Taxing Wages - The Czech Republic

Tax on labour income

The tax wedge is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

**TAX WEDGE ON LABOUR INCOME**

\[
\frac{\text{Personal income tax + employer and employee social security contributions (SSCs)} - \text{Family Benefits}}{\text{Total labour costs (gross wages + employer SSCs)}}
\]

**Single worker**

The tax wedge for the average single worker in the Czech Republic remained the same by 0.0 percentage points from 43.9% in 2019 to 43.9% in 2020. The OECD average tax wedge in 2020 was 34.6% (2019, 35.0%). In 2020, the Czech Republic had the 6th highest tax wedge among the 37 OECD member countries, compared with the 7th in 2019.

In the Czech Republic, income tax and employer social security contributions combine to account for 81% of the total tax wedge, compared with 76% of the total OECD average tax wedge.

**Average tax wedge: average single worker, no children**

**One-earner married couple with two children**

The tax wedge for a worker with children may be lower than for a worker on the same income without children, since most OECD countries provide benefits to families with children through cash transfers and preferential tax provisions.

The Czech Republic had the 20th highest tax wedge in the OECD for an average married worker with two children at 26.1% in 2020, which compares with the OECD average of 24.4%. The country occupied the 21st highest position in 2019.

Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In the Czech Republic in 2020, this reduction (17.8 percentage points) was greater than the OECD average (10.2 percentage points).
Tax wedge trends between 2000 and 2020

In the Czech Republic, the tax wedge for the average single worker increased by 1.3 percentage points from 42.6% to 43.9% between 2000 and 2020. During the same period, the average tax wedge across the OECD decreased by 1.8 percentage points from 36.4% to 34.6%.

Between 2009 and 2020, the tax wedge for the average single worker increased by 1.9 percentage points in the Czech Republic. During this same period, the tax wedge for the average single worker across the OECD increase slowly to 35.5% in 2013 and 2015 before decreasing back to 34.6% in 2020.

Employee tax on labour income

The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

In the Czech Republic, the average single worker faced a net average tax rate of 24.9% in 2020, compared with the OECD average of 24.8%. In other words, in the Czech Republic the take-home pay of an average single worker, after tax and benefits, was 75.1% of their gross wage, compared with the OECD average of 75.2%.

Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in the Czech Republic was 1.1% in 2020, which is the 34th lowest in the OECD, and compares with 12.9% for the OECD average. This means that an average married worker with two children in the Czech Republic had a take-home pay, after tax and family benefits, of 98.9% of their gross wage, compared to 87.1% for the OECD average.

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EMPLOYEE NET AVERAGE TAX RATE

(Employee personal income tax and employee social security contributions) – Family Benefits

Gross wages

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