

Objective of chapter 1

- The aim of this chapter is to introduce the tax system, which is applied in the Czech Republic. The classification of taxes will be explained. Moreover, the most important tax terms will be introduced.

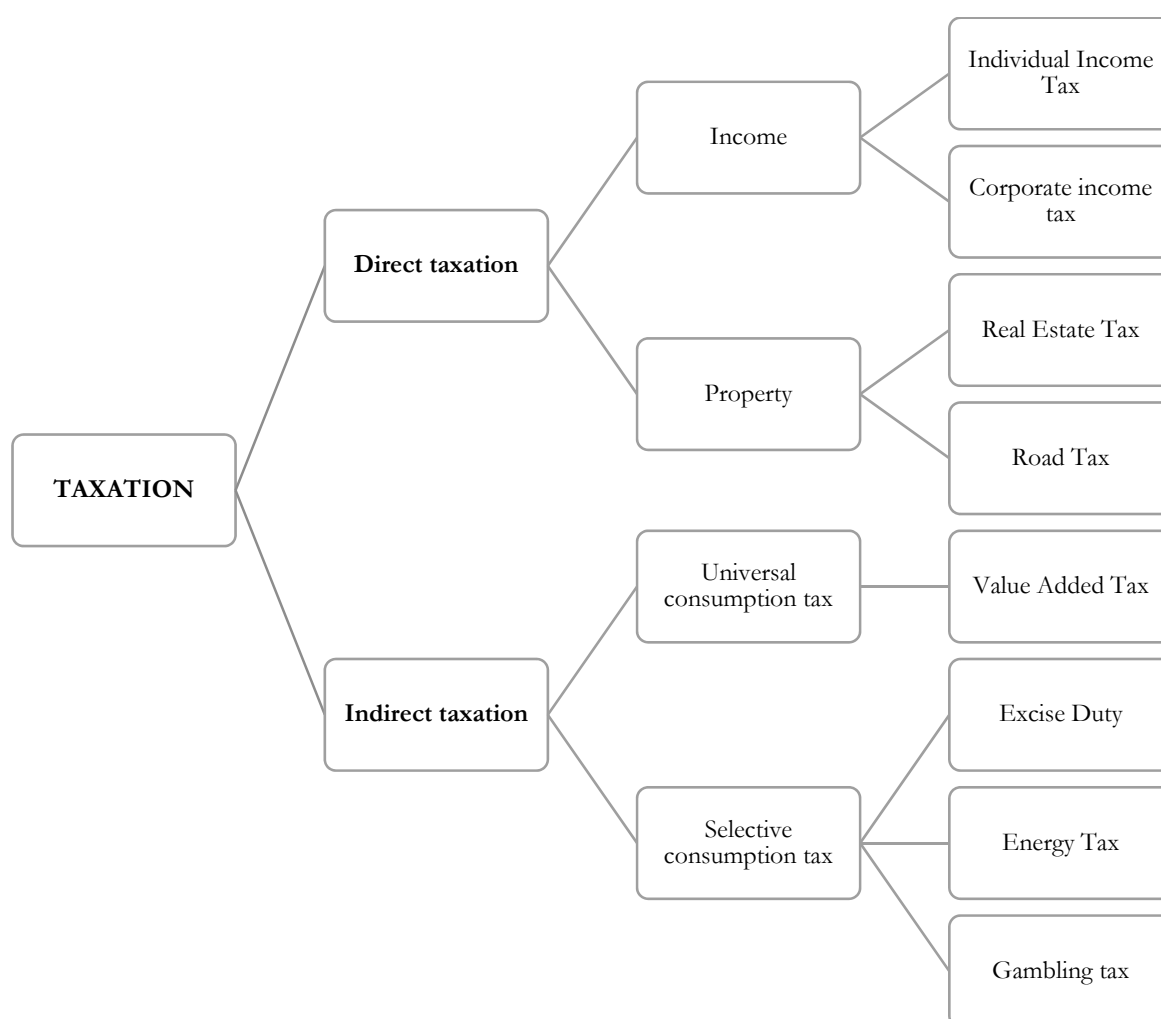
1.1 Czech Tax System



Taxes as obligatory amount defined by law with a laid down rate which is regularly collected from the incomes of economic subjects to the public budgets.

The tax law in the Czech Republic is quite new. After the changes in 1989, there was a need to prepare a completely new tax system because of changing economic and social conditions. Another important change was in 2004 when the Czech Republic became a Member of the European Union. There are many EU Directives, which all Member States should follow, especially in case of indirect taxes. However, the European Union is trying to standardise the field of direct taxes, as well.

Schema 1: Tax system in the Czech Republic



The most typical and most common tax classification is according to **tax impact**. From this point of view, the taxes are divided into two groups: direct taxes and indirect taxes.

Direct taxes are assessed to every taxpayer according to his/her incomes, property and they usually respect the personal situation of the taxpayer. The group of direct taxes includes income taxes, road tax, and real estate tax. On the other hand, **indirect taxes** are paid and collected in the prices of goods and services and do not respect the personal situation of the taxpayer. As the most important indirect tax we can consider value added tax (VAT). Among the other indirect taxes belong excise duty taxes, energy taxes (representing environmental tax), and gambling tax.

From a point of tax theory, it is important to mention that the taxes should meet some functions. The most important are the following:

- **Fiscal function** – the most important one. Its purpose is to guarantee the income to public budgets. Tax revenues can be the most significant income for these budgets.
- **Regulatory function** – the taxes can be used as a tool on how to effectively correct the incomes while transferring money between economical subjects and public funds. A good tax system can influence the effectiveness of the economy.
- **Stimulatory function** – using several tax rates which can stimulate the development of some activities or stifle others.
- **Stabilisation function** – the objective of taxes is to decrease the fluctuation caused by the economic cycle.



1.2 Basic Taxation Terms and Definitions

Tax object – as an object we call everything on which the tax is levied. It is usually obvious from the title of the tax. The taxes are levied on incomes, possession (ownership), using property, transferring property or consumption.

Taxpayer – as a taxpayer we can consider a natural person or legal entity whose income, property, or legal transactions are object of taxation.

Tax-payor – a natural person or legal entity that has responsibility to calculate the tax, collect it, withheld it and transfer it in time to the tax administrator.

Tax base – it could be expressed in natural or monetary units. In case of income taxes, it is economic income; for VAT and partly for excise duty, it is a value; for real estate tax the tax base is determined by area.

Tax rate – it is the algorithm how to calculate tax liability.

- **fixed amount** – fixed amount of money irrespective of the amount of the tax base,
- **percentage tax rate** – the tax liability is calculated as a multiplication of percentage and tax base. The percentage tax rate could be:
 - linear – same percentage for all tax base (also called as flat tax rate),
 - progressive – the higher the tax base is, the higher the percentage is,
 - degressive – the higher the tax base, the lower the percentage is.

Tax period or taxable period – as a tax/taxable period we can consider any time interval for which we are supposed to pay taxes. It could be a calendar month, quarter, or year.

Tax return – special form which the taxpayer is obliged to fill in and submit to tax authority (it is a declaration of tax liability calculation).



1.3 Vocabulary

English expression	Czech expression
Advance tax payments	Zálohy na dani
Corporate income tax	Daň z příjmů právnických osob
Corporate tax rates	Sazba daně z příjmů korporací (právnických osob)
Direct tax	Přímá daň
Dividend	Dividenda, podíl na zisku
Energy taxes	Energetické daně
Employment income	Příjem ze závislé činnosti (zaměstnání)
Excise duty tax	Spotřební daň
Exempt income	Osvobozený příjem
Gambling tax	Daň z hazardu
General partnership	Veřejná obchodní společnost
Income tax	Daň z příjmů
Indirect tax	Nepřímá daň
Individual income tax	Daň z příjmu fyzických osob
Interest	Úrok
Joint-stock company	Akciová společnost
Limited liability company	Společnost s ručením omezeným
Limited partnership	Komanditní společnost
Payor (Tax-payor)	Plátce daně
Property tax	Majetková daň
Real estate tax	Daň z nemovitých věcí
Road tax	Silniční daň
Selective consumption tax	Selektivní spotřební daň
Tax	Daň
Tax avoidance	Legální způsob optimalizace daňové povinnosti
Tax base	Základ daně
Tax bracket	Daňové pásmo
Tax Code	Daňový řád
Tax credits	Slevy na dani
Tax evasion	Nelegální způsob vyhýbání se placení daní
Tax object	Předmět daně
Tax/taxable period	Zdaňovací období
Tax rate	Sazba daně

English expression	Czech expression
Tax liability	Daňová povinnost
Tax resident	Daňový rezident
Tax return	Daňové přiznání
Taxable income	Zdanitelný příjem
Taxpayer	Poplatník daně
Overpayment of tax	Přeplatek na dani
Underpayment of tax	Nedoplatek na dani
Universal consumption tax	Všeobecná spotřební daň
Value Added Tax	Daň z přidané hodnoty
Withholding tax	Srážková daň