Abstract: - Tax could be defined as mandatory, irreversible, non-purpose, non-equivalent payment into the public budget. There are two important types of taxes in every tax system, namely direct and indirect taxes. Indirect taxes have different persons as payer and taxpayer that means one person is burdened by the tax (taxpayer), while the other person is paying this tax to the Tax Office. This article deals with value added tax as the most important indirect tax and its position in tax system of the Czech Republic.

Key-Words: - Czech Republic, direct tax, indirect tax, tax, tax system, value added tax.

1 Introduction

Tax policy in the Czech Republic depends heavily on tax coordination and harmonization in the framework of the European Union (EU), where membership has been dated from 2004. National tax policy has to take into account process of European unification of legislative norms, statistical returns systems and methods, coordination of economic and social policies, sector policy for industry, agriculture, energy, transportation, and cohesion policy.

Tax policy has extensive economic, social, and political consequences. This policy influences both the efficiency of utilization of resources and the income distribution on the microeconomic level, while it influences production, employment, prices, and economic growth on macroeconomic level. Taxes have an effect on the economy primarily through the influence on the capital market and labour market.

The complexity of the analysis of tax influence on economic growth consists in the determining how is the tax burden moving and who is burdened with this tax burden in the whole process from the production through the distribution up to the consumption. The shift of the tax burden occurs when together with imposition of new tax is changing also the price of taxable goods or service. Thus can the producer shift the tax either on the consumer (price increase) or on the employees (decrease of employment and salary costs). [9]

The aim of this article is the analysis of position of value added tax in the Czech Republic.

2 The Tax Burden in the Czech Republic in International Comparison

The aggregate indicator of tax burden is called “compound tax quota” and could be calculated as a share of tax revenues (including social security contributions and health insurance) on the gross domestic product (GDP). In the Czech Republic, the total tax burden is well below the average of EU countries. In 1993, this indicator was 42.9% and it has been annually decreasing as one of the few countries. In 2010, the compound tax quota dropped to 33.8% in the Czech Republic, which presents the average of OECD countries. [10] However, the average tax burden in EU-27 was 39.6%, and it exceeded 40% in EA-17 (40.2%). Together with the long-term growth of total tax rate in OECD countries and in the EU is changing also the tax structure. The personal income tax remains the main source of tax revenues, but the share of these taxes is decreasing. The fastest growing tax revenues in industrially advanced countries were revenues from consumption taxes, from VAT (value added tax), and from social security contributions.

The causes of compound tax quota decline in the CR are among others reducing of direct taxes and large tax evasions. The reduction of income tax rates will have to be compensated as elsewhere in the world especially due to the increase of VAT rates (or taxes on property and income of higher or middle income groups). Faster decline of compound tax quota in CR in the past decade was supported also due to gradual harmonization of methodology of tax burden survey with EU countries (Eurostat) and with OECD. These institutions revised the methodology of calculation of total tax burden according to the compound tax quota in 2004. Changes occurred both in total tax revenues calculation (numerator) and in GDP calculation (denominator) due to harmonizing of methodology.
In the case of the CR it was a significant increase of GDP due to including of overlooked or undervalued items such as amortization of transport networks, of services related to housing, etc. This revised value should significantly change the approach to evaluation of tax system in the CR in the points of view both of fiscal policy reforms, and of analysis and recommendations from international organisations.

In most of industrially advanced countries there are long-term increase of the share of taxes on GDP, increase of the share of public spending on GDP, and increase of the rate of its redistribution through the public budgets. Adolf Wagner, German economist, pointed this tendency already in 19th century. [5] The other reason for this tendency (increase of the share of taxes and public spending on GDP) is also the fact, that together with the increase of national wealth is growing also the amount of amortization, and requirements on maintaining of the status quo and on the development of achieved level are growing as well. [7] One of the causes of the growth of the tax burden and of the share of public spending on GDP is also applied methodology, where all government expenditures become costs in the year of building or machine acquisition (and not only in the amount of depreciation as it applies for private companies). The upward pressure on public spending (supported also by the disposable nature of government capital expenditures associated with the new investment) gradually manifests also in the tax burden increase. [11]

The tendency to increase the tax burden is undermined by international tax competition. National governments are facing pressures to compete with one another by reducing tax rates or by offering special tax incentives. The mechanism of tax competition is the ability of the taxpayer to shift income to another taxing region with lower effective rates. Most of countries try to redesign their tax systems and reduce tax structure and tax burdens in order to effectively compete in the new world economy. However, some tax practices are anti-competitive and undermine fair competition and public confidence in tax systems. The result will be an erosion of the fiscal capacity of different countries, which will undermine economic and political stability, state institutional fundamentals and leads to state system decay both on central and municipal levels. Transparency and information exchange for tax purposes can ensure that taxpayers have no place to hide their income and assets and they pay the right amount of tax in the right municipality where infrastructure and other regional sources were exploited. [6]

3 Value Added Tax Analysis
As mentioned above, the overall tax burden in the Czech Republic is declining, but the structure of tax revenues is changing. The fastest growth was in VAT revenues which reached 40.51% of tax revenues in 1993, and 49.58% in 2011 (excluding social security contributions and health insurance). [10]

The VAT in the EU is a general, broadly based consumption tax assessed on the value added to goods and services. It applies more or less to all goods and services bought and sold for use or consumption in the EU; goods sold for export or services sold to customers abroad are normally not subject to value-added tax. VAT is charged as a percentage of prices, meaning that the actual tax burden is visible at each stage in the production and distribution chain.

The VAT in the Czech Republic was legally introduced in the concept of the new tax system on 1st January 1993 by the Act No. 588/1992 Coll., about the value added tax, as subsequently amended. The tax then replaced the turnover tax and since its introduction it has undergone through a lot of changes. Originally the standard rate of the tax was set at 23% and the reduced rate of the tax was 5%. Since 1993 there have been 30 amendments of the VAT law.

In 2012 the VAT in the Czech Republic is charged at two rates. The standard rate of 20% applies on the sale of goods and services; the reduced rate of 14% applies on the sale of certain goods such as food products, pharmaceuticals products as well as on some services. Certain services (e.g. postal, broadcasting, banking, insurance, financial, health and social welfare, transfer and lease of land and buildings or structures, provision of lotteries and similar games of chance and education) are exempted without credit for input tax. [14]

The following Fig. 1 shows the overview of the development of VAT collecting in the years 1993-2011 in the Czech Republic. From this Fig. 1 is obvious that the collected amounts show a rising trend apart from the only exception in 2009, when the tax collection could be influenced by the economic crisis (GDP and other macroeconomic ratios were also affected).
As mentioned in [12] “The VAT collection has almost doubled since 2000. This growth is connected with the macroeconomic ratios – growing GDP, growing final consumption expenditure and inflation. Simultaneously, the internal change of the structure of value added taxes is taking place. The category of goods and services in the reduced rate are transferred into the standard rate – that is from the 5% rate into the 19% rate. This situation has proven to be the most evident in the building industry and the real estate business.”

According to the OECD the compound tax quota has been decreasing from 40.39 % in 1993 to 34.90 % in 2010. The share of VAT on these relative numbers has been remaining basically unchanged for the whole period (approximately 7%). [10] The effort to increase the government tax revenues through the increase of VAT rates could lead into the decreasing of household consumption, which participates by 52% on GDP measured by expenditure method in CR. In order to ensure also slight growth of GDP and employment, the decrease of household consumption would have to be balanced by additional government spending, by higher private investments, or by higher export. In the case of public finance deficit and in the time of savings of public spending, the main factor of sustain economic growth remains the stimulation of domestic investment, or radical changes in the area of support of Czech exports.

The share of taxes on goods and services (consumption taxes and VAT) on the total tax revenues in OECD countries has been stable for the whole period; it is around 10% in the relation to GDP. In increasing international tax competition, the rate of corporate income tax is decreasing in most countries, and this tendency will probably continue. Taxes on property reach on average 5% from the total amount of collected taxes in OECD countries. The position of property taxes on the total tax revenues was only 0.43% (respectively 1.06% from the total collected taxes) in the CR in 1993, and 0.44% (respectively 1.27%) in 2010. Taxes on property are the lowest from all OECD countries in the Czech Republic and in Slovak Republic, therefore it is possible to assumed significant increase of these taxes in the future (real estate taxes, including land, and taxes on property transfers).

The main factors narrowing the space for changes of total tax burden are common criteria in the areas of fiscal policy and of taxes (the size of deficit of public budgets, the size of public debt, the level of consumption taxes, VAT). Tax coordination and harmonization with EU and OECD countries lead to the change of tax structure. According to the plan of the EU, the group of goods and services with low VAT rate must gradually narrow, the consumption taxes on cigarettes and on hydrocarbon fuels and lubricants will increase, and therefore the amount of collected indirect taxes will increase.

The nominal tax rate for corporate income tax has been decreasing continuously, however, average real tax burden could rise with new and explicit definition of tax costs (because of tax evasions decreasing). There could assert itself the tendency to property tax increase in the area of direct taxes (like in the EU and OECD countries). The decrease of social security and health insurance contributions would probably linked to increase of tax rate in the highest income zone. This would decrease also the space for tax evasions connected with the creation of funds for social security and health insurance. It would prevent also the favouring of companies which are not in the commercial register. [1]
The revenues from VAT collection have been increasing for the whole period except the year 2009 [see Fig. 1], while the VAT rates have been both increasing and decreasing. The VAT was established in the year 1993 in Czech Republic with basic rate 23% and lower rate 5%. In the year 1995, the basic rate was decreased on 22%, and this value lasted for 10 years until 2004. The revenues from VAT collection increased for 113.8% within this period [see Fig. 2], while the share of VAT on the total tax revenue oscillated around 40% [see Fig. 3]. Together with the entrance in the EU in 2004 was the basic rate decreased to 19%, the lower rate was not changed, and the revenue increased for 28.3% within 3 years. The share of this tax was again almost without any change. Since 2008, the gradually increase of tax rates has begun. First of all, the lower tax increased from 5% to 9% in 2008. The revenue from VAT collection has been growing substantially the same rate as in previous periods, however, there was a small decrease in the year 2009 compared with 2008. The government reacted on this development by another increase of tax rates; the basic rate increased on 20% and lower tax on 10% since 2010. The tax revenue began to rise again, but the growth rate was much slower. The significant increase has been in the share of VAT on the total tax revenues since 2009, while this share has been reached almost 50% [see Fig. 2]. However, this development is not the result of VAT rates increase; it is a result of decrease of tax revenues from the other taxes (especially direct ones). From presented data is obvious that the VAT rates increase had negative influence on tax collection increase. While within the period of stable or decreasing rates (1993–2007) was the average annual growth rate 8.42%, within the period of increasing rates (2008–2011) has been the average annual growth rate decreasing to 3.95% (that means more than half). The similar development could be assumed also in the year 2012, when the lower tax was increased on 14%.

4 Conclusion
The economist analysis dealing with the relations between taxation rate and economic growth do not produce clear results. These analyse show that the correlation between taxes and growth could be either insignificant, or slightly positive, or slightly negative. Positive effect of taxes is given in context with higher supply of quality public goods and services, which allow increasing of the productivity of labour and capital, and therefore support the economic growth; government transfers could decrease large social disparities, enhance the social cohesion, and reduce the occurrence of negative social phenomena. According to the other studies (OECD and other sources) can 10% decrease of tax rate increase annual economic growth for
approximately 0.5%. However, this concern only countries with well above average tax burden. [1] However, these conclusions must be evaluated with great caution, because the simulation models do not take into consideration whole complex of structural characteristics and connections of real economy. The influence of taxes on functioning of the economy is hence largely indeterminate, unstable, and controversial. [9]

Together with the income tax rates decrease in the CR and in most OECD countries, there is also increase of indirect taxes, especially VAT, as an assumption of maintenance or enlargement of public spending. The problems in the area of public finance (high and still growing deficit of state budget, growth of state and public debts) and also growing problems in economic and social areas (growing social disparities, unemployment, criminality, etc.) lead into searching for additional resources both for stimulation of social and economic development, and for maintenance or restoration of basic state functions. With a certain time lag, then there occurs increase of VAT, but also increase of direct taxes (income taxes and property taxes especially for high or medium income groups). The consequence of this process is a situation, when in all industrially advanced countries is changing the tax structure within the tax reform, but in the long-term point of view the share of taxes on GDP is constantly growing, the share of public spending on GDP is rising, and therefore the rate of its redistribution through public budgets is increasing. [8] The compound tax quota in the CR will probably increase after previous impairment to the average of the EU which means 40% of GDP, especially as a result of VAT rates increase and tax evasions reduction.

The Czech Republic belongs to the group of countries with the lowest tax burden measured through the share of total tax revenues on GDP. Nevertheless, there is a space for further tax reduction, but only under some assumptions: to reduce tax evasion and tax avoidance of some economic subjects; to rationalize and diminish total government, regional, and municipal expenditures; to implement tax expenditures; to redistribute the European Union’s funds under the same conditions as in previous years; to increase public debt; to use revenues coming from privatization and public sector activities.

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