

Work Motivational Impacts of Tax Change Proposals on Employees¹

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Summary

- We quantify the ex-ante effects of changes to taxes and compulsory employee contributions proposed in the government's consolidation package. We compare the proposed package to the current tax system and to the pre-2021 system, and to IDEA & PAQ's April 2023 tax change proposal. We thus extend IDEA & PAQ's recent joint analysis, which described the impacts on average taxation and tax revenues to public budgets², using a detailed analysis of work motivation impacts.
- The government's consolidation package will increase the average labour levy by 0.45 percentage points for almost 95% of employees. For employees with monthly incomes over 3 times the average wage, the labour levy burden will increase by 1 to 2 percentage points. Employees with incomes of around CZK 30,000 per month will be most affected by the changes; they will also lose their current low-income spouse allowance. For these employees, the tax burden will increase by more than 5 percentage points.
- By limiting the low-income spouse discount to cases in which the spouse is caring for a child under the age of three, the number of employees eligible for the discount will fall by 45%, from more than 170,000 today to 95,000. As part of this move, around 20,000 pre-retirement and retirement households will lose their entitlement to the rebate.
- Reducing the threshold for the second highest personal income tax rate from 4 to 3 times the average gross wage will create a new group of employees in the tax system who will face a higher marginal tax rate. Employees with incomes between 3 and 4 times the average wage will now face a marginal tax rate 17 percentage points higher than employees with incomes above 4 times the average wage (the maximum social security assessment base). The group of employees with incomes above 4 times the average wage will continue to face a marginal tax liability lower than most other employees.
- Compared to the pre-2021 tax system (before the abolition of super gross pay taxation and the gradual increase in the taxpayer rebate), around 90% of employees will still benefit from the current government package. Only around a tenth of employees at the lowest incomes will be worse off, as they will not be financially helped by the tax changes implemented after 2020 and will also be affected by the reintroduction of compulsory sickness insurance contributions and/or the restriction on the spouse's allowance.

Original study in Czech "*Pracovně motivační dopady návrhů daňových změn na zaměstnance*" [▶](#)

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2 IDEA and PAQ Study, 2023: *How to Save the State Budget and Fix Revenue Tax Shortcomings?* https://idea.cerge-ei.cz/files/PAQ_Research/IDEA_PAQ_Reforma_DPFO.pdf