ daně, daňová sazba, sleva na dani, odečitatelné položky od základu daně, mzdy

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Acronyms

ACA – Accelerated Capital Allowances

CIT – Corporate Income Tax

ETR – Effective Tax Rate

EU – European Union

ITR – Implicit tax rate

OECD – Organization for Economic Co-operation and Development

PIT – Personal Income Tax

SSC – Social Security Contribution

1 Introduction

“In this world nothing can be said to be certain, except death and taxes” Benjamin Franklin

The topic of this diploma thesis is the comparison study of tax systems both in the Czech Republic and Ireland. The topic I have chosen was inspired by my participation in my study abroad at University College Cork in Ireland. This was an exceptional opportunity for one to observe and analyze the functional mechanism of different types of tax systems. Subsequently, these taxation findings significantly contributed to the comparison of a traditional member of Anglo-Saxon country in contrast to the tax system in the Czech Republic.

Taxes are an important fiscal instrument for every government. Moreover, taxes generate income for the Treasury. Apart from the state level, municipal and regional budgets are heavily reliant on collected taxes. It is the same with the Czech Republic and Ireland, where taxes are crucial revenues for financing public goods and services. The Czech Republic and Ireland are members of European Union (henceforth referred as EU). The EU representatives place a great emphasis on tax harmonization across European countries in order to create a functional single market without any discriminatory barriers. Remarkable results has been achieved in terms of indirect tax harmonization (for instance harmonization of VAT tax rates – a basic rate set at minimum 15 % and a reduced rate at minimum 5 % or VIES system providing tax identification number). However, the direct tax harmonization is a very limited due to reluctant EU members surrendering their tax and fiscal sovereignty. For this reason the thesis focuses on the comparison of direct taxes, primarily for personal income tax. It is assumed that much more dissimilarities can be found in direct taxes than in indirect ones.

Since the tax system influences daily lives of all members of society, the government strives to improve the economic situation of its citizens. The thesis provides an insight into the different tax systems and can challenge or support the general perception of the Czech taxpayers in regards to excessive tax burden on their earnings.

2 Objectives and methodology

Objective

The aim of this diploma thesis titled Comparison of selected direct taxes in the Czech Republic and Ireland is to characterize and compare two different tax systems in European Union. The study comparison is carried out both at macroeconomic level and at a household level. Since taxation is a broad topic, therefore the thesis is mainly focused on comparison of direct taxes, primarily on personal income tax.

Objective of the practical part (case study) is:

Firstly, on base of the literature from theoretical part of the thesis to analyse tax quota, tax mix, implicit tax rate and other macroeconomics indicators which are utilised for tax comparison of two countries. Secondly, phenomenon known as tax burden levied on personal income tax of a taxpayer under different circumstances is compared. The outcome of the comparison can make proposal for future fiscal policies and set direction of the Czech taxation system.

Methodology

Methodology in the theoretical part of the thesis is based on data collection from up-to-date and relevant legislation of both analysed countries, specialized publications and surveys undertaken by reputable organizations in tax environment such as the Organization for Economic Co-operation and Development (henceforth referred to as OECD) or European Commission. Descriptive method is utilized in the theoretical part.

The practical part of the thesis compares tax burden of an Irish and Czech taxpayer through four assumptions which represent various types of households, such as single person without dependent children, single parent with one dependent child, one-earner married couple with two dependent children and two-earner married couple with three children. The effective tax rate indicator is used for tax burden comparison. The comparison analysis has been performed from relevant tax legislation valid until December 31st 2014.

3 Literature review

3.1 Taxation system in the Czech Republic

Tax system of individual nations is influenced by various factors such as economic, geographical, political and social factors. The current structure of the Czech tax system was formed by the change in political structure after so called “velvet revolution” in 1989 which led to transition from a centrally planned economy to a market oriented economy. Widespread economic reforms that had to be accompanied by fundamental reforms of the Czech tax system between years 1991-1993. One of the main reasons for an extensive tax reform was the fact that the tax system in Czechoslovakia was not transparent, inefficient and collection of taxes was unfair. Socialistic tax system featured many deforming elements in terms of tax theory. According to four canonical principles of Adam Smith (1776) every good tax system must be fair in terms of equity of taxpayer (it implies that broader shoulders must hold the heaviest burden). Secondly, it must be certain (the individual must know precisely what, when and how he or she is to pay tax). Thirdly, the tax system must be convenient (collection of tax should be carried out with minimal effort on the part of the administrator and with minimal disruption of taxpayer) and the last principle is tax efficiency. These principles are still more relevant at the present. This was certainly not the case of the dominant share of taxes (90 %) paid by state enterprises or turnover tax with more than 1800 tax rates and other unfair tax policies during the rule of the Communist government (Kubátková, 2011, p. 152).

The fundamental tax reform took effect on 1.1.1993. Since that the tax system was traditionally divided in the context of the European Union (henceforth referred to as EU) standards for direct and indirect tax structure. In terms of volume income tax dominates in direct taxes. Income tax consists of personal income tax and corporate income tax. The second part of direct tax in the Czech Republic is Property tax. However, Property tax was newly amended and the original Act from 1992 was on 1st of January 2014 abolished and replaced by legal measures of the Senate no. 340/2013 Coll. As a consequence of this amendment inheritance tax was completely abolished and real estate transfer tax was transformed to a tax on the acquisition of immovable property. On the other hand indirect income tax consists of the value added tax which generates most of government revenues from indirect taxes and then excise taxes which

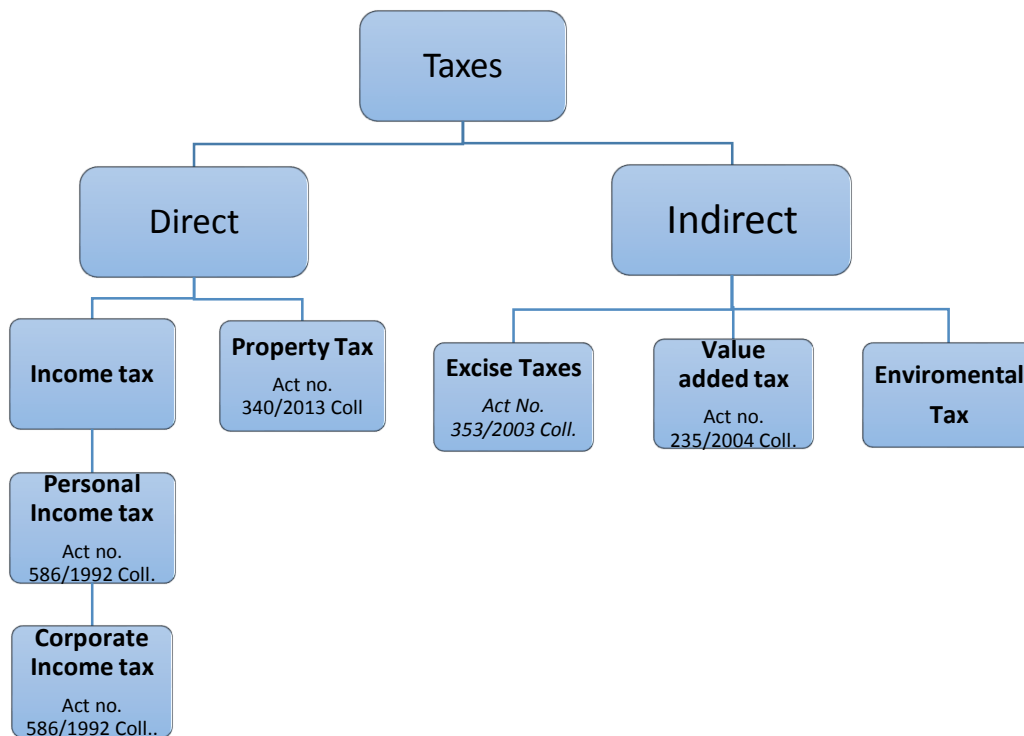
is address externalities such as tax on tobacco products, tax on beer, tax on spirits etc. The last and the newest indirect tax is the environmental tax which was implemented in accordance to indirect harmonization of the EU guided by a directive 2003/96/EC (Láchová, 2012).

Overview of tax reforms to present:

- 1991-1993 Introduction of standard tax system in the market economy;
- 2003-2004 implementation and harmonization with the EU legislation;
- 2005- 2006 the change of tax incidence – increasing progressivity of tax system;
- 2008 adjustment of the tax system in the consolidation of the public budget;
- 2009- 2010 modernization of tax system (preparation for amendment of direct tax and social contribution);
- 2011-2013 short term measure oriented for improvement of additional tax revenue;

The complete overview of taxation structure in the Czech Republic is graphically described in scheme 1 below.

Scheme 1 Structure of taxation in the Czech Republic



Source: Own construction, data set: <http://www.czechlegislation.com/en/taxes>

3.2 Tax mix in the Czech Republic

Tax mix characterizes the structure of the tax system in a particular country and shows us the share of individual taxes in the total tax revenue of the state. It can be also a measurement for us which kind of taxes are preferred to collect and which ones are just marginal in terms of government revenues. In long run we can follow trends and changes in tax mix. Nowadays trend in Europe is to shift tax burden on labor in form of income tax and social contribution to indirect taxes such as value added tax or shift burden on capital. Excessive burden on labor is one of the main issues which caused economic downturn across the Europe (Assunção, et al., 2014).

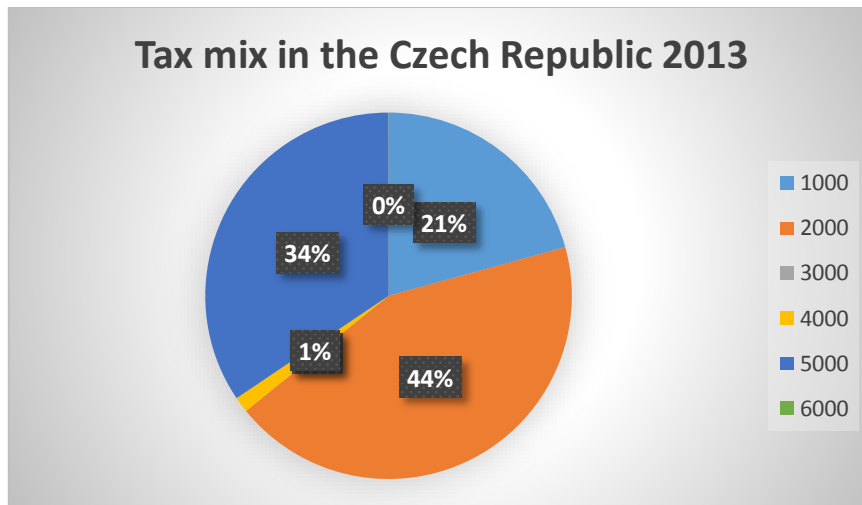
OECD has created a classification for objectivity and easier international comparison of tax mix of individual countries. The table extensive classification can be found in supplement

The classification consists of following six major categories¹:

- 1000 taxes on income, profits and capital gains
- 2000 contribution to social security
- 3000 taxes on payroll and workforce
- 4000 property taxes
- 5000 taxes on goods and services
- 600 other taxes

¹ Accessible at: <http://www.oecd.org/ctp/tax-policy/revenue-statistics-tax-structures.htm>

Graph 1 Tax mix in the Czech Republic in 2013



Source: own construction, data set: OECD Revenue Statistics – comparative tables 2013

The previous graph 1 shows the tax mix structure in the Czech Republic. As can be seen from the chart the biggest share of tax revenues is generated through the variable 2000 contribution on social security which account for 44 % of total tax mix. This figure is excessive and even recommended by the European Commission² underlining this problem. This figure is a nearly 12 percentage points above EU-28 average. The European Commission see the solution in shifting away from labour taxation to other areas such as an environmental and recurrent housing taxes which does not have detrimental effect for economic growth of the country. Both these taxes are really marginal in the Czech Republic. Furthermore, comparatively high burden on labour create an incentive for bogus self-employment contracts which is called “Švarc system”. As a result, less revenues collected for the Treasury and the Shadow economy is flourishing. The second strongest component of the tax mix is 4000 taxes on goods and services accounted for 34 %. The group is mainly represented by value added tax. The last significant share belongs to 1000 taxes on income, profits and capital gains accounted for 21 % in the graph. Taxes on income can be broken down into 1100 income of individual and 1200 corporate income. Individual income stand for 11 % and corporate income for 10 %. Revenues from an individual income tax is

² European Commission Recommendation 2014 access at: http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_czech_en.pdf

way below the average of OECD countries which accounted for 28.5 % in 2014. The rest of taxes are minor in terms of tax mix.

3.3 Direct taxes in the Czech Republic

3.3.1 Personal income tax and social contribution

The tax mix importance of direct taxes declines gradually. However, direct taxes still generate major revenue for the government. Hence, personal and corporate income tax is described thoroughly in this section. Since personal income is not burdened just by taxation but also by social contribution both fundamental payments will be described in this chapter. Second reason for that both personal income tax and social contribution will be collected together in single collection point in near future. This ambitious project of single collection point has been frequently discussed recently and it will be mentioned in further chapter.

Personal income tax (henceforth referred to as PIT) is considered in most of developed economies for the most important one. The tax is considered to be most complex, fair and economically effective but its computation is a slightly difficult. Since this tax take into account a social status of the taxpayer. The tax is a tool for redistribution of income from wealthy members of society to less affluent individuals. This is carried out by tax reliefs and tax credits which are different for every taxpayer (Vančurová, 2014)

However, this tax is the least favourable among taxpayers. From macroeconomics point of view, PIT has a negative impact on supply and demand in labor market. Since the higher taxation is the lower is willingness to work and less money can be saved by taxpayers. This chapter is comprehensive and descriptive in order to provide solid framework for the case study in the empirical part.

3.3.1.1 Taxpayers, tax period

Tax period for PIT is set for a calendar year. According to Czech legislation there is difference between residents and non-residents as taxpayer³:

³ § Czech Legislation Act No. 586/1992 Coll. On Income Taxes

Resident taxpayers is an individual who has a residence address in the Czech Republic or reside in the territory of the Czech Republic at least for period of 183 days (unless purpose of stay is medical treatment or study) in the relevant calendar year. Tax residents has unlimited tax liability. This imply that the residents are subject to PIT on income which arise from sources both in the Czech Republic and abroad.

Non- resident taxpayers has only limited tax obligation which apply only to income from sources in the Czech Republic.

3.3.1.2 Taxable income

PIT is regulated by an act called Income Taxes (Act no 586/1922 Coll). This act classify object of the taxations which are all types of incomes (regardless if it is monetary on non-monetary income) increasing disposable income of a taxpayer.

The object of PIT is according to § 3⁴ divided into 5 following groups

- income from employment and functional benefits §6
- income from self-employment activity §7
- income from capital §8
- income from the lease §9
- other income §10

3.3.1.3 Tax exempt

There are more than 60 sources of income which are exempted from income tax. The scope of the thesis do not allow to elaborate on all kind of sources, hence main sources in this category are summarized as follow:

- social incomes and transfers (unemployment benefits, old-age pension, stipend)
- gratuitous income (gift, inheritance)
- income generated from sell of movable asset (car if not in register of company)
- income from damage compensation (do not increase income of taxpayer)
- some incomes from lotteries

⁴ § Czech Legislation Act No. 586/1992 Coll. On Income Taxes
available at: <http://www.czechlegislation.com/en/586-1992-sb>

3.3.1.4 Computation of partial tax base

It is essential to compute so called partial tax base for tax base determination. Since different types of incomes (§6-§10) can vary in its applicability and the fundamental principle is levy tax solely on disposable income of the taxpayer. Expenditures which help to generate income must be taken into account. Methodology for determination of partial tax base described by Vaclav Vybihal (2010) can be seen in following table.

Table 1 Methodology for partial tax base determination

| | |
|----------------|--|
| PTB §6 | = $P_c * 1.34$ Where P_c is total gross income and 1.34 coefficient. This coefficient is called "Super Gross Income. The coefficient represent social contribution which is an employer obliged to pay for an employee in form of tax payment to tax authorities. |
| PTB §7 | = $P - V_{dzu}$ Where P are total incomes in in a taxable calendar year and V_{dzu} stand for all expenditures to reach, gain and maintain these incomes. |
| PTB §8 | = P Where P are all inflow incomes in a taxable calendar year. |
| PTB §9 | = $P - V_{dzu}$ Where P are total incomes in in a taxable calendar year and V_{dzu} stand for all expenditures to reach, gain and maintain these incomes. |
| PTB §10 | = $P - V$ Where P are total incomes in in a taxable calendar year and V_{dzu} stand for all expenditures to reach of these incomes |

Source: own construction, data: (Vybihal, 2010, p. 33)

In case of income from self-employment activity §7 and income from lease §9 can partial tax incomes be even in negative values. This can occur when expenses are higher than incomes. Czech legislation is more than modest in revenues acceptability. Although as it can be seen from table above this is not case with income from capital §8 and other income §10 because there are no expenditures. Nevertheless these four partial tax incomes mentioned above can be added together and mathematical result can be negative. We must bear in mind that tax base cannot be lower than partial tax base from income from employment and functional benefits §6 (Vybihal, 2010).

3.3.1.5 Tax reliefs and tax credits in the Czech Republic

Not just nominal tax rate and method of tax computation can vary in different countries but also tax relief schedule and tax credit schedule of a country play an essential role for the tax liability determination. Both these deductible items take into account life circumstances of an individual and decrease his tax base. Furthermore, effective tax rate of PIT is defined by tax reliefs and tax credits. Tax reliefs are regulated by Czech legislation in §15 and tax credits by § 35 Income Taxes (Act no 586/1922 Coll.) The reason for existence of tax reliefs can be found in macroeconomics aims of policymakers which tend to support a certain type of investment, insurance or saving activity and influence behaviour of taxpayers (Široký, 2008, p. 125). Tax reliefs are limited to maximal amount which can be deducted. Tax reliefs are applied before computation of tax liability, whereas tax credits are deducted after determination.

All types of tax credits, reliefs and its maximal limits can be seen bellow:

- value of gift donated to charitable purposes (exceed amount at least 1000CZK)
- value of mortgage interest for housing needs up to 300.000 CZK (state is generally interested in supporting any effort for the self-financing housing)
- Pension insurance contribution up to 12.000 CZK (the Czech Republic is facing population ageing phenomena. Hence, incentive for pension scheme contribution)
- value of life insurance up to 12.000 CZK

Table 2 Overview of tax credits in 2014

| Tax Credit | Annually | monthly |
|--|-------------------|-------------------|
| Tax Credit for taxpayer | 24 840 CZK | 2 070 CZK |
| Tax Credit for taxpayer (pensioner) | 24 840 CZK | 24 840 CZK |
| Tax Credit for spouse – income lower than 68 000 CZK. | 24 840 CZK | x |
| Tax Credit for dependent spouse (holder of disability license) | 49 680 Kč | x |
| Beneficiary of partial disability pension | 2 520 CZK | 210 CZK |
| Beneficiary of full of disability pension | 5 040 CZK | 420 CZK |
| holder of disability license | 16 140 Kč | 1 345 CZK |
| Tax Credit for student | 4 020 CZK | 335 CZK |
| Tax Credit for dependent child | 13 404 CZK | 1 117 CZK |

Source: own construction, data: Act no 586/1922 Coll.

Available at: <http://business.center.cz/business/pravo/zakony/dprij/cast3.aspx>

As can be observed from table 2, the fundamental tax credit for taxpayer is eligible for everyone exceed annual income of 15.000 CZK. The second tax credit in the table 2 so called tax credit for taxpayer (pensioner) is marked in red font because broad discussion and several lawsuits filed to constitutional court has followed after the tax credit abolition in 2013. It was perceived by public and tax agents as discrimination step towards pensioners and the same time do not correspondent with long-term policy statement of government of the Czech Republic about employability of old-age individuals. The outcome of constitutional court was that the step was unconstitutional and beneficiary of pension income can again apply for the credit. Tax credit for depended spouse is in amount of 24. 840 CZK and double amount for spouse with disability. Taxpayer is eligible to apply for tax credit on monthly bases except for credit for spouse which can be used once per year in tax return. Another tax instrument is for the support families with dependent. The tax credit for dependent children was linear with even amount of 13.404 CZK regardless of number of children in 2014. The credit rose for second and third children to 15.804 CZK, 17.004 in 2015. Due to tax difficulty and high financial demand for taxpayer of PIT was created mechanism of tax advance payment. This is also beneficial for the state which receive tax payments on regular basis. An example of tax advance payment from income from employment and functional benefits §6 is shown below.

Table 3 Method of assesing tax advance payment and net wage from income from employment with a one child.

| | |
|--|----------------|
| Gross wage | 19.600CZK |
| * 1.34 social security and health insurance paid by employer | 25.940CZK |
| tax base (rounded up to whole hundreds) | 26.000CZK |
| advance tax payment I (15 % of the tax base) | 3.900CZK |
| -tax deductions (1/12) | 2.070CZK |
| advance tax payment II ≥ 0 | 1.830CZK |
| -tax deduction for dependent children | 1.117CZK |
| -advance tax payment / +tax bonus | -713CZK |
| Gross wage | |
| - health insurance paid by employee (4.5 %) | 882CZK |
| - social insurance paid by employee (6.5 %) | 1247CZK |
| - advance tax payment / + Tax bonus | -713CZK |

| | | |
|----------------------------|------------|-----------|
| = 19.600- - 882 -1247 -713 | Net wage = | 16.758CZK |
|----------------------------|------------|-----------|

Source: own construction

The second most important type from PIT is income from self-employment activity §7. As mentioned in previous section income arising from self-employment can be reduced by expenses associated with reaching and retaining of the income. Although, recording of expenses is strongly regulated and it is costly in term of administration. Due to regressive nature of administration cost (administration cost for a large enterprise is just fraction of its profit whereas for a small enterprise can be significant cost) the Czech legislation enable simplified method of expense recording. This method is just privilege for entrepreneurs not for corporate entities. The principle of the method is recording percentage from self-employment income. This percentage depend crucially on type of activity of self-employment. These rates has been modified by every political establishment in the last decade. Current rates are 80 %, 60 % and 40 % applied according to character of self-employment. For instance 80 % rate is confined to income from agriculture or craftsmanship. Less cost business demanding occupations such as accounts, lawyers are classified in a lower category (Radvan, 2010).

3.3.1.6 Tax system, tax rate

The concept of progressivity with four tax brackets was enshrined in the Czech tax legislation until 2007 in the. The progressive tax structure was replaced by flat tax in 2008. Pioneers of flat tax are Robert Hall and Alvin Rabushka both academics at the Hoover Institution at Stanford University who came up with flat tax in an article for Wall Street journal in December 1981 *“In principle, the flat tax rate is a charge levied at a single percentage rate on the transactions liable to the tax”* (Hall & Rabushka, 2007). Main arguments for flat rate are: simplicity (tax return as simple that fit in “postcard”), credibility (taxpayers are less concerned about tax avoidance due to one single rate), efficiency (scarce resources are devoted to an economy activities which increase a real output of the state).

Flat tax rate is characteristic for Eastern European countries. Currently flat tax system is enshrined in tax structures of Slovakia, the Czech Republic, Poland, Ukraine, Estonia, Latvia, Lithuania, Romania, Serbia, Georgie and even in Russia. However, none of these

countries actually adopted fully Hall and Rabushka's flat tax system because none has opted to tax only consumption. Another feature of the proportional tax system is that average tax rate = marginal tax rate. (Murphy, 2008).

We have to bear in mind that several types of tax rates exist. When we speak about taxes, we often mean statutory imposed tax rate. Statutory tax rate is legally set at 15 % in the Czech Republic. For purpose of the thesis is it essential to provide an explanation for tax rate terminology. The brief explanation can be seen in table below.

Table 4 Interpretation of tax rate terminology

| | |
|---------------------------|---|
| Statutory tax rate | Legally imposed rate PIT 15 % in the Czech Republic |
| Effective tax rate | Actual tax rate, the rate that exist in fact |
| Average tax rate | Ratio which express amount of taxes paid to taxable income |
| Marginal tax rate | Tax rate that applies to additional unit of earned income |
| Implicit tax rate | Tax indicator which measure tax burned levied on different types of economic function (labor, consumption, capital) |

Source: own construction, data: (Hall & Rabushka, 2007)

When we talk about tax rates, we usually refer to statutory tax rates levied on incomes or commodities. However, for our purpose of tax comparison nominal tax rate is not best indicator to use. A high tax rate do not necessary imply high tax payments and vice versa. Tax payments depends mainly on tax base. Hence, effective tax rate of the Czech Republic and Ireland is compared in the case study.

Unlike statutory tax rate, effective tax rate is narrowed by deductible and non-deductible items. So real tax burden on labour is measured by this rate. According to literature (Kubátová, 2011) the effective tax rate should be lower than statutory rate. However, this is not an example of the Czech Republic. In the system of PIT the statutory rate is 15 % but effective tax rate might be higher. The reason is that real taxable income is increased by so called "Super Gross Wage" which represent gross wage plus mandatory contribution paid by employer for employee. The idea of "Super Gross Wage" was implemented in Czech tax system in 2010. This statement will be supported or challenged on our caste study in practical

part of the thesis. The effective tax rate should also show slight progression even in flat PIT in the Czech Republic because since 1 January 2013 all annual incomes exceed amount of 1.277.328CZK (48 times of an average wage which was last year: 26.611CZK *48 = 1.277.3286CZK) is subject to a solidarity tax. The solidarity tax represent extra 7 percent in addition to the standard 15 percent tax rate. The cap of 48 time of an average wage was not established in the Czech legislation randomly. The same cap is set for maximal assessment base of social contribution payments. High income earners has no social contribution liability after exceeding of the cap. Hence, solidarity tax changed this occurrence of unfairness in terms of effective tax rate because high income earners had lower effective tax of PIT prior implementation of solidarity tax in the Czech legislation (KPMG, 2014).

The tax rate does not need to apply in the same way for all economic subjects. The most advanced economies have determined that the most equitable approach is achieved through progressive tax structure as currently applied in Ireland at PIT level. The approach of progressive taxation is based on vertical equity which was first mentioned by Richard Musgrave (Auerbach, 2009). Taxpayers are divided according to their income into various degrees and brackets in progressive tax system. Countless of theories exist which support and justify higher tax burden (not just linearly but progressively related to income) for higher income earners. In case of progression taxation marginal tax rate play an essential role for further decision on additional income earned.

3.3.1.7 Social security contribution in the Czech Republic

As stated in previous chapter SSC represent the strongest component of tax revenues. Hence, the mandatory contribution will be summarized in this chapter. It is distinguished social security contribution and health insurance payments in the Czech Republic.

Although social contribution does not meet requirements of tax definition due to its equivalency and purposefulness. The higher contribution is to the system the slightly higher is entitlement for resources from the pension fund. The mandatory contribution is assumed as tax because it is part of tax mix, tax quote and other indicators which are fundamental for purpose of the thesis. In terms of tax theory the social contribution has a basic feature of tax which is attribute of involuntariness. In other words, obligation of make the payment.

The mandatory contribution is consist of several subsystems (Vančurová, 2014):

- health insurance
- sickens insurance
- pension insurance
- unemployment insurance

Two types of payments flow into mandatory contribution system. The first payment comprise solely of health insurance paid by employee, employer and the self-employed. The second payment is more complex and consist of sickness insurance, pension scheme and support of state policy employment. Assessment base which is equivalent of tax base is used for computation of social contribution. The assessment base is framed by minimal and maximal limits. For instance minimal assessment base of health insurance for the self-employed is lay down as 50 % of an average wage in national economy multiplied by health insurance rate. Since average wage was set by the Czech statistical office to 26.611CZK in 2014, we can make computation $26.611 * 0.5 * 0.135 = 1.797\text{CZK}$ rounded up. So the self- employed must contribute to health insurance at least 1.797CZK on monthly basis. There is difference for computation of minimal assessment base of employee which is bound to a minimal wage instead of an average wage. The responsibility for payments of SSC is assigned to employer in terms an employment relationship. The employer bear on his shoulder 2/3 of mandatory contribution accounted for 34 % of gross earnings for each employee. On the other hand the employer must forgone 11 % from his gross earnings in favour of SSC (PWC, 2014). All types of rates are summarized in the table 5 underneath.

Table 5 Rates of health and social contribution

| Taxable entity | Health insurance | Sickness insurance | Pension scheme | Unemployment insurance | Health Insurance in total | Social insurance in total |
|-----------------------|-------------------------|---------------------------|-----------------------|-------------------------------|----------------------------------|----------------------------------|
| Employee | 4.5 % | - | 6.5 % | - | 4.5 % | 6.5 % |
| Employer | 9 % | 2.3 % | 21.5 % | 1.2 % | 9 % | 25 % |
| Self-employed | 13.5 % | - | 28 % | 1.2 % | 13.5 % | 29.2 % |

Source: own construction, date: Czech Social Security Administration [online]

3.3.1.8 Tax collection of personal income tax

An individual is obliged to file a tax return by 31st of March. This deadline for submission is extended until 30 of June, on condition that the taxpayer utilize service of a tax adviser. If the individual receive solely income from employment §6, then year-end tax reconciliation is very frequently undertaken by the employer. However, PIT is paid in monthly advance payments due to reduction of financial strain caused by one single payment (Act no. 586/1992 Coll., on income taxes, as amended).

3.3.2 Corporate income tax

Corporate income tax (CIT) is one of youngest tax in taxation structures. Theory and characteristic features related to CIT in the Czech Republic might be found in various literatures. For instance *Daňová teorie a politika* (Kubátová, 2014) and *Daňová teorie s praktickou aplikací* (Široký, 2008). Both authors pointed out that CIT in general is subject of controversy. Reason for the controversy is that CIT is a “anachronism” and has no economic justification because all incomes from corporate taxation ultimately result in taxation of individuals, and thus double taxation of corporate profit occur as individuals are the same time taxed at the personal level on dividends and capital gains. However, this discussion about abolition of CIT is solely at theoretical level. Since CIT is enshrined in tax structures most of developed countries (Široký, 2008).

On the contrary, supporters of CIT challenge the previous statement. Many economists claim that main reason for imposing CIT is that the tax play an important withholding role and acting like “backstop” to PIT. Second explanation for levying CIT is that is capture part of public benefits of public expenditures on goods and services which are offered and used by corporation (infrastructure, legal and regulatory system, good qualified labour force etc.) Corporate income tax acts also as withholding tax on equity income earned by non-residents shareholders. This income would otherwise escape of taxation in the source country. CIT is as well most frequently used tool for tax competition in order to attract a foreign direct investment (FDI) into economy (Deveraux, 2007).

3.3.2.1 Tax determination of corporate income tax

Payers of corporate income are statutory define by §17 in Act no. 586/1992 Coll as legal entities who are not natural person. CIT tax base is determined from the accounting profit of a business entity. In other words business revenues, excluding income not subject to tax and exempt income is narrowed by the cost which undoubtedly incurred to generate, assure and maintain business income, while respecting accruals in taxable period. The cost are represented for instance by depreciation of tangible and non-tangible assets, SSC made by an employer on behalf on an employee, expenses for business travel, use of public transportation, fuel consumed by company vehicle etc.

Following table summarize all steps for computation of CIT.

Table 6 Methodology for computation of CIT

| +/- | Accounting profit of a corporation |
|-----|--|
| + | Items increasing tax base |
| - | Items decreasing tax base |
| = | Tax base before adjustment |
| - | Exempt income subject to tax in abroad |
| = | Adjusted tax base |
| - | Deduction of tax loss |
| - | Deduction of cost |
| = | Reduced tax base |
| - | Deduction for non-business entities |
| - | The value of the gift |
| = | The tax base |
| * | Tax rate |
| = | Tax |
| - | Tax credits |
| = | Tax after tax credit = tax base |

Source: own constriction, data: (Dvořaková, 2014)

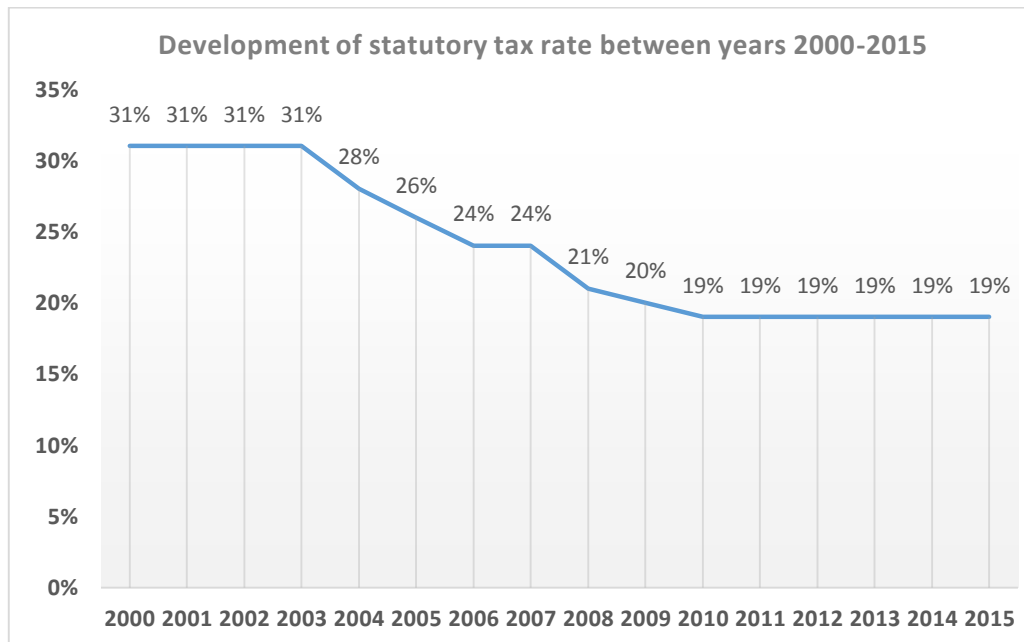
Legislation related corporate tax is complex and many deductible items are prove of complexity and difficulty of computation of CIT. It is not possible to provide an explanation which cover all the items. Therefore, for purpose of our work tax credits will be mentioned in this section and depreciation allowances for tangible and intangible fixed assets which can highly influence a company profit will be pointed out in the comparison part of this thesis.

Tax credit represent one of many corrections elements which provide incentive for business entities. Tax credits for corporation are regulated in Czech legislation according to §35 of the Income Tax. Two types of tax credits exist: First one is for business entities which hire employees with disability (16.000 CZK for partial invalidity and 60.000 CZK for full invalidity). Second one is for firms with promise of investment incentive (Šíroký, 2014, p. 231).

3.3.2.2 Tax rate and trend of Corporate Income Tax

Current statutory corporate tax rate is lay down for 19 % and this rate applies on base narrowed by mentioned items. For some mutual, investment and pension funds paid by pension institution is tax rate reduced to 5 %. It should be as well mentioned that CIT in doubled tax in the Czech Republic. Since the tax is firstly levied on corporation profit and shareholder’s dividend are taxed afterwards. Development of CIT tax rate and trends in last decade are ilustrated in folowing section. This will provide a comprehensive picture of CIT in the Czech Republic.

Graph 2 Development of statutory tax rate between years 2000-2015 in the Czech Republic



Source: own construction, data: Ministry of finance of the Czech Republic
 Accesible at: <http://www.mfcr.cz/en/>

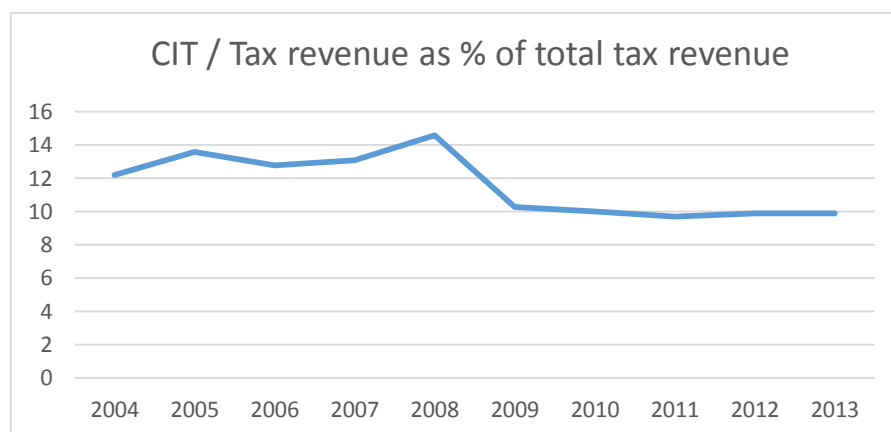
The data from the graph above show that CIT has been declining during the last decade. Statutory rate decreased from 31 % imposed on firms in 2000 to current rate of 19 %. This sharp reduction means 12 percentage points drop from year 2000 until present. Policymakers in the Czech Republic are aware that our country is not isolated. Thus, this downward trend is driven by tax competition forces among countries. The main purpose of the reduction is to maintain or create an attractive investment climate, not only for domestic investors which might relocate their business into lower-tax jurisdictions but even for a new prospect multinational corporations. This trend has been broadly discussed and analysed by Michael Peter Devereux and Peter Sorensen in their empirical paper called “Fundamental Reform of Corporate Income tax” (Devereux & Sørensen, 2007) which was carried out for OECD tax policies. The trend race-to-the-bottom of CIT is characteristic not just for the Czech Republic but for all OECD countries.

According to the Devereux’s paper (Devereux & Sørensen, 2007) statutory CIT rate vary across different-size countries. There is a strong positive correlation between size of a country (GDP wise) and the level of its corporate tax. The corporate tax rate in large-sized countries was on average 4.7 percentage point higher than medium-sized countries and above 11 percentage point than in small-sized OECD countries in 2007. Although, corporations might prefer its production in a country with a higher CIT rate because of availability of qualified labor, infrastructure and advanced technology.

The lower CIT rate levied on companies should automatically diminish corporate tax revenues. However, the opposite is true. Despite the strong reduction most analyzed countries have kept pace or even exceed the ratio of CIT in relation to total tax revenues. It can be expressed as CIT/ total tax revenues (Devereux & Sørensen, 2007). No decrease in corporate tax revenue can be partly explained in many ways. The main argument which can offer an explanation is that less generous tax allowances and especially reduction in depreciation for plants and machinery was implemented by governments at the same time. So the reduction of nominal tax rate played just psychological role for companies. Another argument is suggested by Auerbach (2006) that lower corporate tax rates have increased the incentive to shift income from non-corporate into existing corporation, thereby increasing

relative size of the corporate sector. Lastly, many countries intensified their effort in regards to tax audits and other stricter its tax enforcement policies in order to reduce corporate tax evasion behavior. All these arguments will be challenged in an example share of CIT in total tax revenues of the Czech Republic in following graph.

Graph 3 CIT/ Tax revenue as % of total tax revenue in the Czech Republic for given years



Source: own construction, data set: OECD Revenue Statistics – comparative tables 2013

It can be seen from the graph 2 above that the fall in statutory CIT was fairly continuous between years 2004 to 2008 which represented the drop more than 7 percentage points. However, share of CIT in total tax revenue which is illustrated in graph 3 moved upward between years 2004-2008. The graph 3 support arguments that there is no negative correlation between variables statutory tax rate and share of CIT in total tax revenues. The graph 3 also point out that revenues from corporate are highly influenced more than any other taxes by condition of the economy. The Czech economy went through deep economic recession between years 2008-2010 which caused 4 percentage point fall of CIT in relation to total tax revenue.

3.4 Taxation system in Ireland

When we speak about Irish economy we refer period after 1922. Prior this period it would be more accurate to speak of it as sector of the United Kingdom (UK) economy. Since Ireland suffered centuries of Colonialism. Even after the independence Ireland has been economically bounded with UK. Ninety percent of export flowed into UK and imports were almost entirely from UK which is something unimaginable (Bielenberg & Ryan, 2000). Ireland was marked as “granary” for UK and large-scale industrialization was never a feature of the Irish Economy. Ireland was labelled as sick man of Europe or Third World country in Europe (McAleese, 1999). All macroeconomics indicators ranked Ireland in bottom of poorest European countries. The country was characteristic for its strong protectionism policies which led to isolation of the country from FDI.

The first significant change for Irish economy is dated in 1973 when Ireland joined European Economic Community (EEC). The membership of EEC had more impact than any other external or internal factors on the shape and performance of the Irish economy. The economic integration provided an easy access to huge market of 250 million people, giving Ireland the opportunity to reduce economic reliance on UK market. Furthermore, Ireland as agriculture oriented economy was net beneficiary of grants from Common Agriculture Policy (CAP). Total EEC transfers rose from 2 percent of Gross National Product (GNP) in 1973 to 8 percent in 1991. Alongside with Structural Funds received from Brussel these direct transfers contributed to laying the foundation of Ireland’s prosperity. (Cambel, 2003)

Current form of tax system in the Republic of Ireland was formed by crucial fiscal and economic policies undertaken by Fianna Faial government in 1987. The most important reform in modern Irish history titled the Tallaght strategy was implemented at the end of year 1987. The main aim of the reform was to cut government spending, to decrease interest rates and modify the tax system. In terms of taxation, first step was to eliminate index tax bands for inflation. This implied that the tax brackets remained at the same cash level, while inflation rose. Thus lowering tax brackets in actual terms and generate more from income tax revenues. The second in tax modification was incrementally lower PIT from the standard rate of 35% (top rate 58 %) in 1987 to standard rate of 24 % (top rate 46 %) in 1997, while

also raising tax band. The reduction in taxes left the public with more disposable income, thus boosting purchasing parity, thereby fuelling economic growth (Cambel, 2003).

Another extremely controversial part of Tallaght Strategy was declaration 9 month long tax amnesty in 1988. During this strict nine month period (January 1st – September 30th) both individuals and business entities could make payments for unpaid taxes in past without any sanction for an unlawful behaviour. Initially this step was perceived unwise by public tax professionals due to giving encouragement to dishonest taxpayers. However, revenues received in tax returns exceeded everyone expectations (estimated forecast was around £30 million additional sources for the Treasury). The total figure climb up to £500 million eventually. Apart for additional source for the Treasury, the tax amnesty was important psychologically for individual and especially for the self-employed, were brought into tax compliance which led in reducing of the government expenditures for the tax enforcement authorities in following years (MacSharry & White, 2000).

Tax reforms in Ireland was not concerned merely about personal taxation, corporate tax rate was just as important, if not more. CIT rates was continuously reduce from 50 % up to 12.5 % by 2003. Irish government invested a substantial amount of money into education, thus endowment of human capital per workers was increased dramatically. All these key elements such as: well-educated workforce (highest ratio of University graduates in Europe), low-cost and English speaking labour, favourable demographics (Ireland is “bridge” for US companies to the Europe) and most importantly business-friendly environment in terms of taxation spurred phenomena of “Celtic Tiger”. The phenomena indicate an era from years of 1995-2008. Ireland outperformed most of the OECD economies in terms macro-economic indicators which are widely utilized for evaluation of the performance of an economy. Indicators can be seen in the table 7 below together with values recorded in 2014. This highly impressive macro-economic results lasted until 2008, albeit the economy was artificially sound since 2005 due to boom in a property and construction market. Property overvaluation which led to creation of the asset bubble. The bubble was not sustainable in long-term. The fall of the Celtic Tiger was initiated by three elements of crisis at the same time (fiscal, banking and property crisis). Irish banks nearly collapsed, the budget moved swiftly from surplus to excessive deficit and rate of unemployment tripled to nearly 14 per

cent between years 2008-2010. The Irish economy has slowly picked up and first non-austerity budget 2015 was approved this year (Murphy, 2013).

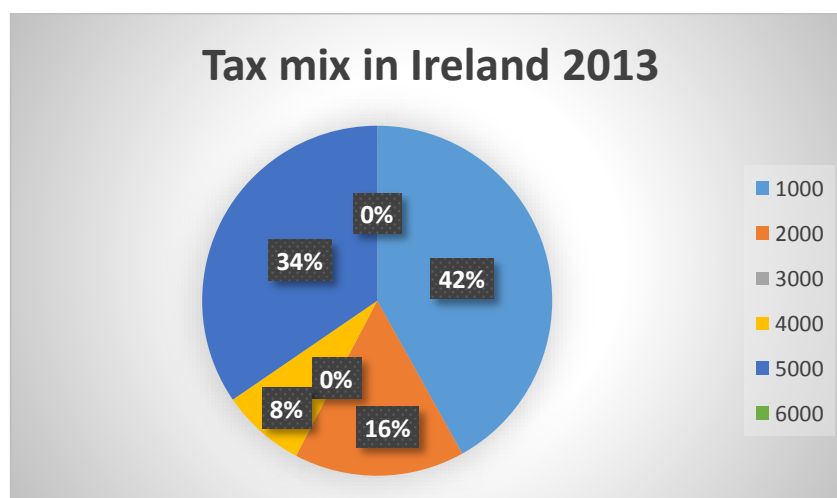
Table 7 Overview of economic indicators of Ireland in 2014

| Indicators | Values in 2000 | Values in 2014 |
|---|-------------------|-------------------|
| Gross Domestic Product (Constant Prices) | 120.069 Billion € | 165.532 Billion € |
| Gross Domestic Product (Current Prices) | 105.775 Billion € | 173.53 Billion € |
| Growth of Gross Domestic Product | 10.739 % | 1.072 % |
| GDP Deflator | 88.095 | 104.832 |
| GDP Per Capita (Constant Prices,) | 31,684.55 € | 35,664.37 € |
| GDP Share of World Total (PPP) | 0.265 % | 0.223 % |
| Inflation (Average Consumer Price Change %) | 5.254 % | 1.272 % |
| Unemployment Rate (% of Labour Force) | 4.252 % | 13.718 % |
| Total Government Gross Debt (% of GDP) | 35.136 % | 120.227 % |
| General Government Balance (% of GDP) | -0.358 %. | -3.248 %. |

Source: own construction, data: Economy Watch

3.5 Tax mix in Ireland

Graph 4 Tax mix in Ireland 2013



Source: own construction, data set: OECD Revenue Statistics – comparative tables 2013

Total tax revenues was 48.9 billion Euro in 2013. The figure is similar to total tax revenue in the Czech Republic (50.4 billion Euro)⁵ at the same measured year. As can be seen from

⁵ Valid exchange rate 20 of February 2015 1 Euro= 27.505 CZK

available at: https://www.cnb.cz/en/financial_markets/foreign_exchange_market/exchange_rate_fixing/daily.jsp

the graph above the most significant component of total tax revenue is generated through income taxes which make up 44 %. If the figure is broken down PIT is accounted for 33.1 % and CIT is accounted only for 8.79 %. The low CIT rate is chiefly caused by favourable tax conditions given to multinational corporations such as Apple, Google, Amazon etc. in order to bring employment into Ireland. Social security contribution, by contrast, is accounted just for 16 % in total tax revenues in Ireland. On the other hand property taxes are considerably more important with 8 % share in total tax mix compare to unusually low percentage in total tax revenues represented only by 1 % in the Czech Republic.

3.6 Personal Income tax in Ireland

PIT is the corestone of the Irish system of taxation. Hence, this chapter addresss income tax framework in detail manner.

3.6.1.1 Tax Payer, Tax person

Income tax is payable by all individuals from all sources of income in applicable tax year. With effect from 1 January 2002, the tax year is equivalent to the calendar year, thus from January 1st to December 31st. The extent of an individual's liability to Irish income tax depends on status of the individual. The residency status for tax purpose is determined in similar manner as in the Czech Republic. The individual is regarded as resident if she/he is present for certain period in Irish territory. One of following conditions is required to be fulfilled in order to obtain residency status in Ireland (Revenue, 2014):

- If an individual spend at any time or several times in the year of assessment for a period which **in total amounts to 183 days or more**; or
- If an individual spend at any time or several times in year of assessment and the preceding year for a period which **in total amounts to 280 or more**. For instance an individual spends 140 days in first year and 140 days in following year than Irish residency status is acquired.

The purpose of electing to be Irish-resident is that the individual is fully entitled to Irish personal allowances, reliefs and tax credits.

3.6.1.2 Taxable income

Income is classified into different schedules for tax purposes in Ireland. Originally six schedules were implemented in tax legislation. However, Schedule A which was concerned with rent taxation from property irrespective of whether or not was the property actually rent out was abolished in 1969. The current legislation ensures that rents only actually received are subject to tax. Similarly, Schedule B which was concerned with measuring income from farming as the imputed rental value of the land was abolished at the same year. Schedule C is concerned with taxes imposed on banks and other agents which is not related to source of taxpayer income (Gaynor, et al., 2012). Other various income classifications are summarized in the table below.

Table 8 Income classification in Ireland

| | | |
|-------------------|----------|--|
| Schedule D | Case I | <ul style="list-style-type: none"> ▪ Trading of self-employed sole traders and partners |
| | Case II | <ul style="list-style-type: none"> ▪ Professional and vocational income of self-employed |
| | Case III | <ul style="list-style-type: none"> ▪ Income from investment (not subject to deduction of tax at source) ▪ Income from foreign employment |
| | Case IV | <ul style="list-style-type: none"> ▪ Irish deposit interest ▪ Covenant income ▪ Miscellaneous sources of income not specifically taxable under any other case or Schedule |
| | Case V | <ul style="list-style-type: none"> ▪ Rents from Irish Property |
| Schedule E | | <ul style="list-style-type: none"> ▪ Income from Irish employments and directorship ▪ Irish pension |
| Schedule F | | <ul style="list-style-type: none"> ▪ Dividends from Irish resident companies |

Source: own construction, data: (Irish Taxation: Law and practise, 2013, p.254)

As can be seen from the table above income from employment is regulated in the Schedule E. Therefore, when we make computation of PIT in practical part of the thesis, we refer to source of income charged under the Schedule E in Irish taxation system. Most employees pay tax liability through **Pay As You Earn (PAYE) system**. This implies that tax is directly deducted from an employee wage by employer according to length of payroll period, i.e. weekly, fortnightly or monthly. Afterwards, the employer pays tax liability to competent the Revenue Commissioner at the end of every month (Revenue, 2014).

3.6.1.3 Tax Allowances and tax credits in Ireland

Tax allowances and tax credits reflect personal circumstances of a taxpayer and they have a crucial impact on the taxpayer's tax liability. Thus, this chapter will deal with numerous of deductible items which are available in Irish tax system. The deductible items can be divided into four subgroups (Gaynor, et al., 2012):

- Personal tax credits – non-refundable
- Non-personal tax credits – non refundable
- Refundable tax credits
- Reliefs available us deduction

Table 9 Tax Credits for 2015 and 2014

| Tax Credits | 2015 | 2014 |
|--|----------------|----------------|
| Single Person | 1.650 € | 1.650 € |
| Married Person or Civil Partner | 3.300 € | 3.300 € |
| Widowed Person: | | |
| • with dependent child(ren) | 1.650 € | 1.650 € |
| • without dependent child(ren) | 2.190 € | 2.190 € |
| • in Bereavement Year | 3.300 € | 3.300 € |
| Year one following Bereavement | 3.600 € | 3.600 € |
| Year two following Bereavement | 3.150 € | 3.150 € |
| Year three following Bereavement | 2.700 € | 2.700 € |
| Year four following Bereavement | 2.250 € | 2.250 € |
| Year five following Bereavement | 1.800 € | 1.800 € |
| Home Carer's Tax Credit | 810 € | 810 € |
| Incapacitated Child | 3.300 € | 3.300 € |
| Age tax Credit over 65: | | |
| • single | 245 € | 245 € |
| • married | 490 € | 490 € |
| Employee (PAYE system) | 1.650 € | 1.650 € |
| Blind Person | 1.650 € | 1.650 € |
| Dependent Relative | 70 € | 70 € |

Source: own construction, data: (Gaynor, et al., 2012, pp. 306-312)

The most frequently claimed tax credits are in bold font in the table above. It can also be seen from the table that Married person or Civil Partner are eligible for double figure of the tax credit in amount of 3.300 €. Since Irish tax legislation reflect the tax status of couples who entered into Marriage or Civil Partnership and provide them joint tax assessment (T. Conlan, 2013).

Credit system is well arranged and comprehensible for Irish taxpayers and mainly due to following two tools which were implemented by Revenue Commissioners (tax authority in Ireland). First tool is a certificate of tax credits and standard rate cut-off point (SRCOP). This document is issued by tax authorities based on information provided in an application form 12A. Subsequently, the certificate is sent to the employer with all listed entitled tax credits of an employee. Second helpful tool for employees is sophisticated anytime online system. This interactive platform offer an individual who pay taxes under PAYE system various benefits. For instance the taxpayer can check history of tax liability in previous years, overview of claimed an available tax credits, validity of information in own profile or declare additional income. Furthermore, it is most convenient way of communication with tax authorities who promptly respond to your request through the online application. I found the online system an immensely helpful during my stay in Ireland. The overview of tax credits in PAYE anytime system is illustrated in the picture 1 below.

Picture 1 PAYE Anytime online system



Source: available at: <http://www.revenue.ie/en/online/payee-anytime.html>

3.6.1.4 Tax Rates and Rate bands

There is progressive taxation enshrined in Irish taxation system. The first part of income, up to certain amount is taxed at 20 %. This percentage is known as standard tax rate and the amount that applies to is known as standard tax band. The income beyond the standard tax band was taxed at 41 % until 2014. The top rate of income tax was reduced by one percentage point to 40 %. Another important change in budget 2015 from taxation point of view is that standard tax band rose by 1000 € across all groups (Budget, 2015). The tax adjustments will be beneficial for lower and middle income earners who will see an increase in take home pay due to reduction of their marginal tax rate. Similarly to tax credits, the tax bands are determined by personal circumstances of a taxpayer. The following table 10 illustrate tax rates and tax bands which apply for years 2014 and 2015.

Table 10 Tax rates and tax bands for 2014 and 2015

| Personal Circumstances | 2014 | 2015 | Rate |
|--|---------------------|---------------------|-------------|
| Single, Widowed (without qualified children) | 20 % up to 32.800 € | 20 % up to 33.800 € | Standard |
| | 41 % above 32.800 € | 40 % above 33.800 € | Higher |
| Single, Widowed (Qualifying for Child Carer Credit) | 20 % up to 36.800 € | 20 % up to 37.800 € | Standard |
| | 41 % above 36.800 € | 40 % above 37.800 € | Higher |
| Married, Civil Partnership (one of partners without income) | 20 % up to 41.800 € | 20 % up to 42.800 € | Standard |
| | 41 % above 41.800 € | 40 % above 42.800 € | Higher |
| Married, Civil Partnership (both partners with taxable income)* | 20 % up to 65.600 € | 20 % up to 65.600 € | Standard |
| | 41 % above 65.600 € | 40 % above 65.600 € | Higher |

Source: own construction, data: (Budget, 2015)

* The maximum standard rate tax band for married couple with one spouse earning is 42.800 €. However, where both partners are assessed to income tax, the standard rate tax band may be increased up to maximum of 65.600 €, on condition that the partner with lower income has assemble income of at least 23.800 €. Otherwise the maximum rate band of 65.600 € is not utilised. For instance if the spouse earning 10.000 € than 20 % tax thereon is applied only up to 52.800 €. The rest of family earning are taxed at higher rate.

There are tax exemptions for individuals with low income in Irish tax system. An individual is exempt from tax liability if do not exceed following amounts:

- 18.000 € - single person / widower at 65 age or over
- 36.000 €- married person / civil partnership at 65 age or over

* The limits above are just for individuals at aged 65 or over

The above exemption limits are increased by 575 € for the first and second dependent child maintained by individuals and by 830 € for each dependent child in excess of two.

3.6.1.5 Income tax computation

Schedule E

| | |
|---|----------|
| Gross wage | X |
| Less Charges | X |
| = Total income | X |
| Less deductible reliefs | X |
| Taxable income | X |
| Tax theoron 20 % up to certain income than 41 % | X |
| Less tax credits | X |
| Net income tax due (refundable) | X |

3.6.1.6 Social Insurance in Ireland

In addition to PAYE, both full-time and part-time employees alongside with self-employed are obliged to make payments of social contribution into Social Insurance Fund.

Only limiting condition compulsory insurance is that age of the payer must be over 16 years of age and under 66 (Citizens Information, 2014).

The Social Insurance Fund is made up of a current account and an investment account managed under auspices of the Minister for Social protection and the Minister for Finance respectively. The main function of current account is finance social needs on regular basis, whereas the main purpose of the investment account is maintained individual savings for his/her old age pension. The investment account is under rigid regulations and an audit of the account is carried out annually. Subsequently, the audit must be approved by House of the Oireachtas⁶.

Social insurance is called Pay Related Social Insurance (PRSI) in Ireland. As can be derived from the name the amount of social insurance to be paid is related to reckonable earnings and type of occupation. The nature of occupation is classified in different classes which are considered below (Irish Taxation: Law and practise, 2013, p.567-569):

Class A

This class comprises employees in commercial, service and agriculture employments, where contract agreement between an employee and an employer is signed and minimal remuneration is at least 38 € per week. PRSI under this class provide cover for all social welfare benefits.

Classes B, C, D and H

All these classes apply to permanent and pensionable public sector employees. For instance civil servants, registered doctors and dentists employed in the Civil Service, Gardaí (name of police in Ireland), nurses, teachers, local authority staff, defence forces etc.

⁶ National Parliament (House of the Oireachtas) consist of Lower house (Chamber of Deputies) and Upper house (The Senate).

Class J

This class comprise employed persons over 66 years of age and for employees achieving reckonable earning under 38 € per week. For instance temporary workers.

Class K

This class is used for individual who are not incurably employed and therefore not liable to PRSI. For instance solicitors and judges.

Class S

Last class is dedicated to directors and self-employed contributors.

Real fact is that most of employees make payment of social contribution within Class A. Since this class ensure full cover for social welfare benefits such as illness benefits, paternity benefits, job seeking benefits, disability benefits, old age pension etc. Hence, limits and percentage of PRSI for employee and employer illustrated bellow for Class A.

Table 11 PRSI contribution class A

| | Employer | Employee |
|---|-----------------|-----------------|
| Income under 356 € per week (reduced rate) | 8.5 % | none |
| Income over 356 € per week (normal rate) | 10.75 % | 4 % |

Source: own construction, data: (Irish Taxation: Law and practise, 2013, p.578)

An employee who has earning less than 356 € weekly (1.424 € monthly) is not obliged to make payment of PRSI contribution. However, the employee can claim social welfare benefits because the employers' share of the contribution is payable as reduced rate. If income exceed 356 € per week than standard rates of 4 % for employee and 10.75 % for employer are payable by the employer who is has statutory liability to directly subtract this rate from employee's wage (Citizens Information, 2014).

PRSI is computed in payroll on a non-cumulative basis, thus the computation of PRSI due each week or month is done on same basis as in the week1/month1 procedure.

Income levy which was special type of additional tax and health levy (statutory health contribution) was abolished since 1st January 2011. Both of these instruments were replaced by Universal Social Charge (henceforth referred to as USC). All individuals are liable to pay the USC if their relevant income exceeds exempt threshold. The exempt has been continuously increased from a year 2011 onward. The limit was 4,004 € in 2011 and more than doubled to amount of 10,036 € in following year. However, USC was amended in Budget 2015 again. The entry point to USC has been raised to 12,000 €. USC rate is computed from gross wage in progressive manner as illustrated in following table 12 (Budget, 2015).

Table 12 Standard rate of Universal Social Charge for 2014 and 2015

| Rate 2015 | Income band 2015 | Rate 2014 | Income band 2014 |
|----------------------------|---|----------------------------|-----------------------------------|
| 1.5 % | on the first 12.012 € | 2 % | on the first 10.036 € |
| 3.5 % | on earnings between 12.012 € and 17.576 € | 4 % | the next 5.980 € |
| 7 % | on earnings from 17.576 € to 70.044 € | 7 % | over 16.016 € |
| 8 % | on earnings over 70.044 € | none | none |
| 11 % | Self-employed income over 100.000 € | 10 % | Self-employed |

Source; Own construction, data: Budget 2015

3.7 Corporate income tax

Companies in Ireland pay corporate income tax on their “profits” and have done so since year 1976. This year the Corporation Tax Act 1976 was passed and corporation tax introduced. The term profit stand for income and chargeable gains. The extent of a tax liability from a company profit depend whether or not the company is resident in Ireland. Non-resident companies are liable to solely Irish source income, whereas resident companies are liable to CIT on worthwhile profit (Gaynor, et al., 2012).

However, main breakthrough in terms of CIT was implemented by Irish government headed by minister of finance Michael Noonan in Budget 2015. So called “Double Irish” loophole which enabled multinational enterprises such as Google, Apple, Oracle, Microsoft etc. pay very little CIT in range of 1-2 %. Since, subsidiary Google Ireland Ltd. was registered in Ireland but administrated in tax heaven country Bermuda. This offshoring tax scheme will be abolished with effect from 1st January 2015 for new companies, while existing companies gaining transition period until 2020. Since that residency rules will change to require all companies registered in Ireland to be also tax resident (Budget, 2015).

3.7.1.1 Tax rates

CIT was one of main symbols of economic prosperity during “Celtic Tiger” era and the lowest statutory CIT rate in EU is still fundamental driving force for inward foreign investment. Tax rates and pro-investment incentives are described below:

12.5 % standard rate on trading income

This statutory rate is in effect from 1 January 2003 onwards see in the graph 5 below. Many European countries labelled statutory corporate tax rate as “tax heaven” for multinational companies. Even though Ireland received EU-IMF financial bailout in amount of 85 billion € for the period 2010-2013 and many strict fiscal conditions has been set by IMF in order to provide the financial assistance to Ireland. Irish government vigorously defended low statutory tax rate and eventually the rate has been untouched by these conditions (Economic and Financial Affairs, 2014).

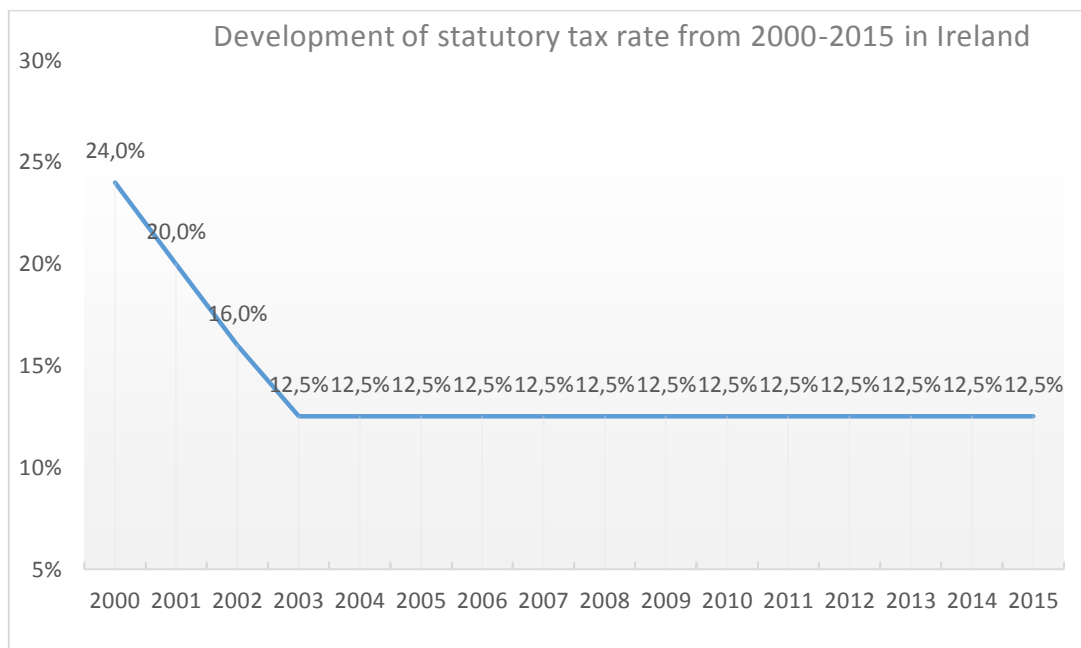
25 % higher rate on passive non-trading income

This part of income is related to specific activities (income from foreign dividends, interest income, investor's royalties or rent income from land and buildings).

Apart from low statutory rate other pro inward investment incentive existed. However, due to EU pressure some of the incentives had to be withdrawn prematurely. Some examples can be seen below:

- Export sales relief (0 %), which was considered incongruous with the Treaty of Rome;
- 10 % reduced rate for manufacturing firms, which applied until 31 December;
- Shannon Free Airport Zone which 10 % rate applied until 31 December 2005. This reduced rate helped to set up the biggest multi-sectoral business park and the largest cluster of FDI outside of Dublin. Nowadays, there are based more than 100 manufacturing and international service companies which provide employment for over 6 500 people.

Graph 5 Development of statutory tax rate between years 2000-2015 in Ireland



Source: own construction, data: Central Statistics Office Ireland

Accessible at: www.cso.ie

3.7.1.2 Depreciation allowances

Depreciation allowances has an extensive impact on adjustment of company profit, therefore on paying corporate taxes. Depreciation effectively allow a company to write off the cost of tangible or non-tangible assets over period of time. Hence, this section address types and method of computation of depreciation in Ireland. There are three essential parameters in any scheme of depreciation: the method, the rate, and the amortization period. Depreciation allowances for tax purposes are call capital allowance in Ireland.

As regards to the method, two most popular methods for computation of depreciation are either straight-line schedule or accelerated schedule. Irish capital allowances system is relatively straight-forward. Unlike the Czech Republic, where both method are being used. Irish legislation allow to use only straight-line basis computation. The cost of the assets is evenly spread throughout the amortization period. However, there are a very interesting exceptions which could be adopted to the Czech Republic in my point of view. Examples of most frequent capital allowance clam are illustrated below (Gaynor, et al., 2012):

- Industrial buildings annual allowance - typically claimed 4 % over 25 years;
- Wear and tear allowances claims for qualifying Plant and machinery
- allow to write off 12.5 % over period of 8 years;
- Motor vehicles - annual allowance at 12.5 % from the purchasing price, depend on carbon emission level of the vehicle;
- Computer software- the claim can be also applied for period of 8 years at 12.5 %

First interesting exemption is related to vehicles used for taxis purposes or vehicles used for short-term hire to public. In both examples 40 % is allowed to be written off instead of standard rate for vehicles 12.5 %. Certificated fishing vessels are second group which is subject to tax allowances exemption. Business entities in fishing industry are entitled to claim 50 % of capital allowance in year 1 and 20 % in following 5 years, therefore the allowance make up 150 % of purchasing price. This is evident support for fishing industry in Ireland. Accelerated capital allowance (henceforth referred to as ACA) scheme is available for Irish business entities if certain requirements are fulfilled. The ACA introduced by the Government in the Finance Act 2008 is available for companies investing into highly energy efficient equipment such as: electric and alternative fuel vehicles, intelligent heating

systems, lighting, refrigeration and cooling system etc. ACA enable deduct full cost of eligible equipment in year 1, therefore 100 % cost of the asset is written off in first year (The Department of Finance, 2014).

4 Practical Part I Macroeconomic Comparison of the Czech Republic and Ireland

4.1 Tax quota

The tax burden has always been discussable topic and it always will be a subject of discussion as it highly influence a daily life of each citizen living in a given country. Tax quota is comparative indicator which is most frequently used for determination of tax burden in particular countries from macroeconomic point of view.

There are two types of tax quotas the simple tax quota and compound tax quota which is also sometimes called aggregate tax quota. Simple tax quota represent ration of total taxes in the gross domestic product (henceforth referred to as GDP) in given country. However, simple tax quota does not include some relevant variables such as mandatory social contribution, duty and fees. For this reason compound tax quota which take into consideration these variables provide better utilization for purpose of the thesis. Formula for computation of compound tax quota is follow (Szarowska, 2008):

$$kQT = \frac{Yt + IS + C + D}{GDP} * 100 [\%]$$

Where:

kQT is compound tax quota

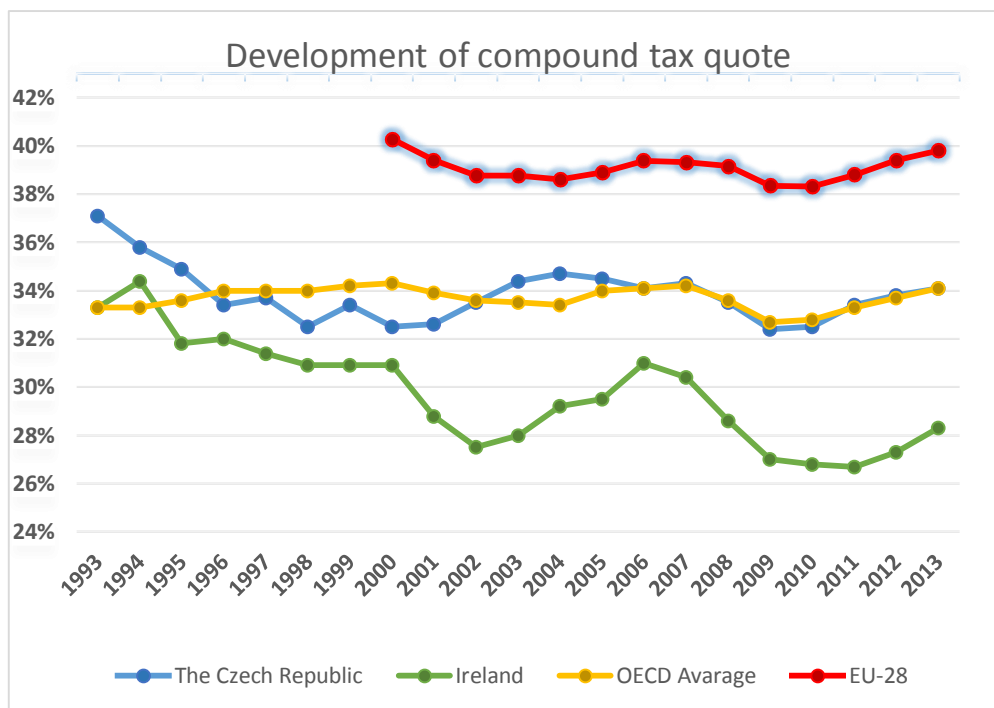
Yt is total tax revenue from collected taxes

IS is mandatory social contribution

C are fees

D is custom duty

Graph 6 Development of compound tax quote between years 1993-2013



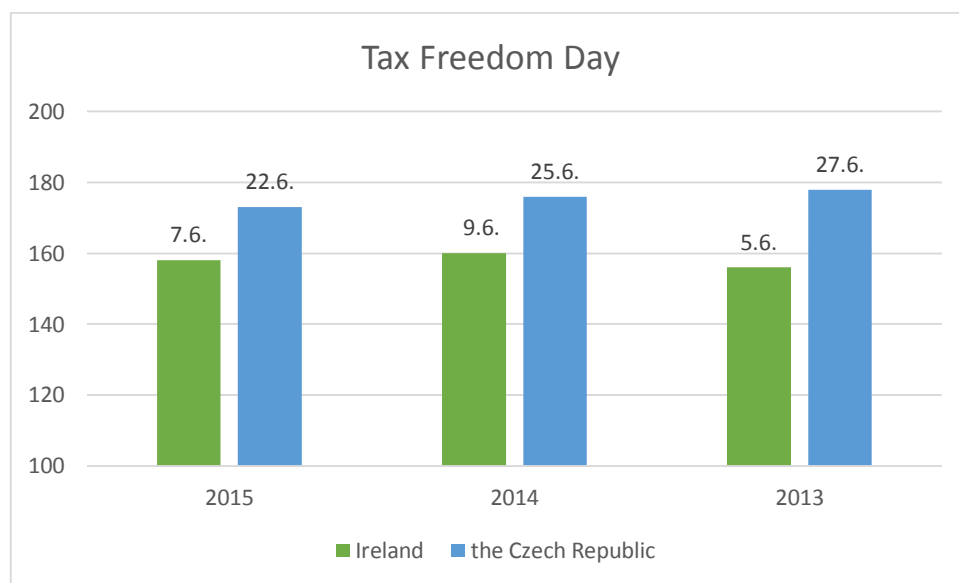
Source: own construction, data: Eurostat

The tax quote in the Czech Republic reached 34.1 percentage of GDP in 2013. This figure is over 5.8 percentage higher than the tax quota in the Ireland which is accounted for 28.3 %. So generally speaking Irish households feel much less tax burden than household in the Czech Republic. As can be seen from the graph above both the Czech Republic and Ireland are situated below EU-28 average which was accounted for astronomical 39.8 % in analysed year 2013. For comparison this figure is a nearly 15 percent points of GDP over the level measured for the USA and around 10 percent percentage points above tax quota recorded in Japan. The graph 5 also express a genuine picture of recent trend in taxation across EU countries. The tax quota steadily increased third years a row in post-crisis period due to series of fiscal consolidation packages (affecting tax base, thresholds and exemptions) which has been adopted by member countries. Furthermore, the graph illustrate through tax quota an economic situation of countries in year 2008 when the financial crisis started in full strengths. Undoubtedly Ireland was hit the most severely which represent a significant drop in the graph.

4.2 Tax Freedom Day

Tax Freedom Day is another useful indicator for gauging the impact of taxes on household in a given country. The indicator split a year into two parts. All earned income is submit to the state in form of taxation in first part of the year. Income earned after this timeline is solely at disposal of households. Following table will illustrate on which day Tax Freedom Day fall in the Czech Republic and in Ireland in last three years.

Table 13 Tax Liberation day in the Czech Republic and Ireland



Source: own construction, data: Deloitte Statistics

Tax freedom day fell on June 22 in the Czech Republic last year. This mean that an average taxpayer submitted all his/her earned income to government for period of 173 days. On the contrary this period was much shorter in Ireland and an average taxpayer waited for tax liberation day just for a period of 158 days. This ratio between Tax freedom day in the Czech Republic and Ireland was highest in 2013. The day difference accounted for 20 days in 2013, while the difference was diminished into 15 days in 2015. The weakness of this indicator is that the figure applied for an average taxperson which do not represent family with two children for instance. It should be furthermore be noted that an average taxperson does not represent an average individual in progressive tax system which is enshrined in Irish taxation system. Since, wealthy taxpayers pay significantly more on taxes than less affluent taxpayer.

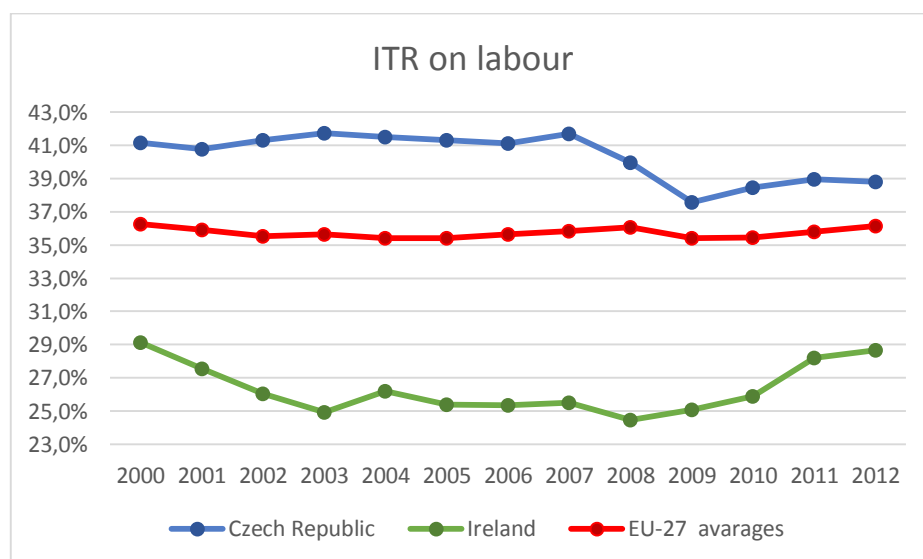
4.3 Implicit tax rate

In spite of tax quota is most frequently used method for tax burden comparisons at an international level, the indicator has numerous of limitations. Beside of limitations related to computation (countries might categorized some variables in different manner), more importantly the indicator do not identify the tax structure of analysed country. For this purpose an implicit tax rate (henceforth referred to as ITR) is more suitable. ITR provide an explanation of impact of taxes on economic activities according their function (labour, consumption and capita). ITR gauge an average effective tax burden which is computed as share of total tax revenues from all types of economic income or activities to potential base of these taxes (i.e. consumption, cost on labour or capital gains). In other words the rate determine real burden of mentioned economic incomes compared to statutory tax rates. Since, if nominal tax rates increase or decrease it does not imply that it will lead to higher or smaller transfers from an individual subjects.

Implicit tax rate on labour

ITR on labour can be defined as share of all direct and indirect taxes and social contribution paid by both employer and employee compared to total cost (i.e. total compensation of employees working in economic territory. It is also worth of mentioning that ITR on labour is calculated for employed labour only.

Graph 7 Implicit tax rate in period of 2000-2012

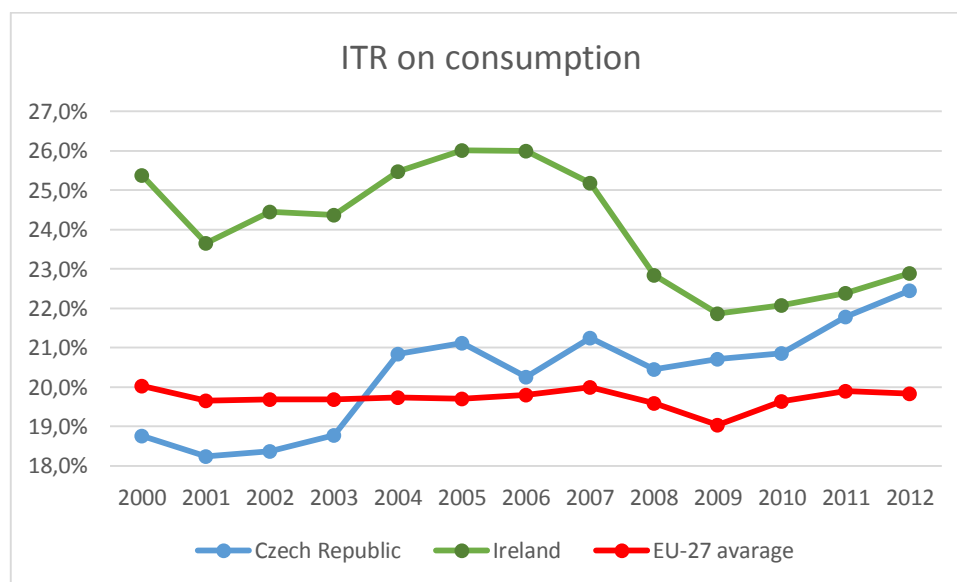


As the graph present ITR on labour was accounted for 38.8 % in 2012 which significantly exceed EU-27 average accounted for 36.2 % at the same year. The ITR on labour reached the highest point of 41.7 % in 2007. The rate has downward trend since this year. However, taxation of labour is enormously high due to non-wage labour cost in form of social contribution. The most notable drop was observed in 2008. The fall correspond with implementation of flat PIT tax rate into Czech system and the concept of “super gross wage”. Ireland is with ITR on labour a completely different story. Ireland is ranked in bottom of EU-15 countries⁷ with 28.7 % of ITR on labour in 2012. Even though Irish Government is less generous in recent years and the rate has risen for 4.2 percentage point as reaction of economic downturn from 2008.

Implicit tax rate on consumption

ITR on consumption is total tax on consumption divided by the final consumption expenditure of private households on the economic territory. VAT typically account for two-third of total amount of ITR on consumption. Non-VAT components with highest share are energy taxation, excise duties on alcohol and tobacco.

Graph 8 Implicit tax rate on consumption between years 2000-2012



Source: Own construction, data: Eurostat

⁷ EU-15 – 15 initial member states of EU (Belgium, Denmark, Finland, France, Ireland, Italy, Luxemburg, Germany, Netherland, Portugal, Austria, Greece, United Kingdom, Spain, Sweden)

As we can see from the graph 7 ITR on consumption in the Czech Republic has upward trend which fully correspondent with EU trend shifting from direct to indirect taxes. ITR on consumption was accounted for 22.5 % in 2012. The significant hike in Czech ITR was recorded in 2004 as it is illustrated in the graph. This was mainly caused by tax harmonization in accordance with EU legislative. Both the Czech Republic and Ireland have the rate above EU-27 average. Ireland belonged to top five countries in EU with the highest ITR for many years. The highest rate in Ireland was observed in years 2005 and 2006 which was accounted for 26 %. This was mainly caused by height of standard VAT rate and excessive taxation of excise duty (mainly alcohol and tobacco). However, since 2008 ITR curve in Ireland constantly descent. This can be partly explained by implementation of zero VAT tax rate for a certain assortment of goods and services in year 2008 and economic slowdown in the country.

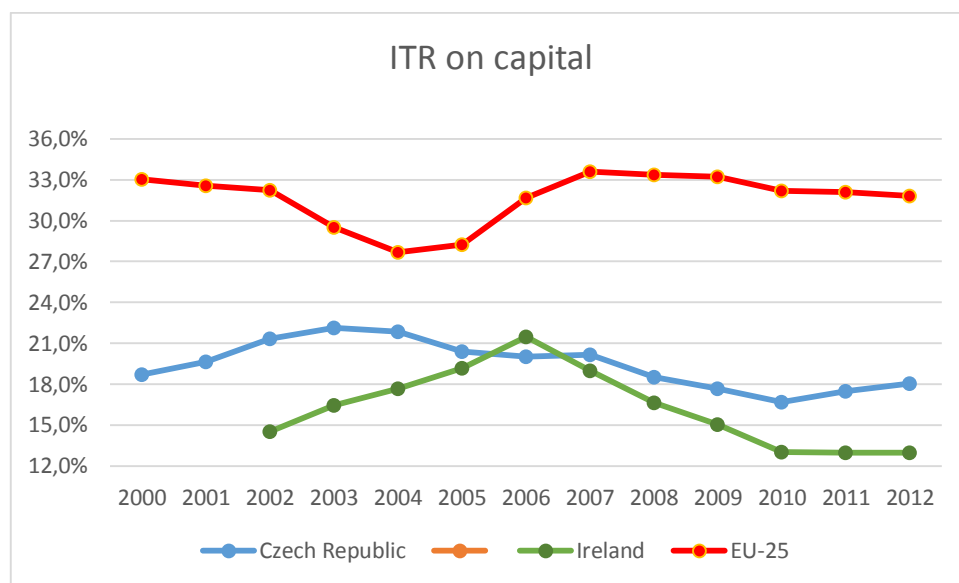
ITR on consumption in Ireland exceeded just by narrow margin 0.4 % in comparison with the Czech Republic in 2012. However, the gap might be widen again in favour of Ireland, since the Czech government introduced a second reduced VAT rate of 10 % with effect from 1st of January 2015 which apply to medicines, pharmaceuticals e-books, and baby food products.

It should be also mentioned that both countries fulfil regulation of EU for the standard rate of VAT which must be at least 15 %. Currently the standard rate of VAT is lay down at 23 % in Ireland and at 21 % in the Czech Republic (an average the standard rate of VAT is 21.5 % in EU-28 to compare with 19.4 % in 2008).

Implicit tax rate on capital

Last economic activity which is measured by ITR is capital. The overall ITR on capital is computed as the ratio between revenues from all capital and taxable capital and business income which arise in the economy. Capital income do not represent just profit but tax is levied on real estate or motor vehicle which is in enterprise's assets.

Graph 9 Implicit tax rate on capital between years 2000-2012



Source: own construction, data: Eurostat

ITR on capital is both in case of the Czech Republic (18 %) and in Ireland (12.9) deeply below EU-25 average which was accounted 31.8 % in 2012.

4.4 Study Paying taxes 2014

Another available indicator which provide a relevant framework for comparison of two taxation system is study called “Paying Taxes” The study was carried out by the World Bank in association with PricewaterhouseCoopers. The study make comparison of tax systems across 189 economies with relevant geographical peer groups. The comparison is based on measuring of small and medium sized enterprises (SME) according to three following components:

- the total tax rate as measure of cost of all tax borne
- tax compliance burden (capturing time to prepare, file and pay each tax), three types of taxes such as CIT, labour taxes and mandatory contributions are measured
- the number of tax payments

The study has been conducted in time span of 10 years. The aim of the study is provide benchmark of analysed tax systems on like-for-like basis. The table 13 below state results of the analysis for compared countries the Czech Republic and Ireland.

It is more than apparent from the table that Czech Republic in terms of taxation effectiveness is below global average. Czech tax system is as effective as countries such as Uzbekistan (ranked 118.), Trinidad and Tobago (ranked 117.) and Costa Rica (ranked 120.) according to gauged parameters. The Czech Republic is competitive in the first indicator number of payments for SME which are currently obliged to submit 8 tax payments. The figure is one of the lowest in EU. However, when it comes to administrative burden for Czech SME or in other words time need for preparation, filing and paying taxes the figure 413 hours (17.2 days) is alarming. The most time demanding operations are labour taxes and mandatory contribution accounted for 217 hours in case of the Czech Republic. For comparison Ireland companies need just 80 hours and EU-28 average is 179 hours. Ireland is ranked on sixth place from all analysed 189 countries. It is undoubtedly indicate that Ireland has one of the most favourable environment for doing business. Measures for launching fully electronic system which will be well-arranged and easy to follow for enterprises should be taken by Czech government. Since, implementation of transparent and efficient electronic filling in

countries such as Ireland and Portugal significantly reduce time of tax compliance and diminished hamper of job creation. Another recommendation in order to ease process of compliance is creation of unified collection for tax payments and mandatory social contribution. (PWC, 2014)

Table 14 Overview of key sub-indicators from study Paying Taxes

| Economy | Overall ranking | Total tax Rate (%) | Time to comply (hours) | Number of payments |
|---------------------------|------------------------|---------------------------|-------------------------------|---------------------------|
| Qatar | 1 | 11.3 | 41 | 4 |
| The Czech Republic | 119 | 48.5 | 413 | 8 |
| Ireland | 6 | 25.9 | 80 | 9 |
| EU-28 | | 41.0 | 176 | 12.3 |
| Bolivia | 189 | 83.7 | 1025 | 42 |

Source: own construction, data: Paying taxes 2015

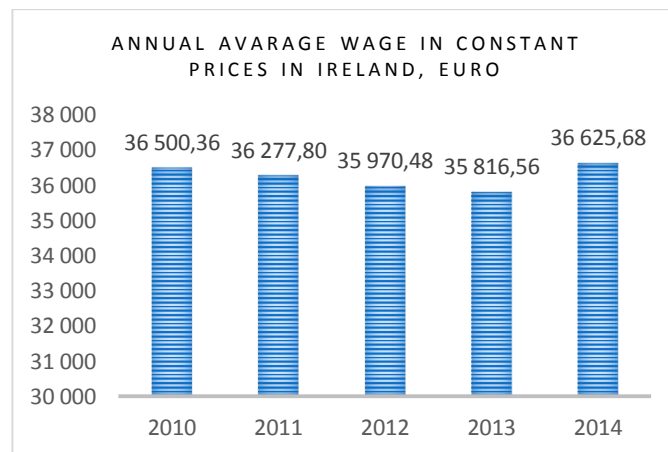
Available at: <http://www.pwc.com/gx/en/paying-taxes>

5 Practical part II Comparison of personal income tax

Income tax alongside with health and social contributions in the Czech Republic or PRSI and USC contributions in case of Ireland are the strongest component in terms of the income part of the national Threshold. Hence, this chapter is based on the theoretical part of the thesis addressing the comparison of personal income tax of in analysed countries.

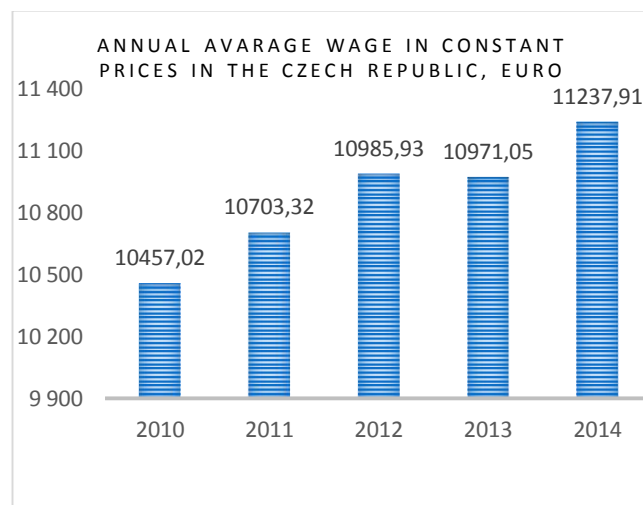
For the purpose of this chapter development of an average annual gross wage of employees in the national economy of both countries is recorded in the following charts.

Graph 10 Annual average wage in Ireland between years 2010-2014



Source: own construction, data: (Central Statistics Ireland, 2015)

Graph 11 Annual average wage in the Czech Republic between years 2010-2014



Source: own construction, data: (Czech Statistical Office, 2015)

PIT shows a slight divergence in tax determination and computation, therefore these differences are described in the following lines. The most important difference can be seen in taxable income determination itself. Gross income is inflated by coefficient 1.34 which represent a portion of payments (34 %) for health insurance (9 %) and social insurance (25 %) remitted by employer for his employees. It is the case of Czech curiosity so called “Super Gross Wage” which is not applied in any tax structure worldwide. On the other hand the taxable income is determined directly from gross wage of employee in Ireland

Another important difference is that tax base is rounded up to whole hundreds in the Czech Republic, while this rule is not applied in the Ireland. Furthermore, payroll tax is paid in advance payments on a monthly basis and total tax liability is calculated in tax return which must be filled in once a year due by 31st of March in the Czech Republic. Subsequently, tax overpayment is refunded to the taxpayer or underpayment is enforced from the taxpayer. Two types of payroll tax exist in Ireland. One of them has already been mentioned in the thesis system “PAY As You Earn” for employees and “Self-Assessment” system for the self-employed. Only members of self-assessment system are obliged to file tax returns in a statutory given period.

Last but not least the difference in tax structures is the taxation approach of both analysed countries. The Czech Republic prefer the vertical approach of taxation, whereas the horizontal approach or in other words progressive taxation is levied on PIT in Ireland. Ireland has one of the most progressive income tax system among OECD countries. The degree of progressivity of PIT can be observed in tax wedge difference between earners placed on the bottom and on the top of income redistribution.

5.1 Computation of tax burden levied on PIT in compared countries

It is essential to unify conditions of the calculation for utilization of practical part of the thesis. All calculations are based upon the following assumptions and simplifications.

- 1) In order to unify all calculations it is assumed that income from employment and functional benefits are only a source of income of all types of household in following case studies. Other sources of income such as capital income, rent income and income from self-employment activity are not taken into consideration.
- 2) The calculations have been carried out for the entire tax period (calendar year). Representative taxpayers are between 30-40 years of age. Hence, no age related allowances are entitled for the taxpayers.
- 3) Tax credits for dependent children are not enshrined in the Irish tax system currently. However, the Irish taxpayer is entitled to child benefit which is implemented to our calculations in order to provide more objective comparison.
- 4) Exchange rate 27,625 CZK/ EURO set by Czech National Bank and valid for 31st of December 2014 is used for conversion of currencies in the Czech Republic and Ireland (Czech crown/ Euro). The exchange rate was chosen because of a period comparability. Statistical data set on an average wage was selected from the year 2014.
- 5) Calculation are carried out upon assumption from graphs 10 and 11 from the previous section. An annual average wage in the Czech Republic was observed to be 11.237 € (936.42 € per month), while an annual average wage was accounted for 36.625 € (3052 €) in the same year 2014.
- 6) For our purpose of comparison it is not possible to apply the wage level of the Czech Republic to the wage level in Ireland and vice versa. For instance, low wage assumption in Ireland would not reflect the tax progression because the taxpayer will not exceed the Standard Rate Cut-Off Point and just 20 % tax rate would be applied. On the other hand relatively high wage assumption in case of the Czech Republic would erase social circumstances of households. Hence, ration indicators are utilized in the practical part of thesis instead of absolute indicators

- 7) Calculation is made upon assumption of three income intervals: **50, 100 and 150** percent of an average wage in both countries.
- 8) The comparison of both countries and their total tax burden on PIT is carried out by effective tax rate. The effective tax rate is the ratio of tax liability and earned income (henceforth referred to as effective tax rate excluding of social and health insurance or ETR1). Secondly calculations are carried out by effective tax rate, where apart from tax liability also social contribution is also included in the numerator of the equation (henceforth referred to as ETR2).

ETR1 is determined by the following equation:

$$ETR1 = \frac{\text{Tax liability} - \text{tax credits deductions}}{\text{income from employment}} * 100$$

ETR is determined by following equation:

$$ETR2 = \frac{\text{Tax liability} + \text{social contribution} - \text{tax credits deduction}}{\text{income from employment}} * 100$$

- 9) Tax reliefs which were mentioned for both countries in the theoretical part are omitted in the following case studies. The tax relief enables the taxpayer to adjust its marginal rate, therefore his or her taxable income. The marginal tax rate is of greater importance for Irish households, since presence of tax brackets is enshrined in Irish tax system.
- 10) Four family-types which are: single person without children, single parent with one dependent child, one-earner marriage couple with two dependent children, two-earner married couple with three dependent children. All these family-types which differ by income level and household composition are assessed in the following case studies.

5.2 Case Study 1 – Single person without children

In the first case study we make assumption for single taxpayer without child who reach gross income from employment 50, 100 and 150 percentage points of an average annual income. Calculations of tax liability in accordance with of a particular legislation of a country are illustrated in following tables.

Table 15 Case study 1 – Tax burden in the Czech Republic

| Indicators | 50 % of AW | 100 % AW | 150 % AW |
|---|---------------|----------------|----------------|
| Personal income tax | | | |
| Annual gross income | 5 618 | 11 237 | 16 856 |
| Annual super gross income | 7 528 | 15 058 | 22 587 |
| Tax 15 % | 1 129 | 2 259 | 3 388 |
| Tax credit for taxpayer | 899 | 899 | 899 |
| Tax due / tax refund | 230 | 1 370 | 2 489 |
| ETR 1 | 4.09 % | 12.94 % | 14.76 % |
| Social insurance contribution paid by employee | | | |
| Health insurance (4.5%) | 253 | 506 | 759 |
| Social insurance (6.5%) | 365 | 730 | 1096 |
| Total insurance contribution | 618 | 1236 | 1855 |
| ETR 2 | 15.1 % | 23.19 % | 25.77 % |

Source: own construction and computation

Results provided by table 15 above show us that the total tax burden on the taxpayer under assumption of case study1 reached from 4.09 % to 14.76 % of the gross income. ETR2 ratio including mandatory social security contribution is relatively higher from 15.1 % to 25.77 % of the gross income.

Calculations in accordance with Irish legislation is demonstrated in the following table.

Table 16 Case study 1 – Tax burden in Ireland

| Indicators | 50 % of AW | 100 % of AW | 150 % of AW |
|---|---------------|----------------|----------------|
| Personal income tax | | | |
| Annual gross income | 18 313 | 36 625 | 54 938 |
| Tax thereon 20 % | 3 663 | 6 560 | 6 560 |
| Tax thereon 41 % | 0 | 1 568 | 9 077 |
| Gross tax | 3 663 | 8 128 | 15 637 |
| Single Tax credit, PAYE credit | 3 300 | 3 300 | 3 300 |
| Tax due / tax refund | 363 | 4 828 | 12 337 |
| ETR 1 | 1.99 % | 13.19 % | 22.45 % |
| Social insurance contribution paid by employee | | | |
| Pay related social insurance | 733 | 1 465 | 2 198 |
| Universal Social Charge | 601 | 1882 | 3 164 |
| Total insurance contribution | 1 334 | 3 347 | 5 362 |
| ETR 2 | 9.2 % | 22.32 % | 32.21 % |

Source: own construction and computation

If we compare computations from table 15 and table 16 it has been observed that the Irish tax payer reach a broader interval of tax burden. The interval starts from 1.99 % which apply to an individual earning 50 per cent of the average wage, while an individual in the high-income brackets due to progressive taxation has a higher ETR1 by nearly 21 percentage points. If ETR2 is taken into calculations the tax burden interval was recorded from 9.2 % to 32.21 %.

However, previous tables do not record employer's social contribution which is essential in order to gain total labor cost in comparable countries. This is also called tax wedge in tax terminology. Hence, the following table is dedicated to calculations of employer's social and health insurance payments.

Table 17 Case study 1 – Total labor cost in the Czech Republic and Ireland

| Social insurance contribution paid by employer in the Czech Republic | | | |
|---|---------------|----------------|----------------|
| Type of insurance | 50 % | 100 % | 150 % |
| Health insurance (9%) | 465 | 1 011 | 1 517 |
| Pension scheme (21.5 %) | 1 208 | 2 416 | 3 624 |
| Sickness insurance (2.3 %) | 129 | 258 | 388 |
| Unemployment insurance (1.2 %) | 67 | 135 | 202 |
| Total insurance due to pay (34 %) | 1 869 | 3 820 | 5 731 |
| Total labour cost in (%) | 48.3 % | 57.18 % | 59.7 % |
| Social insurance contribution paid by employer in Ireland | | | |
| Pay related social insurance | 1 923 | 3 846 | 5 768 |
| Total labour cost in (%) | 19.7 % | 32.82 % | 43.50 % |

Source: own construction and computation

Table 17 presents figures which fully correspond and support results obtained from the chart concern with implicit tax rates on labour in the macro economical part of the thesis. This is where Czech employers bear a much higher burden on their shoulders compared to employers in Ireland. If results are put into percentage expression then the interval range from 48.3 % to 59.7 % in the case of the Czech Republic. On the other hand the total labour cost is more employment friendly in Ireland, especially for low paid workers. The size of total labour cost currently being imposed on low paid labour accounted only 19.7 % compared to an individual with 50 per cent of an average gross wage.

5.3 Case study 2 - Single parent with one child

The second hypothetical family type in case study 2 is represented by single parent who raise and live together with qualifying child. Calculations undertaken for this type of family are recorded in the following table.

Table 18 Case study 2 – Tax burden in the Czech Republic

| Indicators | 50 % AW | 100 % of AW | 150 % of AW |
|---|-----------------|----------------|----------------|
| Personal income tax | | | |
| Annual gross income | 5 618 | 11 237 | 16 856 |
| Annual super gross income | 7 528 | 15 058 | 22 587 |
| Tax 15 % | 1 129 | 2 259 | 3 388 |
| Tax credit for taxpayer | 899 | 899 | 899 |
| Tax credit for dependent child | 485 | 485 | 485 |
| Tax due / refund | -255 | 885 | 2 004 |
| ETR 1 | - 4.53 % | 7.87 % | 11.8 % |
| Social insurance contribution paid by employee | | | |
| Health insurance (4.5%) | 253 | 506 | 759 |
| Social insurance (6.5%) | 365 | 730 | 1096 |
| Total insurance contribution | 618 | 1236 | 1855 |
| ETR 2 | 6.46 % | 18.87 % | 22.88 % |

Source: own construction and computation

Table 19 Case study 2 – Tax burden in Ireland

| Indicators | 50 % of AW | 100 % of AW | 150 % of AW |
|---|-----------------|----------------|----------------|
| Personal income tax | | | |
| Annual gross income | 18 313 | 36 625 | 54 938 |
| Tax thereon 20 % | 3 663 | 7 325 | 7 360 |
| Tax thereon 41 % | 0 | 0 | 7 255 |
| Gross tax | 3 663 | 7 325 | 14 885 |
| Single Tax credit, PAYE credit | 3 300 | 3 300 | 3 300 |
| Child benefit | 1 560 | 1 560 | 1 560 |
| Tax due / tax refund | - 1 197 | 2 465 | 10 507 |
| ETR 1 | - 6.53 % | 6.73 % | 19.12 % |
| Social insurance contribution paid by employee | | | |
| Pay related social insurance | 733 | 1 465 | 2 198 |
| Universal Social Charge | 601 | 1 882 | 3 164 |
| Total insurance contribution | 1 334 | 3 347 | 5 362 |
| ETR 2 | 0.74 % | 15.86 % | 28.88 % |

Firstly, it should be pointed out that a negative effective tax rate or a negative employee's tax burden does not exist in a tax terminology. However, for the purpose of our comparison it is essential to accept the assumption like this. The figures highlighted in red font stand for a tax bonus which will be refunded to the hypothetical single parent. As can be seen from table 18 the tax credit for a dependent child is the most beneficial for a low-paid single parent who is significantly better off than the hypothetical individual from the case study 1 with the same percentage of average wage (50 %). The clear drop of tax burden is caused by child tax credit entitlement. Secondly, it should be pointed out that tax credit for dependent child cannot be claimed in Ireland. Nevertheless, the parent is entitled to claim child benefits which is ascending with number of children. The benefit was implemented into calculations in order to provide the comparison in a more objective manner.

The obtained result from case study 2 identified that the single parent receiving wage below the average wage is better off in Ireland in terms of tax burden. On the contrary Irish high income earners receiving a wage above the average industrial wage has ETR1 19.12 % compare to 11.8 % in the Czech Republic. Tax incentive supporting families with one child is a relatively similar in both countries. Tax credit accounts for 4.3 % of the average wage in the Czech Republic and child benefit is accounted for 4.2 % of average wage in Ireland. However, Irish tax legislation enables an addition support for single parent families in form of 4000 € standard rate cut off point extension to 36.800 €.

Table 20 Case study 2 – Total labor cost in the Czech Republic and Ireland

| Social insurance contribution paid by employer in the Czech Republic | | | |
|---|----------------|----------------|----------------|
| Type of insurance | 50 % | 100 % | 150 % |
| Health insurance (9%) | 465 | 1 011 | 1 517 |
| Pension scheme (21.5 %) | 1 208 | 2 416 | 3 624 |
| Sickness insurance (2.3 %) | 129 | 258 | 388 |
| Unemployment insurance (1.2 %) | 67 | 135 | 202 |
| Total insurance due to pay (34 %) | 1 869 | 3 820 | 5 731 |
| Total labour cost in (%) | 39.72 % | 52.44 % | 56.89 % |
| Social insurance contribution paid by employer in Ireland | | | |
| Pay related social insurance | 1 923 | 3 846 | 5 768 |
| Total labour cost in (%) | 11.53% | 26.29 % | 39.38 % |

Source: own construction and computation

5.4 Case study 3 – One-earner married couple with two dependent children

Third hypothetical example with one-earner married couple with two dependent children living together is captured in tables below.

Table 21 Case study 3 – Tax burden in the Czech Republic

| Indicators | 50 % AW | 100 % of AW | 150 % of AW |
|---|------------------|-----------------|----------------|
| Personal income tax | | | |
| Annual gross income | 5 618 | 11 237 | 16 856 |
| Annual super gross income | 7 528 | 15 058 | 22 587 |
| Tax 15 % | 1 129 | 2 259 | 3 388 |
| Tax credit for taxpayer | 899 | 899 | 899 |
| Tax credit for spouse | 899 | 899 | 899 |
| Tax credit for dependent child | 970 | 970 | 970 |
| Tax due / refund | -970 | - 509 | 620 |
| ETR 1 | - 17.26 % | - 4.52 % | 3.67 % |
| Social insurance contribution paid by employee | | | |
| Health insurance (4.5%) | 253 | 506 | 759 |
| Social insurance (6.5%) | 365 | 730 | 1096 |
| Total insurance contribution | 618 | 1236 | 1855 |
| ETR 2 | -6.26 % | 6.41 % | 14.68 % |

Source: own construction and computation

The table 21 show us that tax burned of a one-earner marriage family with dependent children was significantly reduced. In contrast to previous examples, the tax credit for a spouse even cause negative ETR1 of a taxpayer with the average industrial wage. However, we should bear in mind that this tax credit is non-refundable, therefore only children tax credit can be refunded in the form of tax bonus to the taxpayer. The tax concession in form of the non-earner spouse tax credit play modest role for Czech households with just one disposable income from employment. The Czech government put an emphasis on not imposing too much tax burden on young families with children, where one of the partners is

on paternity leave. The duration of paternity leave in the Czech Republic belong to the longest among OECD countries.

The following table captures tax liability of Irish taxpayers upon unchanged assumption from the case study

Table 22 Case study 3 – Tax burden in Ireland

| Indicators | 50 % of AW | 100 % of AW | 150 % of AW |
|---|-----------------|----------------|----------------|
| Personal income tax | | | |
| Annual gross income | 18 313 | 36 625 | 54 938 |
| Tax thereon 20 % | 3 663 | 7 325 | 8 360 |
| Tax thereon 41 % | 0 | 0 | 5 387 |
| Gross tax | 3 663 | 7 325 | 13 747 |
| Single Tax credit, PAYE credit | 3 300 | 3 300 | 3 300 |
| Child benefit | 1 800 | 1 800 | 1 800 |
| Tax due / tax refund | - 1 437 | 2 225 | 8 647 |
| ETR 1 | - 7.84 % | 6.07 % | 15.73 % |
| Social insurance contribution paid by employee | | | |
| Pay related social insurance | 733 | 1 465 | 2 198 |
| Universal Social Charge | 601 | 1882 | 3 164 |
| Total insurance contribution | 1 334 | 3 347 | 5 362 |
| ETR 2 | 0.56 % | 15.21 % | 25.49 % |

Source: own construction and computation

As we can derive from the table above, a higher tax burden is levied on the Irish taxpayer compared to the Czech taxpayer at the bottom and average income interval, therefore ETR 1 is nearly 11 percentage points lower for a hypothetical household in the Czech Republic. This is caused by spouse tax credit which is not available to claim in Ireland. However, if we take into consideration social insurance contribution paid by employer than results are again in favor of Ireland in terms of labor cost. This comparison can be seen in table 23 below. If we take closer look at case study 2 compared to case study 3 in case of Ireland. The biggest difference is observed for families at above average earnings (150 % of AW) in favour of the married family. The single parent family in receipt of above average wage has tax liability 10.507 €, while the married family at the same wage level has tax

liability at only 8.697 €. The tax advantage in amount of 1.860 € is caused by availability of a higher tax band for married couples (41.800 € instead of 36.800 €) in Ireland.

Calculations of total labour cost in both countries are again captured in following table.

Table 23 Case study 3 – Total labor cost in the Czech Republic and Ireland

| Social insurance contribution paid by employer in the Czech Republic | | | |
|---|----------------|----------------|----------------|
| Type of insurance | 50 % | 100 % | 150 % |
| Health insurance (9%) | 465 | 1 011 | 1 517 |
| Pension scheme (21.5 %) | 1 208 | 2 416 | 3 624 |
| Sickness insurance (2.3 %) | 129 | 258 | 388 |
| Unemployment insurance (1.2 %) | 67 | 135 | 202 |
| Total insurance due to pay (34 %) | 1 869 | 3 820 | 5 731 |
| Total labour cost in (%) | 25.54 % | 39.73 % | 48.19 % |
| Social insurance contribution paid by employer in Ireland | | | |
| Pay related social insurance | 1 923 | 3 846 | 5 768 |
| Total labour cost in (%) | 9.93% | 25.71 % | 35.98 % |

Source: own construction and computation

5.5 Case Study 4 - Two-earner married couple with three dependent children

The last household pattern is represented by two-earner married couple with three dependent children.

It is important to point out that married couples have three options available for tax assessment which are: (i) Joint assessment, (ii) separate assessment and (iii) single assessment. However being taxed as a married couple, it is not enough to be just legally married. Another crucial condition is that the couple must be living together as husband and wife in a common household. Joint tax assessment is usually most favourable and most frequently opted for by couples in Ireland. Both joint tax and separate tax calculations are carried out in simple way in following section in order to provide a picture of total savings for families opt for joint assessment taxation.

A married man has a salary of 70.000 € and his wife has salary of 9.000 €, without dependent children. Figures bellow are stated in Euros.

Separate assessment

| | | | |
|--|--------|--|-------|
| Husband income = 70.000 | | Wife income = 9.000 | |
| 32.800, tax thereon 20 % | 6.560 | 9.000 €, tax thereon 20 % | 1800 |
| 37.200, tax thereon 41 % | 15.252 | | |
| <i>Less non-refundable tax credits</i> | | <i>Less non-refundable tax credits</i> | |
| Single Tax credit | 1.650 | Single tax credit | 1.650 |
| PAYE credit | 1.650 | PAYE credit | 1.800 |

| | | | |
|----------------------------|---------------|----------------------------|------------|
| Total tax liability | 18.512 | Total tax liability | Nil |
|----------------------------|---------------|----------------------------|------------|

Joint assessment

| | |
|--|--------|
| Income- husband | 70.000 |
| Income-wife | 9.000 |
| 50.800, tax thereon 20 % | 10.160 |
| 28.200, tax thereon 41 % | 11.562 |
| <i>Less non-refundable tax credits</i> | |
| Married Tax credit | 3.300 |
| PAYE credit | 3.300 |

| | | |
|----------------------------|---------------|---|
| Total tax liability | 15.122 | therefore joint assessment savings 3.390 € |
|----------------------------|---------------|---|

As the calculations above illustrates an example of the married family taxed jointly saved an amount of 3.390 €, therefore joint tax assessment is used in the case study 4. Calculations of the case study 4 are based upon the assumption that both parents have the same income. The assumption was chosen because the Irish tax system has an element of progressivity in PRSI and USC. In order to gain the most accurate calculation of tax burden levied on households, many combinations of different level for both partners would need to be computed. The scope of the thesis does not allow so extensive computation, therefore the same disposable income of partners is assumed.

The results of cumputations and author's comments related to case study 4 are illustrated it this section.

Table 24 Case study 4 – Tax burden in the Czech Republic

| Indicators | 50 % AW | 100 % of AW | 150 % of AW |
|---|-----------------|-----------------|----------------|
| Personal income tax | | | |
| Annual gross income | 11 236 | 22 427 | 33 712 |
| Annual super gross income | 15 057 | 29 058 | 22 587 |
| Tax 15 % | 2 259 | 2 259 | 3 388 |
| Tax credit for taxpayer | 1 798 | 899 | 899 |
| Tax credit for dependent child | 1 455 | 1 455 | 1 455 |
| Tax due / refund | -985 | - 591 | 538 |
| ETR 1 | - 8.76 % | - 5.25 % | 3.19 % |
| Social insurance contribution paid by employee | | | |
| Health insurance (4.5%) | 253 | 506 | 759 |
| Social insurance (6.5%) | 365 | 730 | 1096 |
| Total insurance contribution | 618 | 1236 | 1855 |
| ETR 2 | -7.72 % | 5.73 % | 14.19 % |

Source: own construction and computation

Table 25 Case study 4 – Tax burden in Ireland

| Indicators | 50 % of AW | 100 % of AW | 150 % of AW |
|---|-----------------|---------------|----------------|
| Personal income tax | | | |
| Annual gross income | 36 625 | 73 250 | 109 876 |
| Tax thereon 20 % | 7 325 | 13 120 | 13 120 |
| Tax thereon 41 % | 0 | 3 167 | 18 153 |
| Gross tax | 7 325 | 10 492 | 31 273 |
| Single Tax credit, PAYE credit | 6 600 | 6 600 | 6 600 |
| Child benefit | 1 920 | 1 920 | 1 920 |
| Tax due / tax refund | - 1 155 | 3 892 | 22 753 |
| ETR 1 | - 3.15 % | 5.31% | 20.70 % |
| Social insurance contribution paid by employee | | | |
| Pay related social insurance | 733 | 1 465 | 2 198 |
| Universal Social Charge | 601 | 1 882 | 3 164 |
| Total insurance contribution | 1 334 | 3 347 | 5 362 |
| ETR 2 | 0.48 % | 9.88 % | 25.90 % |

Source: own construction and computation

The Czech household representing a large sized family from case study 4 is subject to higher tax burden than a one-earner family with just two children in the case study 3. This is caused by the non-earning spouse tax credit which is above the child tax credit regardless number of children. I assume this should be definitely amended in the legislation in order to motivate large families. The child benefits are scaled according to the number of children in Ireland.

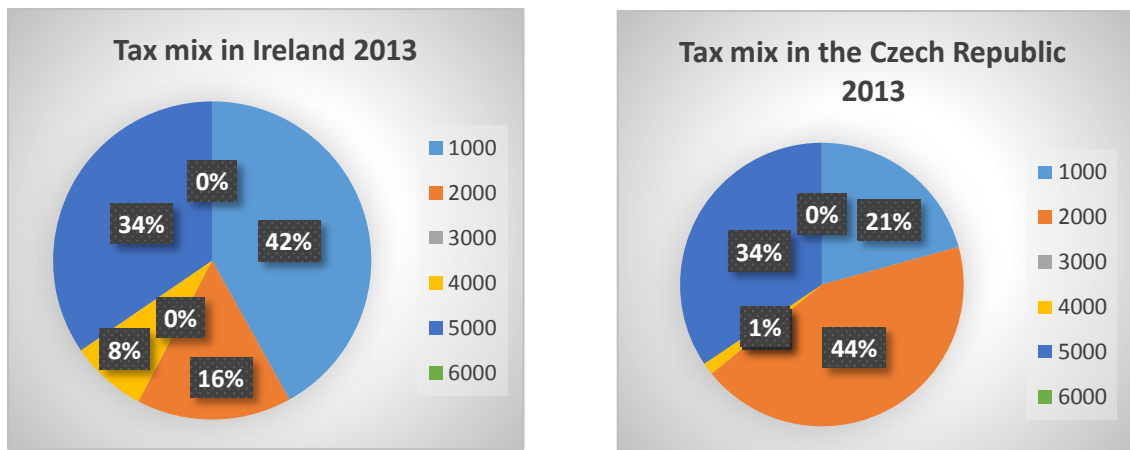
| Social insurance contribution paid by employer in the Czech Republic | | | |
|---|----------------|----------------|----------------|
| Type of insurance | 50 % | 100 % | 150 % |
| Health insurance (9%) | 930 | 2 022 | 3 034 |
| Pension scheme (21.5 %) | 2 416 | 4 832 | 7 248 |
| Sickness insurance (2.3 %) | 258 | 516 | 388 |
| Unemployment insurance (1.2 %) | 134 | 270 | 776 |
| Total insurance due to pay (34 %) | 3 788 | 7 640 | 11 446 |
| Total labour cost in (%) | 30.44 % | 36.94 % | 41.05 % |
| Social insurance contribution paid by employer in Ireland | | | |
| Pay related social insurance | 3 846 | 7 692 | 11 356 |
| Total labour cost in (%) | 10.98% | 20.38 % | 35.92 % |

The difference of total labour cost in the Czech Republic is higher by 16.53 % compare to Ireland at the level of average wage. If we make comparison between households in upper income brackets than the difference is not so marginal. In this case the Czech employer has the cost to hire an employee which higher by 5.13 % compare to the Irish one, albeit this type of cost is tax-deductible cost in the Czech tax legislation. Therefore all payments made by employer to health insurance companies or social funds can be deducted during corporate tax computation.

6 Results and Recommendations

Key findings revealed in both parts in the practical section of the thesis are summarized in this chapter. On the basis of the findings, the following proposals are made for the Czech tax system.

Overall tax burden



Although the amount of collected tax revenues are similar at around 50 billion Euro (data collected 2013) in the compared states, the structure of the tax mix differ significantly. As can be observed in the tax mix above, the Czech Republic has a relatively high reliance on revenues generated from social security contribution. We advise the shifting of tax burden on less distorting and less damaging to growth taxes such as property and excise taxes. Both taxes are represented in greater share of Irish tax mix.

One of the ways to increase tax revenues from real estate is to adopt a methodology of the tax computation which is currently applied in Ireland. The methodology is straightforward in Ireland, where the tax base is determined by the market value of the property multiplied by valid tax rate (0.18 %). Whereas the tax liability in the Czech Republic is determined by the size of the property measured in m² multiplied by the tax rate (2 CZK per 1 m² + 0.75 CZK for each additional floor * coefficient assigned according to number of inhabitants in a town). So the property tax determination is not definitely straightforward in the Czech Republic.

Differences in the calculation of property tax under the current system and according to my proposal are demonstrated in following example.

The subject of the tax is residential house with two floors, total floor space is 120 m². The real estate is situated in town with 20 000 inhabitants and market value of the property is 1.700.000 CZK.

Calculation of property tax in accordance with Czech tax legislation

$$\text{Tax rate} = (2+0.75) * 2 = 5.5$$

$$\text{Property tax} = 120 * 5.5 = \mathbf{660 \text{ CZK}}$$

Calculation of property tax according to new proposal

$$\text{Property tax} = 1.700.000 * 0.0018 = \mathbf{3060 \text{ CZK}}$$

It is more that apparent that the tax liability based on my proposal is nearly 5 times higher than currently applied in the Czech Republic. The proposal would bring additional resources to municipal budgets.

Simplification of tax compliance and administration

Another author's reproach is related to the effectivity of tax compliance in the Czech Republic. As shown in the study called Paying Taxes 2014 which was carried out by the World Bank, the SME segment in the Czech Republic needs 413 hours for preparation, filling and payments activities compared to just 80 hours in Ireland. Hence, the Czech authorities should be inspired by effectiveness of tax compliance in Ireland which create more favorable environment for doing business. Firstly, I propose to streamline number of agencies associated with revenue collection. At present, business entities must communicate with several different collection authorities such as Tax Office, Custom Office, Czech Social Security Administration and number of Health Insurance companies. Business entities must deal with different tax bases, forms, collection days etc. Moreover, inspection can be sent from each authority. All the facts mentioned pose an unnecessary administrative burden for companies. Whereas most of the revenues are collected by one single agency Revenue Commissioners in Ireland. For this reason I profoundly support the idea of a single collection point. This step would lead to administrative cost reduction. Secondly, I propose more

mandatory e-filing tax returns, methodological support in form of guided videos, available help desk service with tax specialists and mainly user friendly-tax portal. Although the possibility of electronic filing has existed for some time now, the percentage of e-filing is relatively low compared to Ireland. An interaction between the taxpayer and tax authorities is chiefly on paper. I hope to see Czech government create an incentive for taxpayers in order to draw their attention to electronic tax returns.

Personal Income Tax

Since the thesis mainly concerns with total tax burden levied on personal income tax, this section presents results gained from both compared tax systems. Whereas horizontal equity approach is applied in Ireland, the Czech Republic is advocate of vertical equity approach or in other words flat taxation. However, despite of a relative low tax rate accounted for 15 % in the Czech Republic compared to the progressive tax system with two tax brackets which are laid down by the Irish government to 20 % at the standard rate and 41 % at the higher rate, there is excessive tax burden levied on the Czech households. This fact is backed by results gained from the graph 7 which concerns with the ITR on labour and by four hypothetical patters of different types of households. I recommend to completely change computation of PIT and abolish the Czech rarity called “Super Gross Wage”. This component only makes PIT computation more complicated and non-transparent for prospect foreign investors. This step would mitigate excessive tax wedge levied on the employers which can use these saved resources for investment into R&D or job creation. Furthermore, I assume that second positive impact of the abolition will be a reduction of employer’s incentives to use bogus self-employment contracts with their employees. This tax avoidance scheme called “Švarc System” is frequently used in the Czech Republic. When we speak about the self-employed, relatively high disparity between dependent workers and the self-employed in terms of tax contribution into system exist in the Czech Republic. According to the Czech Statistical office depended employers contributed to the tax system in amount of 82.7 billion CZK (3.5 million dependent employees recorded) in 2013, while the self-employed contributed just only in amount of 1.7 billion CZK (950 000 the self-employed registered) at the same year. Hence, I tend to support recently passed tax amendment associated with the cap of lump sum expenses.

Corporate Income Tax

The recommendation concerns with CIT. Corporation tax is computed on the accounting profit which is narrowed by a company's expenses in both compared countries. As results reveals from graphs 2 and 5, the statutory corporate income rate is laid down at 12.5 % in Ireland, whereas the rate is laid down at 19 % in the Czech Republic. More than the rate itself is interesting frequency of changes by both governments from the year 2000. Czech political establishment has managed to change the corporate rate seven times since 2000 until the present. If we look at the same period in Ireland only three changes of the corporate rate can be seen. Moreover, the current rate 12.5 % is enshrined unchanged in Irish tax legislation from 2003. In my point of view, this is clear message both for existing companies operating in the Irish market and for the prospect foreign investors that stable corporate tax rate was and always will be corestone of Irish Taxation. I do not see this certainty in the Czech tax system.

The majority of the emphasis in the thesis in regards to tax deductible expenses has been place on depreciation allowance or capital allowances in Irish tax terminology. Depreciation schedule is overly complex in the Czech Republic. Six depreciation categories can be found in the system, as compared just with two currently applied in Ireland. As mentioned in capital the allowances section, the green capital allowance which can be completely written-off in year one might be an interesting stimulus for Czech companies. Apart from this allowance, another stimulus which could be adopted from the Irish tax system is a three years tax relief program for Start-up companies. As a future graduate I am profoundly in support of this incentive, since start-ups are a perfect opportunity for graduates to obtain work experience from number of different positions in one company. Additionally, start-ups fuel economic growth and increase innovation in an economy.

On the other hand, there is a factor which is available for business entities in the Czech Republic that does not exist I Irish tax legislation. That is tax relief entitled for companies that employ people with disabilities. It should be the goal of every government to integrate the most vulnerable citizens into society.

7 Conclusion

The main aim of the thesis was to conduct the comparative study about the structure and mechanism of functioning of tax systems in the Czech Republic and the Republic of Ireland. The comparison is primarily focus on direct taxes. Both tax systems has common attributes which are derived from tax harmonization of the European Union. On the other hand many differences exist in the systems due to vastly different historical, political and economic developments in both countries. Results from the comparison and suggestions for the Czech tax system are summarized in this section.

The structure of tax revenues classified according to the OECD revealed that the tax mix in the Czech Republic is an unusual and over reliant on finance sources from social security contribution represented of 44 % of the total tax mix. This is a characteristic feature of the Czech tax system. The dominant financial source is income tax represented 42 % of the total tax revenues in the Republic of Ireland. It was suggested by author to shift excessive burden on direct taxes to indirect ones. Especially property income tax which is highly ineffective and associated with a high administrative burden in the Czech Republic. Hence, it was recommended to adopt a market value assessment of property to the Czech tax system.

The tax quota and the tax implicit rate were used in order to compare the “Macro” aspect of taxation systems. Firstly, these were used to find out on the base of an aggregate quota indicator that the Czech Republic has a much higher tax burden levied on national economy compare to the Republic of Ireland. The difference stands for nearly 6 % with respect to GDP. Nevertheless, both countries hover below the average of European Union. Another indicator was used in order to evaluate tax impact on different economic functions (labor, consumption, capital). The biggest difference was observed in implicit tax rate on labor. The Czech Republic reached figure of 38.8 %, whereas the Republic of Ireland stand for 28.7 % (The EU average was recorded for 36.2 %) The result demonstrates a huge proportion difference on social insurance contribution in relation to total labor cost between both countries.

Effectivity of tax compliance was highlighted in the last section of the first part of practical part. The SME segment in the Czech Republic is pose to higher administrative burden than

in the Republic of Ireland. Business entities need 413 hours to prepare, file and pay tax compared to only 80 hours required for the same process. This forgone time make the tax system a very expensive for business entities operating in the Czech market. Numerous amount of steps such as, methodological support in form of guided videos, helpdesk with tax specialist, user-friendly tax platform and other steps have been proposed by the author in order to mitigate administrative burden. Additionally, the idea of one single collection point should be implemented into the Czech tax system after years of discussions.

Second section of the practical part was devoted to computation of total tax burden on four different types of households upon assumption of three income intervals: **50, 100 and 150** percent of average earnings. The limitation of the study is that tax reliefs are not included in the computation. Apart from contrasting approaches towards to personal income tax, linear taxation is employed in the Czech tax system, whereas progressive approach is utilized in the Republic of Ireland. The biggest difference was in tax base determination itself. In the case of the Republic of Ireland, the base was computed directly from gross wage, however gross wage is inflated by mandatory contribution paid by the employer which is expressed by coefficient 1.34 (so called Super Gross Wage) in the Czech Republic. Findings from tax liability computation of different types of families backs up previous results. Higher tax burden was levied on most of hypothetical Czech households compared to the Irish households. One-earner married couple with two dependent children from case study 3 was the only family with lower effective tax rate across all income intervals. This was caused by non-earner spouse tax credit. The author made the improvement proposal in the form of the complete abolition of Super Gross Wage. Firstly, this step would ease employer's tax burden. Secondly, it would lead to the reduction of the incentive for bogus self-employment agreements. However, we must bear in mind that this shortfall for the state budget needs to be compensated by other resources. The increase of income tax rate might be one of many options. Subsequently, disparity between dependent employees and the self-employed in terms of contribution to the tax system and was pointed out in recommendation part of the thesis. The author is open to discussion about cutback of lump sum expenses which the self-employed are entitled to.

Distinguishing the better tax system is not straight forward process due to fact that there is differentiation in an economic situation in each country. Hence, it is not possible to mark any tax system as optimal. Additionally, each state has different welfare redistribution approach and the size of cash transfers However, The Republic of Ireland could be in many ways an inspiration for the Czech Tax system.

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