TAX JUSTICE AMONG PERSONAL INCOME TAXPAYERS: FROM THE VIEWPOINT OF RENTAL INCOME AND INCOME FROM THE SALE OF REAL ESTATE

Abstract

The objective of this paper was to make an assessment of tax justice among real estate owners on the basis of comparison of the method of taxation in accordance with § 7 and § 9 (§ 10) of the Income Tax Act. Two different methods of income taxation were evaluated – rental income and income from the sale of property.

Differences in total tax payments were affected by some other compulsory payments, i.e. social insurance and health insurance. Of importance is also § 4 of the Income Tax Act, according to which incomes from the sale of property are tax-exempt if the condition of the length of ownership or the condition of permanent residence is satisfied. Whereas the tax liability of the sole trader (i.e. taxes, social insurance and health insurance) was over 40 %, the tax liability of the taxpayer paying taxes in accordance with § 9 was 1.20%. An increase would be caused by the obligation to pay health insurance provided rental income was the only source of taxable income. For the taxpayer it is advantageous to tax income in accordance with § 9 and not § 7 because he can deduct the same expenses as the sole trader.

The same was evident when sales in accordance with § 7 and § 10 were compared. Even if in §10 no exemption was granted in compliance with § 4, there is still difference in social insurance paid.

Model examples were also used to illustrate tax injustice among taxpayers with the same kind of income, which contradicts the horizontal principle in the Czech Republic.

This paper was funded by IGA Project no. 25/2012 entitled Tax justice in the conditions of the Czech Republic carried out at the Faculty of Business and Economics, Mendel University in Brno.

Key words

Income tax, property, real estate, tax justice, tax payer

JEL Classification

H20, H22, H24