EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

MINISTERSTVO ŠKOLSTVÍ, MLÁDEŽE A TĚLOVÝCHOVY

WWW.VSE.CZ

Personal Income Tax

Taxpayers of PIT

- Taxpayers:
  - Tax resident has a residency in the CZ or have spent at least 183 days in the calendar year in the CZ.
    - There are two exceptions from the rule above:
      - the purpose of studies,
      - the purpose of cure.
    - Czech tax residents have worldwide tax liability in the Czech Republic
  - Tax non resident has a residency in other country or have spent in the CZ less then 183 days in the calendar year (days are counted each day of stay).
    - Czech non-residents have tax liability limited on income from source in the Czech Republic.

Object of the PIT

- **All kinds of incomes of individuals are object of this tax including benefits (non-monetary).**
- Excluded incomes:
  - Loans and credits
  - Other special incomes – detailed information in § 2 ITC

Exempted Incomes (selected incomes)

- **Social transfers** (social security benefits, e.g.: pensions are tax-free up to the limit)
- **Compensations for damages** (exemption: if is property included in trading assets for the activity that generated the income from business activities at the time of the damage)
- **Some incomes from property sales** (time tax test – the period between the acquisition and the sale)
- Benefits for persons with health disabilities, benefits in material need
- Support or contributions from trade unions
- Services provided to soldiers in the armed forces
- Etc.

Incomes from Sales of Property

- **Generally are property sales tax-free**
- Exceptions:
  - Motor vehicles, aircraft or ships are tax-free 1 year after acquisition (the period between acquisition and sale is more then 1 year)
    - Movable property which is or 5 years before the sale was included in the business assets = not tax-free sale
  - Income from the **sale of a house** and the related land, or a **unit (flat)** that does not include commercial space other than the garage, basement or storage room, and related land if the seller had **resided** there for at least **2 years** immediately before the sale = tax-free income
    - The sale of the immovable property, if they are or have been included in business assets, and up to 2 years following their removal from business assets = tax-free income
  - Income from the sale of other immovable property (which is not mentioned in the paragraph 4 ITC) - if the period between the acquisition and the sale is more then 5 years

The Structure of PIT Base

- **Five different parts of tax base = partial tax bases:**
  - Incomes from dependent activity
  - Incomes from independent activity
  - Capital income
  - Rental income
  - Other income

Calculation of PIT Base

- Incomes from dependent activity
- + social security contributions (34 %)
- = partial tax base/tax loss is not allowed
- Incomes from independent activity
- - expenses
- = partial tax base/tax loss
- Capital income = mostly separate tax bases/other incomes are taxed in partial tax base/tax loss in not allowed
- Rental income
- - expenses
- = partial tax base/tax loss
- Other income
- - expenses on other incomes (according to separate incomes up to each income)
- = partial tax base/tax loss is not allowed
- = **TOTAL TAX BASE**

Incomes from Dependent Activity (1)

- Salaries, wages…
- Team member, shareholder in LLC, limited partner of LLC…
- Members of a legal entities

Incomes from Dependent Activity (2)

- **Excluded incomes:**
  - Travel expenses
  - Value of personal protective equipment
  - Working tools
  - Etc.
- **Exempted incomes:**
  - Non-alcoholic beverages
  - Expenses on recreation of employees (up to 20 000 CZK/year)
  - Contributions to pension insurance and life insurance (together up to 30 000 CZK/one employer/one year)

Separate Tax Base from Dependent Activity

- In case that taxpayer does not sign the taxpayer declaration (no tax credits can be claimed) and income during one month does not exceed the CZK 10,000 (contract for work in Czech „DPP“ mainly used for part-time jobs)
- = Single tax base and it is taxed by special tax rate 15 % without any claim on tax credits or other relief
- Note = this „DPP“ is not object of social security contributions in the CZ as well

Calculation of Net Wage

Item	CZK
Gross wage	30,000
Super-gross wage * 1,34	40,200
SSC paid by employer (34 %)	10,200
SSC paid by employee (11 %)	3,300
Tax base of PIT	40,200
PIT 15 %	6,030
Basic tax credit on taxpayer	2,070
Total tax liability (PIT)	3,960
Net wage (GW – SSC by employee – total tax liability)	22,740
Implicit tax rate of PIT (all SSC+PIT/super-gross wage)	43.4 %

source: author

Calculation of „DPP“

Item	CZK
Gross income	10,000
Tax base	10,000
PIT 15 %	1,500
Basic tax credit	2,070
Total tax liability of PIT	0
Net wage	10,000

source: author

Incomes from Independent Activity (1)

- Incomes from agricultural activity and forestry and water management
- Incomes from craft activity
- Incomes from other non-craft activity
- Incomes from other self-employment activity (medicine doctors, tax advisers, auditors, lawyers…)
- Incomes from intellectual property and copyrights (patents, software…)
- Incomes from independent activities (athletes, architects, authorized experts, artists…)

Incomes from Independent Activity (2)

- Taxpayers (independent activity) can reduce their incomes by expenses
- Tax loss is allowed
- They have to register their expenses:
  - Tax records – evidence about incomes and expenses and assets and debts of taxpayer (based on cash principle) – typical for taxpayers of PIT = „simple accounting“
  - Book-keeping (accounting) – according to law
- Lump-sum expenses (% ratio from incomes)

Lump-sum Expenses

Type of Income	2004	2005	2009	2019
Agricultural activity	50 %	80 %	80 %	80 % max. CZK 800,000
Craft activity	25 %	60 %	80 %	80 % max. CZK 800,000
Non-craft activity	25 %	50 %	60 %	60 % max. CZK 600,000
Other business and independent activity	25 %	40 %	60 %	40 % max. CZK 400,000
Incomes from transfer of use copyrights	30 %	40 %	60 %	40 % max. CZK 400,000

source: author

Calculation of Lum-sum Expenses

Item	CZK/per year
Gross income (non-craft activity)	2,200,000
Real expenses (tax records)	800,000
Lump-sum expenses (60 %) – up to CZK 600,000	600,000
Partial tax base	1,400,000
PIT (15 %)	210,000
Tax credit (basic)	24,840
PIT – tax credit	185,160
Implicit tax rate PIT (lump-sum expenses)	8.4 %

source: author

Business Property

- It is very necessary to keep apart a property, which is used for private purposes and a property, which is used for business activities.
- In small business is very difficult to separate these activities one by one, hence the Czech ITC defines a concept of business property.
- The taxpayer has to divide incomes and expenses on personal and business part.
- Typical example are expenses on car:
  - Fuels (petrol, oil…)

Example – Business Property

- Car used for business (80 %) and private purposes (20 %). Ratio 80:20 is based on km travelled.
- Fuel: CZK 68,000
- Tax depreciation: CZK 40,000
- Road tax: CZK 2,500
- Repair: CZK 20,000
- **Total tax expenses:** (68,000 + 40,000 + 20,000) * 0,8 + 2,500 = **CZK 104,900**

Separate Tax Base from Independent Activity

- Incomes of authors in newspapers, magazines, television and radio
- Income in one month does not exceed CZK 10,000
- = Single tax base taxed by special tax rate 15 %

Capital Incomes (1)

- Capital incomes are incomes from holding capital assets
- Most of capital incomes are single tax base
- The reason is to simplify the tax liability for individual taxpayers
- It is easier for taxpayers and also for the state authority (tax administrator)
- Taxpayer (company) is responsible for tax payment
- Mostly there are no expenses and other tax reliefs

Capital Incomes (2)

- Capital incomes are:
  - Dividends
  - Profit-sharing partnership contributions from participating in the business
  - Interest from loans, obligations…
  - Etc.

Rental Incomes

- Rentals of movable property and real estates
- Real estates in all cases
- Movable property for long term period
- Expenses/tax loss is allowed
- Expenses:
  - Special evidence of expenses
  - Lump-sum expenses 30 % (max. CZK 300,000)

Other Incomes

- All other incomes
  - Occasional incomes
  - Winnings
  - Sales of assets/property
  - Other incomes which are not tax-free
  - Etc.
- Expenses up to each income separately
- Tax loss is not allowed

Total Tax Base vs. Partial Tax Base from Dependent Activity

- The total **tax base** from PIT is a sum of five partial tax bases
- The total tax base (= tax base) can not be lower than tax base from dependent activity

Example – Partial Tax Base from Dependent Activity

Partial Tax Base	CZK
Dependent activity	500,000
Independent activity (tax loss)	-600,000
Capital income	0
Rental income	50,000
Other income	0
Total tax base (= dependent activity)	500,000
Tax loss (= Rental income – independent activity)	550,000

source: author

Calculation of PIT

- Tax base (sum of partial tax bases)
- (-) tax deductions
- = tax base reduced by deductions (rounded down to CZK 100)
- (x) tax rate 15 % (or solidarity tax surcharge 7 %)
- (-) tax credits
- = tax liability/negavite tax

Solidarity Tax Surcharge

- Extra 7 %
- Gross incomes from dependent activity (social security contributions are not included) + partial tax base from independent activity
- MINUS
- 48x average wage (CZK 32,699)
- Tax loss from independent activity is allowed – it is reducing the partial tax base from dependent activity

Example – Solidarity Tax Surcharge

Item	CZK
Gross income from dependent activity	1,000,000
Partial tax base from dependent activity	1,340,000
Partial tax base from independent activity	1,500,000
Sum of dependent acitivity and independent activity	2,500,000
48x average wage	1,569,552
Tax base for solidarity tax surcharge	930,448
Solidarity tax surcharge 7 %	65,131.36
Tax base for PIT (15 %)	2,840,000
PIT (15 %)	426,000
Tax credit	24,840
Total tax liability	466,291.36

source: author

Tax deductions

- Examples of tax deductions:
  - Mortgage interest (up to CZK 300,000 for household per year)
  - Donations for public organizatios (at least CZK 1,000 and maximum 15 % from total tax base)
  - Pension insurance contributions (first CZK 12,000 are excluded, maximum limit is 24,000 CZK/year)
  - Life insurance contributions (maximum limit is 24,000 CZK/year)
  - Trade union contribution (maximum 3,000 CZK/year or 1,5 % of taxable incomes according to social security insurance)
  - Tax loss (carry forward for 5 consecutive years at maximum)
  - Expenses on R&D (same rules as for CIT)

Tax Rates of PIT

- Nominal tax rate (normal tax base):
  - 15 %
- Solidarity tax surcharge:
  - 7 %
- Special tax rate (separate tax base):
  - 15 %

Tax Credits (1)

Tax credit	CZK/per year
Basic tax credit	24,840
Spouse tax credit	24,840
Partial disability tax credit	2,520
Full disability tax credit	5,040
Holder of ZTP/P card	16,140
Student	4,020
Tax credit for 1st child	15,204
Tax credit for 2nd child	19,404
Tax credit for 3rd+ child	24,204
Preschool tax credit	max. 13,350

source: author

Tax Credits (2)

- Spouse tax credit: the annual income of spouse can not exceed CZK 68,000
- Student tax credit: the age of student can not exceed 26 years (or 28 years in case of Ph.D. students)
- All tax credits: (except for tax credit on depending child/children) – the relevant date is the beginning of month
- Tax credit for depending child/children: depending child, which lives in common household (can be stepchild), up to 26 years (in case of studies)
- Tax credit for depending child: the relevant is month of birth
- Tax credit for depending child: tax liability can be negavite = negative tax = total sum of tax credit on depending child is higher than total tax liability
- Preschool tax credit: payment for preschool child care institution up to CZK 13,350 per year/per child
- Tax credits can be used on monthly bases (typical for employees) except for spouse tax credit and preschool tax credit (we have to respect the ITC conditions based on year income or expenses)

Monthly Tax Credits

Tax credit	Monthly amount of tax credit in CZK
Basic tax credit	2,070
Spouse tax credit	-
Partial disability tax credit	210
Full disability tax credit	420
Holder of ZTP/P card	1,345
Student	335
Tax credit for 1st child	1,267
Tax credit for 2nd child	1,617
Tax credit for 3rd+ child	2,017

source: author

Scheme of Calculation of Tax Credit for Depending Child

- Tax liability before tax credits
- (-) tax credits (except for tax credit for depending child)
- = tax liability after tax credits (0 or more)
- (-) tax credit for depending child/children
- = Tax liability or negative tax)

Calculation of Negative Tax

Item	CZK/per year
PIT before tax credits	30,000
Basic tax credit on taxpayer	24,840
Spouse tax credit	24,840
PIT after tax credits (except for tax credit for depending child)	0
Tax credit for child	15,204
Negative tax (tax refund)	15,204

source: author

Collection of Tax

- Tax liability
- (-) tax prepayments by employer (dependent activity)
- (-) tax prepayments by taxpayer (independent activity)
- = tax liability/tax overpaid

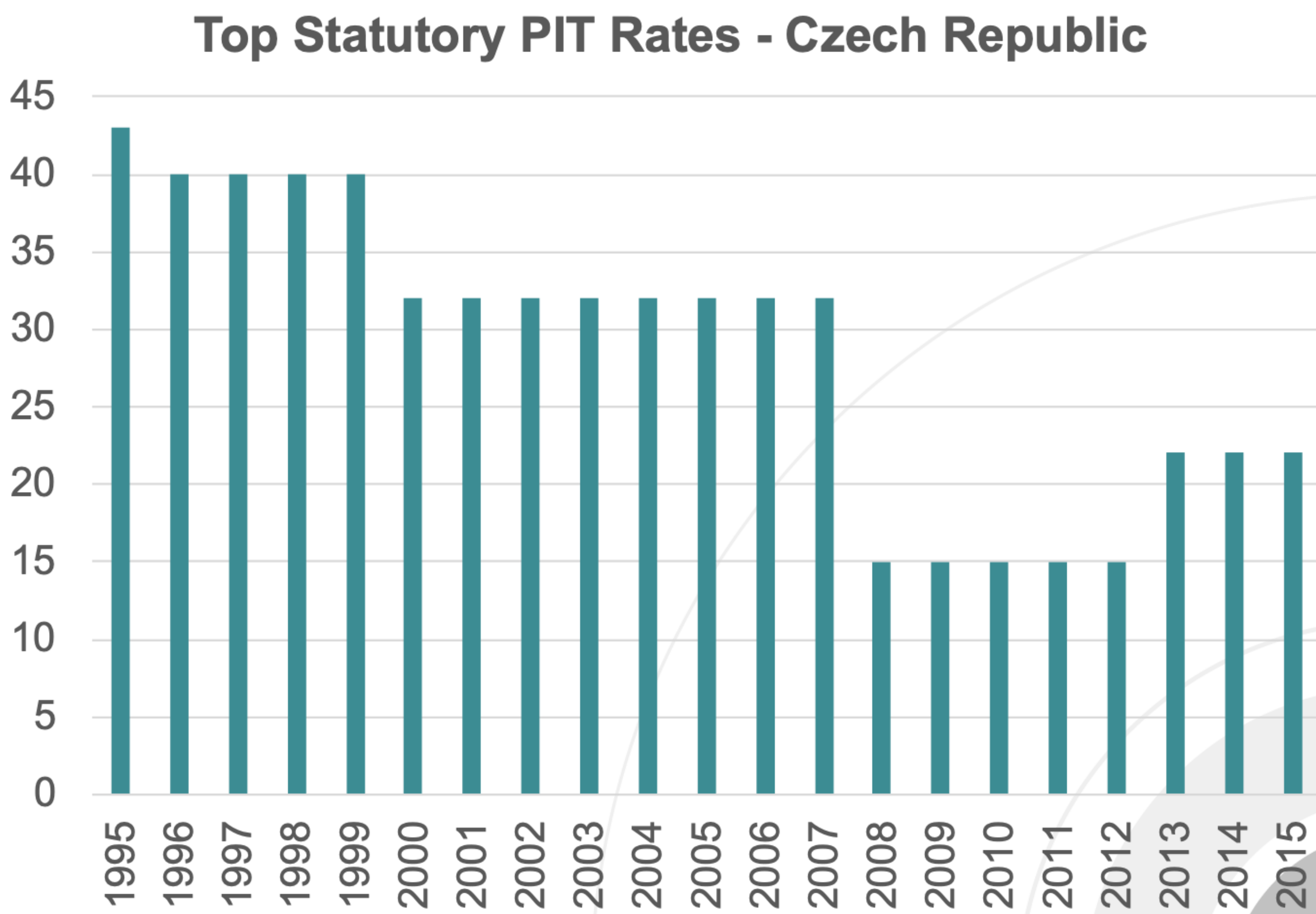
Example (Tax liability)

- Annual gross income: 400,000 CZK/year
- Tax prepayments by employer: CZK 10,000
- Annual income spouse: CZK 58,000
- Amount of donations for public organizations: CZK 18,000
- Mortgage interest: CZK 24,000
- Pension insurance: CZK 24,000
- Life insurance: CZK 20,000
- Taxpayer have 2 children (10 a 13 years old)
- Task: Tax liability of taxpayer in 2019

Tax wedge components as a % of labour costs in 2014

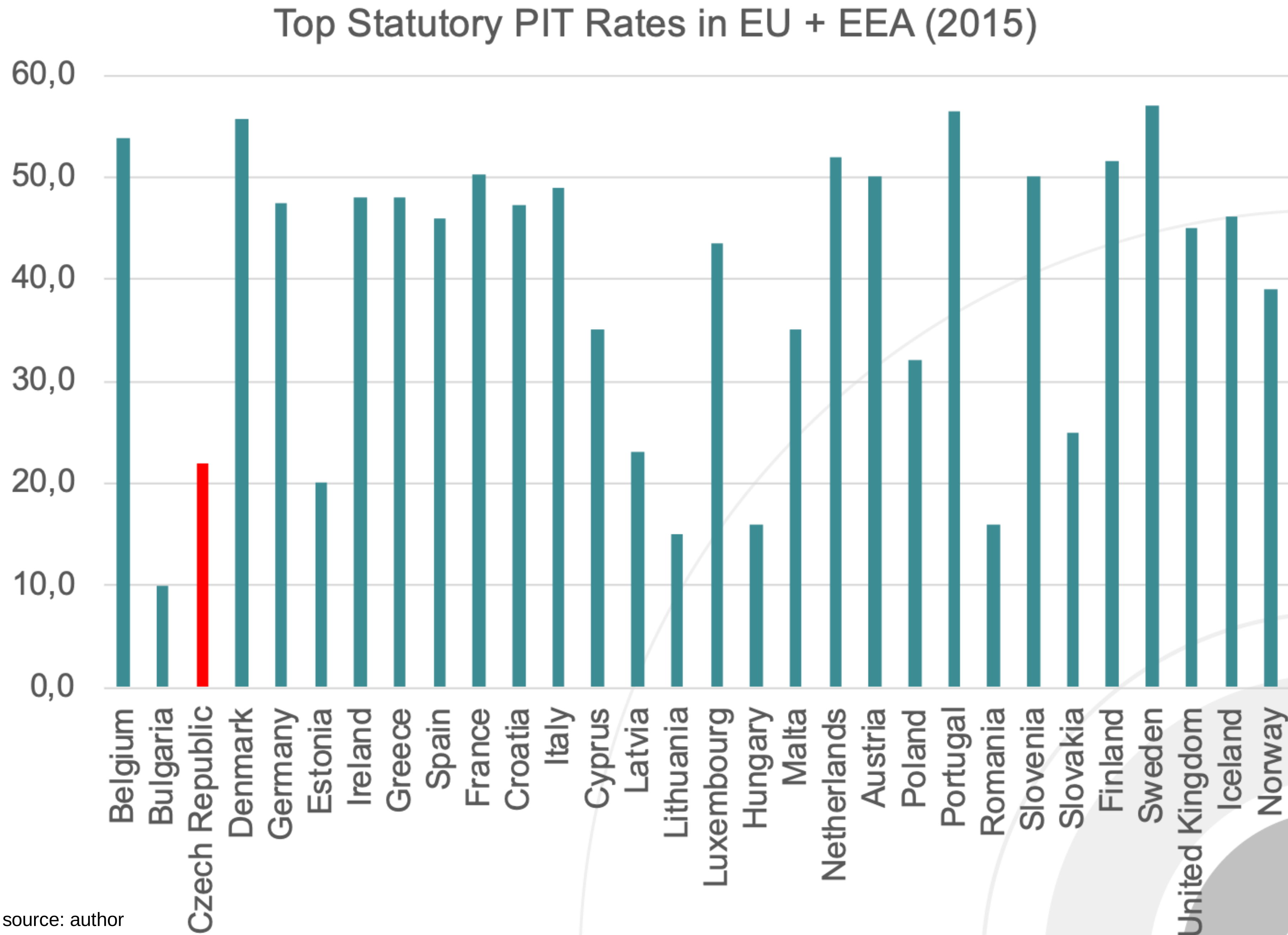
source: author

	Income tax	Employee SSC	Employer SSC
Belgium	21,8	10,8	23,0
Austria	12,8	14,0	22,6
Germany	16,0	17,1	16,2
Hungary	12,5	14,4	22,2
France	10,6	10,2	27,7
Italy	16,7	7,2	24,3
Finland	18,3	6,5	19,1
Czech Republic	9,1	8,2	25,4
Sweden	13,2	5,3	23,9
Slovenia	9,6	19,0	13,9
Portugal	13,1	8,9	19,2
Slovak Republic	7,2	10,2	23,8
Spain	12,8	4,9	23,0
Greece	7,1	12,7	20,6
Estonia	13,2	1,5	25,4
Turkey	10,6	12,8	14,9
Denmark	35,6	2,8	0,0
Netherlands	14,6	13,9	9,2
Luxembourg	15,7	11,0	11,0
Norway	18,3	7,3	11,5
OECD (36.0%)	13,4	8,3	14,3
Poland	6,0	15,3	14,4
Iceland	26,1	0,4	7,1



source: author

WWW.VSE.CZ



source: author

International Comparison OECD: Taxing Wages

Austria: Non-standard Tax Reliefs

	Public transport	
	Available	Not available
More than 2 km	0	372
More than 20 km	696	1 476
More than 40 km	1 356	2 568
More than 60 km	2 016	3 672

source: author

Belgium: Lump-sum Deduction + Work-related Expenses

Salaried employees and self-employed professionals are entitled to a standard deduction for work-related expenses. This deduction may under no circumstances exceed respectively EUR 4 320 per spouse for salaried employees and EUR 4 060 per spouse for self-employed professionals and is computed as follows:

The lump-sum deduction for business expenses for employees has been increased as of income year 2015 and has also been revised for income year 2016. The lump-sum deduction for business expenses for self-employed professionals remains unchanged.

Gross earnings less social insurance contributions (EUR)	Rate (%)
Below 8 620	30
Between 8 620 and 20 360	11
Above 20 360	3

For self-employed professionals:

Gross earnings less social insurance contributions (EUR)	Rate (%)
Below 5 870	28.70
Between 5 870 and 11 670	10
Between 11 670 and 19 420	5
Above 19 420	3

source: author

Denmark: Standard Tax Reliefs + Tax Credits

Wage or salary earners who make expenses in order to earn their income (e.g. transport expenses, trade union membership dues, unemployment premiums) can fully deduct these expenses from taxable income.

The tax credit scheme allows the taxpayer to deduct 8.75% of earned income to a maximum of DKK 30 000 in order to calculate taxable income. Single parents get an extra employment allowance of 5.75% in 2017 with a maximum allowance of DKK 19 800. The effective value of the credit is equal to the municipality tax (24.91%) plus the 2.0% health care tax rate that is paid to the state (26.91% on average) multiplied by the value of the deduction.

For central government income tax	10.08% of DKK 45 000 = DKK 4 536
For central government health care tax	2.00% of DKK 45 000 = DKK 900
For municipal income tax	24.913% of DKK 45 000 = DKK 11 211

source: author

Estonia: Non-standard Tax Reliefs

- II pillar pension contributions: In 2017, these represent voluntary payments to private funds for all employees and are paid at a rate of 2% or 3% of earnings.
- Occupational accident and illness benefits that are not paid as insurance benefits are deductible from taxable income within the limit of EUR 768 per year.
- Housing loan interest, educational costs, gifts and donations are deductible from taxable income within upper limits of EUR 1 200 and 50% of taxable income per year. Housing loan interest deductions upper limit is EUR 300 within that EUR 1200 from 2017.
- Voluntary pension contributions (III pillar): Contributions paid by a resident to the provider of a pension plan based in Estonia or in another EU Member State according to a pension plan that is approved and entered into a special register in accordance with the pension legislation are deductible from taxable income. In 2017 such deductions are subject to an annual limit of a sum equal to 15% and maximum of EUR 6 000 of the employee's, public servant`s or members of legal person management or control body income in a calendar year.

source: author

Finland I: Standard Reliefs

- Work-related expenses: A standard deduction for work related expenses equal to the amount of wage or salary, with a maximum amount of EUR 750 is granted.
- Tax credit: An earned income tax credit is granted against the central government income tax. If the credit exceeds the amount of central government income tax, the excess credit is deductible from the municipal income tax and the health insurance contribution for medical care. The credit is calculated on the basis of taxpayers' income from work. The credit amounts to 12% of income exceeding EUR 2 500, until it reaches its maximum of EUR 1 420. The amount of the credit is reduced by 1.51% of the earned income minus work related expenses exceeding EUR 33 000. The credit is fully phased out when taxpayers' income is about EUR 128 000.
- Child tax credit: The credit is granted to taxpayers who have children in their care and custody according to the Population Register System records. It is given for four children at most. All parents and custodians get it regardless of which one of them has the child(ren) living with them. The size of the child tax credit depends on the number of children and whether the taxpayer has joint custody or single custody: for joint custody the credit is EUR 50 per year and child, and for single custody it is EUR 100 per year and child. If net taxable income exceeds EUR 36 000 per year (earned income and capital income combined), the credit is reduced. For the part of the income exceeding the threshold, the amount to be credited is phased out by a one percentage point rate. The child tax credit is will be in force from 2015 through 2017.

source: author

Finland II: Non-standard Tax Reliefs

- Interest: Interest on loans associated with the earning of taxable income, 45% of the interest on loans for the purchase of owner-occupied dwellings, and student loans guaranteed by the state can be deducted against capital income. Of the excess of interest over capital income, 30% (32% for first-time homebuyers) can be credited against income tax up to a maximum of EUR 1 400.
- Membership fees: Membership fees paid to employees' organisations or trade unions.
- Travelling expenses: Travelling expenses from the place of residence to the place of employment using the cheapest means in excess of EUR 750 up to a maximum deduction of EUR 7 000.
- Double housing expenses: If the place of employment is located too far from home in order to commute (distance > 100 km), the taxpayer can deduct the costs of hiring a second dwelling located near the place of work up to EUR 250 per month. This deduction can be claimed only by one person per household.
- Other work-related outlays: Outlays for tools, professional literature, research equipment and scientific literature, and expenses incurred in scientific or artistic work (unless compensated by scholarships).

Travelling expenses and other work related outlays are deductible only to the extent that their total amount exceeds the amount of the standard deduction for work related expenses.

source: author

France I: Standard Reliefs

- Work-related expenses, corresponding to actual amounts or a standard allowance of 10% of net pay (with a minimum of EUR 430 and a ceiling of EUR 12 305 per earner).
- Family status: The "family quotient" (quotient familial) system takes a taxpayer's marital status and family responsibilities into account. It involves dividing net taxable income into a certain number of shares [two shares for a married (or "PACSed") couple, one share for a single person, one half-share for each dependent child, an additional share for the third and each subsequent dependent child, an additional half-share for single parent, and so on]: the total tax due is equal to the amount of tax corresponding to one share multiplied by the total number of shares. The tax benefit for a half-share is limited, however, to EUR 1 527 per half-share in excess of two shares for a couple, or one share for a single person, except for the first two half-shares granted for the first child of a single parent, in which case the maximum benefit is EUR 3 602.

source: author

France II: Non-standard Tax Reliefs

Certain expenditures to improve or maintain the taxpayer's primary residence, including outlays for heat insulation or heating adjustments, major capital expenditures and money spent to equip a home to produce energy from a renewable source (30% tax credits, subject to a multi-year maximum); compensatory allowances in case of divorce if paid in a lump sum (25% reduction, capped at EUR 30 500); child care costs for children under seven (50% reduction, up to annual expenditure of EUR 2 300); dependent children attending secondary school or in higher education; donations to charities or other organisations assisting those in needs; trade union dues, etc. The exemption of the employer's participation to the collective contracts of supplementary health cover is abolished in the budget act for 2014 (i.e. income earned in 2013).

source: author

Germany I: Reliefs for Children

- Relief(s) for children: As of 1 January 2017, there are increased tax credits of EUR 2 304 for the first and the second child, of EUR 2 376 for the third child and of EUR 2 676 for the fourth and subsequent children. There is a tax allowance of EUR 2 358 for the subsistence of a child and an additional EUR 1 320 for minding and education or training needs (EUR 3 678). The amount of this allowance is doubled in case of jointly assessed parents. If the value of the tax credit is less than the relief calculated applying the tax allowances, the taxpayer obtains the tax allowance instead of the tax credit. It is also doubled for lone parents in cases where the other parent does not pay alimony. This is the assumption in the calculations presented in this Report.

source: author

Germany II: Non-standard Tax Reliefs

- Contributions to pensions, life insurance, superannuation schemes: Other expenses than the compulsory contributions to social security are deductible as reliefs for (voluntary) social security contributions up to specific ceilings (see section 1.1.2.1.).
- Medical expenses: Partially deductible if not covered by insurance.
- Other: Work related expenses that exceed the lump-sum allowance are fully deductible (no ceiling).

source: author

Greece: Non-standard Tax Credits

- by EUR 1 900 for annual income up to EUR 20 000, for taxpayers with no dependent children
- by EUR 1 950 for annual income up to EUR 20 000 for taxpayers with one dependent child
- by EUR 2 000 for annual income up to EUR 20 000 for taxpayers with two dependent children
- by EUR 2 100 for annual income up to EUR 20 000 for taxpayers with 3 dependent children or more;
- for income exceeding EUR 20 000, the above mentioned tax credit is being reduced by EUR 10 for every EUR 1 000 of taxable income

In order to maintain the above tax reduction under this, the taxpayer is required to make payments of acquiring goods and receiving services within the country or in Member States of the European Union or EEA, which have been paid through electronic payments, the minimum amount of which is determined as a percentage of taxable income, in accordance with the following scale:

source: author

Hungary I: Standard Reliefs

- Family tax allowance: For families having children, the basis of income tax can be reduced by the family tax allowance, which amounts to HUF 66 670 per month (for families having one child), HUF 100 000 per month/each dependent (for families having two children) or HUF 220 000 per month/each dependent (for families having at least three children). This tax allowance can be applied by a pregnant woman (or her husband) as from the 91st day after conception until birth of the child. The tax allowance may be claimed by one spouse or be split between the spouses. As of 1 January 2014 the family tax allowance was extended: families whose combined PIT base is not sufficient to claim the maximum amount of the family tax allowance can deduct the remaining sum from the 7% health insurance contribution and the 10% pension contribution. This measure does not affect the eligibility for social security benefits (pensions, healthcare, transfers, etc.).

source: author

Hungary II: Non-standard Tax Reliefs

- Trade Union membership dues: Membership dues and contributions paid to trade unions and other corporate bodies of employees are deductible without any restriction.
- Tax credits are made available for physical disability or agricultural activities. Tax deduction is available for those having income from abroad.
- From 1 January 2015 for newly married couples (where it's the first marriage for at least one of the parties) the basis of income tax can be reduced by HUF 33 335 per month for one person of the couple for 24 months.

source: author

Iceland I: Standard Reliefs

- Basic tax credit: A fixed tax credit, amounting to ISK 634 880 in 2017, is granted to all individuals 16 years and older, regardless of their marital status. The tax credit is deducted from levied central and local government taxes. Unutilised tax credits or portions thereof are wastable, i.e. non-refundable and non-transferable between tax years.
- Standard marital status relief: Married couples may utilise up to 100 of each spouses' unutilised portion of his/her basic tax credit.
- Relief(s) for children: None.
- Relief(s) for compulsory pension contributions: The compulsory payment to pension funds amounts to 4% of wages and is deductible. In addition, an optional payment of up to 4% of wages may also be deducted. As the additional 4% contribution is optional, it is viewed as a non-standard relief in this Report.

source: author

Iceland II: Non-standard Tax Reliefs

- Interest payment relief: A fully refundable tax credit is granted to purchasers of personal dwellings (homes) to recuperate a part of mortgage-related interest expenses. The maximum tax related interest credit in 2017 is ISK 400 000 for a single person, ISK 500 000 for a single parent and ISK 600 000 for a married couple. The following constraints apply to interest rebates: 1) they cannot exceed 7.0% of the remaining debt balance incurred in buying a home for one's own use. 2) The maximum amount of interest payments that qualify for an interest rebate calculation is ISK 800 000 for an individual, ISK 1 000 000 for a single parent and ISK 1 200 000 for a couple. 3) 8.5% of taxable income is subtracted from the interest expense. 4) The rebates begin to be curtailed at a net worth threshold of ISK 4 500 000 for a single individual and a single parent and ISK 7 300 000 for a couple and are eliminated altogether at a 60% higher amount, or ISK 7 200 000 and 11 680 000, respectively. (These amounts are based on income in the year 2017 but are paid out in 2018. These numbers are estimates; final figures will be available once the 2018 budget has been passed).

source: author

Ireland I: Standard Reliefs

- Basic reliefs: The single person's credit is EUR 1 650 per year.
- Standard marital status reliefs: The married person's credit is EUR 3 300 per year (i.e. twice the basic credit of EUR 1 650).
- Employee credit: With the exception of certain company directors and their spouses and the spouses of partners in partnership cases, all employees, including (subject to certain conditions) children who are full-time employees in the business of their parents, are entitled to an employee credit of EUR 1 650.
- Earned Income credit: Individuals in receipt of earned income are entitled to an earned income credit of EUR 550 for 2017 et seq. Note: The combined employee credit and earned income credit is limited to EUR 1 650.
- One-Parent Family credit: The single parent family credit is EUR 1 650.

source: author

Ireland II: Non-standard Tax Reliefs

- Interest on qualifying loans: This relief can no longer be claimed by new applicants but those who had claimed prior to 2012 are still eligible for relief up to 2017 inclusive. The relief varies between 25% and 15% of the following limits.

	First time mortgage holders	Other mortgage holders
Married couple	EUR 20 000	EUR 6 000
Widowed person	EUR 20 000	EUR 6 000
Single person	EUR 10 000	EUR 6 000

source: author

Ireland III: Non-standard Tax Reliefs

- Work related Expenses: These are relieved to the extent that they are wholly, exclusively and necessarily incurred in the performance of the duties of an employment.
- Home Carers Allowance: This is a tax credit of EUR 1 100 for families where one spouse works at home to care for children, the aged or incapacitated persons, where the carer spouse's income does not exceed EUR 7 199. A reduced measure of relief is granted for income between EUR 7 200 and EUR 9 200: if the income exceeds EUR 7 200 the tax credit is reduced by one half of the income of the Home Carer that exceeds this limit. This credit and the increased standard rate tax band for two income couples (see tax schedule below) are mutually exclusive but the person may opt for whichever is the more beneficial. If the Home Carer earns income of up to EUR 7 200 in his/her own right for the tax year, the full tax credit may be claimed. For the purposes of this tax credit, income means any taxable income such as income from a part-time job, dividends, etc. but does not include the Carer's Allowance payable by the Department of Social Protection.

source: author

Israel I: Standard Tax Credits

- Basic credit: Every resident taxpayer is entitled to 2.25 credit points (ILS 5 805 in 2017).
- Additional credit for women: Women are entitled to a further half credit point (ILS 1 290 in 2017).
- Child credit: Working mothers (and fathers in one parent families) with children aged under 18 are entitled to one additional credit point per child (ILS 2 580 in 2017). In 2012 this credit was increased to 2 credit points per child aged under 5 (ILS 5 160 in 2017). Since 2012, married working fathers with children aged under 2 are also entitled to 2 credit points per child. For the years 2017-18, the credit for both parents was temporarily increased to 2.5 credit points per child aged under 5. Since, according to the Taxing Wages methodology, the children in the model are between 6 and 11 inclusive, this change wasn't included in the model.
- Single parent credit: Single parents (male or female) are entitled to one additional credit point (ILS 2 580 in 2017).

source: author

Israel II: Non-stanard Tax Credits

- Tax credits are awarded for contributions to approved pension schemes, up to a ceiling which varies according to the employee's circumstances.
- Employees living in certain development areas or in conflict zones receive credits as a percentage of their income up to ceiling. In 2017, a comprehensive reform was implemented, where the average credit was decreased but the number of beneficiaries more than doubled. In 2017 the credits range from 7 % in the lowest category to 20% in the highest category with ceilings of ILS 132 000 and 241 080 respectively. About 20% of the population lives in these areas.
- New immigrants are entitled to three additional credit points in their first eighteen months in Israel, two additional credit points in the following year, and one credit point in the year after.
- Discharged soldiers receive 2 credit points for three years after the completion of at least 23 months of service or 1 credit point for a shorter service.
- Graduates of academic studies receive 1 credit point for three years after the completion of a B.A. degree (or after the completion of 1 700 study hours that led to a professional certificate) and 0.5 credit point for two years after the completion of a M.A. degree.

source: author

Italy I: Tax Credits

Italy increased the basic employee tax credit from EUR 1 840 to EUR 1 880 and as from 2014 introduced an additional refundable tax credit of EUR 960 for employees with income between EUR 8 146 and EUR 24 000, with a phase-out for income between EUR 24 000 and EUR 26 000.

Taxable income (EUR)	Fiscal bonus (EUR)
Up to 8 145	0
From 8 146 to 24 000	960
From 24 001 to 26 000	960*(26 000 – taxable income)/2 000
More than 26 000	0

- Standard tax credits (not refundable)

  The PAYE tax credit is defined as a function of net income:

Taxable income (EUR)	PAYE tax credit (EUR)
Up to 8 000	1 880
From 8 001 to 28 000	Maximum tax credit + 902*(28 000 – taxable income)/20 000
From 28 001 to 55 000	Maximum tax credit*(55 000 – taxable income)/27 000
More than 55 000	0

source: author

Italy II: Tax Credits

- Tax credits for family dependents (not refundable)

The tax credits for family dependants, which have replaced the former tax allowances, are as follows:

Family tax credit (EUR)*	Amount (EUR)
Spouse	800 decreasing to 0 for net income over 80 000
Children	
Under three years of age	1 220 decreasing to 0 for net income over 95 000
Over three years of age	950 decreasing to 0 for net income over 95 000
Other dependent relatives	750 decreasing to 0 for net income over 80 000

* Tax credits are granted for family dependents earning less than EUR 2 840.51

The spouse tax credit is calculated as a function of net income:

Level of taxable income (EUR)	Amount of tax credit (EUR)
Up to 15 000	800-110*taxable income/15 000
From 15 001 to 29 000	690
From 29 001 to 29 200	700
From 29 201 to 34 700	710
From 34 701 to 35 000	720
From 35 001 to 35 100	710
From 35 101 to 35 200	700
From 35 201 to 40 000	690
From 40 001 to 80 000	690*(80 000-taxable income)/40 000
More than 80 000	0

source: author

Italy III: Non-standard Tax Allowances and Tax Credits

- Other compulsory contributions;
- Periodical benefits allowed to the spouse fixed by judicial authority;
- Charitable donations to certain religious institutions (up to EUR 1 032.91);
- Medical and assistance expenses incurred by handicapped persons;
- Expenses to restore one's own residence at 50% for 2015 of full expenses up to EUR 96 000, apportioned into 10 annual allowances of the same amount;
- Expenses for energy requalification of buildings at 65% for 2015 of full expenses apportioned into 10 annual allowances of the same amount;
- Expenses for the replacement of covers, windows and shutters and for the installation of solar panels (only for hot water production) at 65% of full expenses (up to EUR 60 000).

For the following expenses, a tax credit of 19% of each incurred expense is allowed:

- Mortgage loan interest (up to EUR 4 000);
- Most medical expenses that exceed EUR 129.11;
- Payments to insurance funds up to EUR 1 291.14;
- Expenses to attend secondary school and university courses; in case such courses are private, the expenses allowed cannot exceed those foreseen for State courses;
- Expenses for nursery school (up to EUR 632 for each child);
- Rents paid by out of town students (up to EUR 2 633);
- Funeral charges up to EUR 1 549.37;
- Expenses for disabled persons;
- Donations to political parties (ranging from EUR 51.65 to EUR 103 291.38);
- Payments to foundations (up to EUR 2 065.83);
- Expenses related to sport activities for children between 5 and 18 years of age (up to EUR 210 per child).

source: author

Japan I: Standard Reliefs

- Basic allowance: a taxpayer may deduct JPY 380 000 as a basic allowance from his or her income.
- Allowance for spouse: a tax allowance up to JPY 380 000 is given to a resident taxpayer lives with a spouse whose income does not exceed JPY 380 000.
- Allowance for elderly spouse: a tax allowance up to JPY 480 000 is given to a resident taxpayer
  - who lives with a spouse of 70 years old and over, whose income does not exceed JPY 380 000,
  - instead of the allowance for spouse mentioned above.
- Special allowance for spouse: a tax allowance up to the amount shown in the following table is given to a resident taxpayer whose income does not exceed JPY10 000 000 and who lives with a spouse:

Spouse's income JPY	Amount
0-380 000	0
380 000-400 000	380 000
400 000-450 000	360 000
450 000-500 000	310 000
500 000-550 000	260 000
550 000-600 000	210 000
600 000-650 000	160 000
650 000-700 000	110 000
700 000-750 000	60 000
750 000-760 000	30 000
760 000 or more	0

source: author

Japan II: Non-standard Tax Reliefs

- Credit for housing loans: A resident taxpayer who constructs, purchases, enlarges or rebuilds a house and finances the cost by means of a housing loan and uses the property as his or her own dwelling is entitled to an income tax credit up to the amount described below for 10 years [or 15 years] after the first use of the house, provided that the floor space is not less than 50m2 and that at least half of the floor space is used as the owner-occupied dwelling. The tax credit is calculated based on the remaining housing loan debt amount and the years which the taxpayer has lived in the house. The loan can consist not only from private financial institutions but also from public institutions. This tax credit cannot be claimed by those whose total income is more than JPY 30 million.

- Deduction for life insurance premiums: If a resident taxpayer pays insurance premiums on life insurance contracts and the beneficiary is the taxpayer, his/her spouse or other relatives, the portion of these insurance premiums which does not exceed the limit described below, is deductible from ordinary income, retirement income or timber income.

source: author

Korea I: Standard Reliefs

- Employment income deduction: the following deduction from gross income is provided to wage and salary income earners:

Salary	Deduction
Up to KRW 5 000 000	70%
KRW 5 000 000 to KRW 15 000 000	KRW 3 500 000 plus 40% of the salary over KRW 5 000 000
KRW 15 000 000 to KRW 45 000 000	KRW 7 500 000plus 15% of the salary over KRW 15 000 000
KRW 45 000 000 to KRW 100 000 000	KRW 12 000 000 plus 5% of the salary over KRW 45 000 000
Over KRW 100 000 000	KRW 14 750 000 plus 2% of the salary over KRW 100 000 000

source: author

Korea II: Standard Reliefs

- Basic allowance: a taxpayer can deduct KRW 1 500 000 from his/her income for each person who meets one of following conditions:
  - the taxpayer him/herself;
  - the taxpayer's spouse whose taxable income (gross earnings net of employment income deduction) is less than KRW 1 000 000 (Spouse only have a salary earned income is less than KRW 5 000 000);
  - the taxpayer's (including the spouse's) dependents (parents, siblings, children) within the same household whose income after accounting for the employment income deduction is less than KRW 1 000 000 (Dependent only have a salary earned income is less than KRW 5 000 000) and whose age is:

    1. parents: 60 years or older;
    2. brother/sister: 60 years or older or 20 years or younger;
    3. children: 20 years or younger (if both partners in the household earn wage-income, this Report assumes that the principal wage earner will claim the allowance).

source: author

Korea III: Non-standard Tax Reliefs

- Insurance premiums: the Medical insurance premium and the Unemployment insurance premium can be entirely (100%) deducted from taxable income.
- Saving/Payment for housing: 40% of deposits of an account for purchasing a house, which is held by a person who does not own a house, or owns only one house that is smaller than 85 square miles in size and whose price is KRW 300 million or less, 40% of repayments of loans including interest borrowed for the purpose of the lease by a person owning no house may be deducted up to three million won per year. Credit card purchases: Employees may deduct 15% of their credit card (30% of their debit card, prepaid card or cash receipt) purchases that exceed 25% of their total income up to lesser of KRW 3 000 000 or 20% of their total income. However, for expenditures spent for traditional markets and public transportation, the allowed deduction is equivalent to 30% of the expenditure and the ceiling is raised by an additional KRW 1 000 000 respectively.

source: author

Korea IV: Tax Credits

- Where a resident with taxable income has dependent children including adoption, he/ she gets annual tax credit of KRW 150 000 for having a child, KRW 300 000 for having two children and KRW 300 000 plus KRW 300 000 per an excess child over two children in case of having more than three children.
- Resident gets additional tax credit of KRW 150 000 per a child who is under 6 years of age from second child;
- Resident gets tax credit of KRW 300 000 for first child, KRW 500 000 For Second Child, KRW 700 000 for Third child or more for birth and adoption of the year;

source: author

Latvia: Standard Tax Reliefs

The *differentiated non-taxable minimum* will vary depending on income level: higher for lower wages, but less for higher wages (see table below). Besides it provides that two parallel non-taxable minimums will be apply – monthly and annual.

Differentiated non-taxable minimum criteria's

	2016	2017
Maximum non-taxable minimum, *EUR per month*	100	115
Minimum non-taxable minimum, *EUR per month*	75	60
Taxable income* minimum threshold up to which the maximum annual non-taxable minimum will be applied, *EUR per month*	380	400
Taxable income* maximum threshold up to which the annual non-taxable minimum will be applied, *EUR per month*	1 000	1 100

* When calculating the taxable income not only wages, but also other income (such as dividends and income from real estate) will be taken into account. Similarly, if a person works in several jobs, the salaries will be added together and the non-taxable minimum will be applied to total revenue.

source: author

Luxembourg I: Standard Tax Reliefs

- Wage-earners are entitled to a standard minimum deduction of EUR 540 for work-related expenses other than travel, unless their actual deductible expenses are higher. This deduction is doubled for spouses taxed jointly.
- The first 4 distance units (i.e. 4 * 99 = EUR 396 per year) of the lump sum deduction for travel expenses between a taxpayer's home and his working places are abolished. The maximum deduction will be limited to EUR 2 574 per year.
- Like other taxpayers, wage-earners having no special expenses (interest charges, insurance premiums or contributions other than for social security) may take a standard deduction of EUR 480 for special expenses. Actual insurance premiums are deductible up to the limit set by law.
- If both spouses have earned income and are taxed jointly, they qualify for an earned income allowance of EUR 4 500.
- Social security contributions: contributions paid to compulsory health insurance and pension schemes are deductible in full.
- Dependency insurance: the dependency contribution is not deductible for income tax purposes.

source: author

Luxembourg II: Non-standard Tax Reliefs

- Interest charges are deductible insofar as they are not considered operating expenses or acquisition expenses, and provided they are unrelated economically to the exempt income. .
- Taxpayers may deduct premiums paid to insurers licensed in an EU country in respect of life, death, accident, disability, illness or liability insurance, as well as dues paid to recognised mutual assistance companies.
- From 2017 onwards, the deductibility of interest charges and for insurance and legal responsibility is aggregated under one category and limited to EUR 672.
- Payments to an insurance company or credit institution in respect of an individual retirement scheme are deductible. These payments are capped at EUR 3 200 and must meet certain investment policy constraints.
- Contributions to building society savings are deductible up to the limit of EUR 672. If the taxpayer is under 40 years old, this limit will be double to EUR 1 344.
- Interest charges in respect of the rental value of owner-occupied housing are deductible only up to an annual ceiling. During the first five years, the ceiling is EUR 2 000; for the following five years it is EUR 1 500 ; thereafter it is EUR 1 000. These ceilings are increased by an equal amount for the taxpayer's spouse/partner, and for each qualifying child.

source: author

Mexico: Non-standard Tax Reliefs

- Compulsory school transportation costs.
- Medical expenses (doctor, dental, psychology and nutrition fees and hospital expenses): For expenses made by the taxpayer on behalf of his or her spouse and straight line relatives, the deduction is allowed only if the taxpayer's relative earns less than the minimum annual wage.
- Complementary contributions of certain retirement accounts are considered eligible as long as they do not exceed 10% of taxable income and MXN 137 694 (5 annual UMAs).
- Funeral expenses: for the spouse and straight-line relatives up to 1 annual UMA.
- Charitable donations made to institutions such as:
  - Federal, state, and municipal governments.
  - Non-profit organisations involved in the fields of social beneficence, education, culture, and research and technology.
- Deposits on special savings accounts, payments of insurance premium of pension plans, and for the acquisition of shares of investment societies as long as they do not exceed MXN 152 000.
- Health insurance premiums for individuals, if the beneficiary is the taxpayer, and/or his family.

source: author

Netherlands I: Non-standard Tax Reliefs

- For distances of more than 10 km between home and work, fixed amounts for travel expenses with public transportation are deductible. The maximum deduction for employees who travel by public transport is EUR 2 073 for distances of more than 80 km. If the travel expenses are reimbursed or the employer provides transport, there is no deduction; the reimbursement is untaxed (also for employees who travel by car) if it is below certain specified amounts;
- Employee contributions to private (company provided) pension schemes.
- Related to owner occupied housing:
- Excess of mortgage interest over net imputed rent.
- Donations to certain institutions (charity) that serve the public good are deductible if in excess of 1% of the income and in excess of EUR 60. No more than 10% of the income may be deducted in this way.

source: author

Netherlands II: Tax Credits

- Work credit: The amount of work credit depends on taxable income from work and is phased in on two trajectories; the first one runs from EUR 0 till EUR 9 309. On this first trajectory, work credit equals 1.772% of taxable income from work. On the second trajectory, which runs from EUR 9 309 till EUR 20 108, the work credit equals EUR 165 plus 28.317% of the part of income that is above EUR 9 309. So at an income of EUR 20 108, the maximum of EUR 3 223 is reached. The work credit stays at its maximum till an income of EUR 32 444. After this threshold, the work credit is fully phased out at a rate of 3.6% (per euro) so that incomes above EUR 121 972 receive no work credit. 2016 is the first year in which higher incomes receive no work credit.

source: author

Norway: Non-standard Tax Reliefs

The main non-standard allowances deductible from ordinary income are:

- Parent allowance: Documented expenses for child care limited to:
  - maximum NOK 25 000 for one child
  - plus NOK 15 000 for each subsequent child.

The allowance applies in general to the spouse who has the highest income. Unused parent allowance may be transferred to the other spouse. The allowance is also applicable to single parents.

- Travel expenses related to work exceeding NOK 22 000;
- Labour union fees up to NOK 3 850;
- Donations to voluntary organisations up to NOK 25 000;
- Contributions to individual pension agreement schemes, maximum NOK 15 000;
- Premiums and contributions to occupational pension schemes in the private and public sector, unlimited;
- Unlimited deduction for interest payments.

The main non-standard tax credits are:

- Home savings scheme (BSU): The BSU scheme aims to encourage young people (under 34 years old) to save for a future home purchase. A wastable tax credit of 20% of annual savings up to NOK 25 000 in special accounts is granted. Total savings may not exceed NOK 300 000.

source: author

Poland I: Non-standard Tax Reliefs

- Expenses for the purpose of rehabilitation incurred by a taxpayer who is a disabled person, or a taxpayer, who supports the disabled;
- Equivalent of blood donations, donations made for the purposes of public benefit activity and of religious practice – in the amount of donation, no more than 6% of income;
- Donations made for charity church care – in the amount of the donation;
- Expenses incurred for the use of the Internet – a taxpayer is entitled to deduct the Internet tax allowance within the next two years, providing that during the phase preceded this period he did not deduct expenses for the use of the Internet (up to PLN 760);

source: author

Poland II: Tax Credits

- Donation made to public benefit organizations – up to 1% of due tax.[4]
- Abolished tax credits (continued on the acquired rights basis), i.e. expenses for saving with the aim of buying a house or flat, the amount of social contributions paid on income of an unemployed person hired by a taxpayer in order to take care of their children and/or house.

source: author

Portugal: Non-standard Tax Reliefs

For income received from 1 January 1999 onwards, the majority of the standard reliefs have been replaced by tax credits (see Section 1.1.4.).

Non-standard reliefs still in effect:

A deduction is provided for the portion of trade union dues not constituting consideration for benefits in the realm of health care, education, assistance for the elderly, housing, insurance or social security, up to 1% of the taxpayer's gross income, increased by 50%. These dues are not taken into account in the calculations underlying this Report.

source: author

Slovak Republic: Standard Relief

- Basic relief: An allowance for all taxpayers is set at 19.2 times the minimum living standard (MLS) for a basic adult as of 1 January 2017 (EUR 3 803.33). In 2017, the basic personal allowance for taxpayers with gross earnings net of employee social security contributions in excess of the threshold of EUR 19 809 per year (19 809 = 100 × MLS, which is approximately equal to an employee's monthly gross wage of EUR 1 906) is gradually withdrawn. If gross earnings net of employee social security contributions exceed EUR 19 809, the personal allowance is calculated as 44.2 times the minimum living standard minus 0.25 times gross earnings net of employee social security contributions. The basic personal allowance reaches 0 if the gross earnings net of employee social security contributions amount to EUR 35 022.31 per year (employee's monthly gross wage of approximately EUR 3 370). The value of the basic tax allowance cannot become negative.

source: author

Slovenia: Standard Reliefs

- A general (basic) allowance of EUR 3 302.70 is deductible from income in 2017. For lower income groups an additional general allowance of EUR 3 217.12 is deductible when taxable income is lower than EUR 11 166.37 and of EUR 1 115.94 when taxable income is between EUR 11 166.37 and EUR 12 570.89.
- Family allowances are also deductible from the tax base in the same way as for the general allowance. The allowances for 2017 are as follows:
  - EUR 2 436.92 for the first dependent child;
  - EUR 2 649.24 for the second child;
  - EUR 4 418.54 for the third child;
  - EUR 6 187.85 for the fourth child;
  - EUR 7 957.14 for the fifth child;
  - for the sixth and all additional dependent children the allowance is higher by EUR 1 769.30 relating to the amount of allowance for the preceding maintained children;
  - EUR 8 830.00 for a dependent child who requires special care;
  - EUR 2 436.92 for any other dependent family member.
- Relief for social security contributions: Employee's compulsory contributions for the social insurance system are deductible for income tax purposes.
- Tax credits: None for employees.

source: author

Spain: Standard Reliefs

- Basic reliefs: Married couples filing jointly may claim an allowance of EUR 3 400. This figure amounts to EUR 2 150 for heads of single-parent households.
- Maternity tax credit: a non-wastable tax credit addressed to working females with children under 3 years of age up to EUR 1 200.
- Large families (3 or more children) or dependent family members with disabilities tax credits: this additional non-wastable tax credit (up to EUR 1 200, in general, or EUR 2 400 for special large families, with 5 or more children) also may be claimed (within the Taxing Wages framework) by single-parent households with two children.
- Relief for social security contributions: All social security payments are fully deductible.
- Other expenses allowance: up to EUR 2 000, which may be increased by the same amount in case of accepting a job in a different location implying a change of residence.
- Employment related allowance: Net employment income (gross income – employee social security contributions) may be reduced according to the following rules:
  - Taxpayers with net employment income equal or less than EUR 11 250: EUR 3 700.
  - Taxpayers with a net employment income between EUR 11 250.01 and EUR 14 450: EUR 3 700 less the result of multiplying by 1.15625 the difference between net employment income and EUR 11 250.
- Disabled workers allowance: an allowance of EUR 3 500 for disabled salary earners. Those with reduced mobility may claim an augmented allowance of EUR 7 750.

  As a result of the application of the above rules, net income cannot become negative.

source: author