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IMPLEMENTATION OF NEW TAX RELIEF FOR INDIVIDUALS DURING THE MULTI-CRISIS IN THE CZECH REPUBLIC¹

Abstract

The article examines the interrelation between tax reliefs and social benefits in the Czech Republic as complementary instruments of fiscal and social policy. Against the background of long-term state budget deficits intensified by recent crises, the study addresses the question of whether the coexistence of these two systems fulfils the principles of fair and efficient taxation and non-discrimination. The authors hypothesize that the dual system of tax reliefs and social benefits satisfies the requirement of fairness in taxation. The research applies an analytical and comparative legal-economic methodology, combining a normative assessment of tax and social policy instruments with synthesis of their fiscal and distributive impacts. The analysis reveals significant overlap between the two systems in purpose and effect, yet also systemic inconsistencies leading to unequal treatment of different income groups. Tax reliefs tend to favour higher-income taxpayers, whereas social benefits primarily target low-income households, producing regressive outcomes when assessed in isolation. The results indicate that fairness and efficiency can

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only be ensured through integrated evaluation of both instruments, rather than their separate assessment within public budgets. The hypothesis has not been confirmed, though neither has it been conclusively disproved due to the absence of comprehensive data on the combined economic impact. The article concludes that any reform of the Czech fiscal system must consider the simultaneous effects of tax and benefit mechanisms to uphold constitutional principles of equality and fiscal responsibility.

Key words: tax reliefs; social benefits; fiscal policy; fairness of taxation; efficiency; non-discrimination; Czech Republic; public budgets

JEL Classification: K34

1. Introduction

The Czech Republic has been running a budget deficit for a long time. Like in other countries around the world, the SARS-CoV-2 coronavirus pandemic had a major impact on public finances, but it was followed by a crisis related to the war in Ukraine and an influx of refugees. The impact of the energy crisis caused by a significant increase in energy prices and, finally, significant inflation, which reached up to 15%, cannot be overlooked either [Czech Statistical Office 2025].

It should be admitted, however, that the Czech Republic's state budget was already showing significant (albeit lower) deficits before the coronavirus crisis, with the sole exception of 1996.

Surplus (+) / deficit (-) of the state budget (CZK billion)					
Year		Year		Year	
1993	1,1	2004	-93,7	2015	-62,8
1994	10,4	2005	-56,3	2016	61,8
1995	7,2	2006	-97,6	2017	-6,2
1996	-1,6	2007	-66,4	2018	2,9
1997	-15,7	2008	-20,0	2019	-28,5
1998	-29,3	2009	-192,4	2020	-367,4
1999	-29,6	2010	-156,4	2021	-419,7
2000	-46,1	2011	-142,8	2022	-360,4
2001	-67,7	2012	-101,0	2023	-288,5
2002	-45,7	2013	-81,3	2024	-271,4
2003	-109,1	2014	-77,8	2025	-241,0

Looking at the state budget results, it is clear that budget deficits have increased by an order of magnitude since the outbreak of the coronavirus crisis. In this context, the need to consolidate public budgets is constantly mentioned, also in connection with the obligation to comply with budgetary responsibility rules. This can be achieved by increasing tax collection, limiting public spending, or a combination of these approaches. At present, no reform is being prepared, at least publicly, and the results of the elections are awaited, which will bring a new government that will be forced to prepare some kind of reform².

However, tax collection cannot be increased without considering the principles of fairness, efficiency, and non-discrimination. The legislator has broad discretion to decide what will be subject to taxation but is limited by the material and formal requirements of the *nullum tributum sine lege* rule [Charter of Fundamental Rights and Freedoms 1992]. Equality and (non-) discrimination in the imposition of taxes cannot be assessed in absolute terms but must instead be assessed relatively. Equality in rights must be understood to mean that legal distinctions between entities in their access to certain rights must not be arbitrary. It is therefore up to the legislator to decide which group of persons and for what reason to give a certain tax advantage, and setting, for example, age or income limits will not automatically constitute a violation of the principle of non-discrimination.

These aspects apply to all elements of taxation, i.e. both the tax itself and the corrective elements. Corrective elements modify the resulting tax liability, which may lead to prohibited discrimination. On the other hand, however, equality of taxation should not be replaced by subsidies to a selected group of taxpayers. From an overall perspective, discrimination would occur, but this would not be apparent from an isolated assessment of the individual stages of public budget management. A typical example in this regard is the setting of taxation rules in combination with state social support contributions, where inequality is evident in the final impact on the assets of specific entities.

The aim of this article is to highlight the overlap between the meaning and purpose of tax relief and social benefits and to assess whether the current system of support for selected groups of people fulfils the principles

² The elections took place at the beginning of October 2025; however, the new government has not yet been formed.

of fair and effective taxation and non-discrimination. The objective will be achieved by analysing the impact of tax relief and social benefits and synthesising findings from the perspective of both individuals and public budgets. The hypothesis to be tested in the article was formulated by the authors as follows: the system of tax relief and social benefits as two separate systems fulfils the principle of fair taxation.

2. Tax breaks and their purpose

Tax relief primarily leads to a reduction in the taxpayer's tax liability, either by reducing the tax base, as in the case of deductions, or by reducing the amount of tax itself, in the form of tax credits. This is a type of tax optimization. The secondary purpose of tax relief is to motivate taxpayers to behave in a way intended by the legislator, which may be beneficial both for the taxpayers themselves and, where applicable, for the state. A typical example of a tax relief that motivates certain beneficial behavior on the part of taxpayers is a tax credit for employers who hire people with disabilities, whereby the legislator motivates employers to hire disadvantaged groups of employees, and, in return, the employer reduces their tax liability by the amount of the tax credit [Klimešová 2014].

By motivating taxpayers to behave in the way intended by legislators, the state implements its economic and social policy. In terms of economic policy, this involves, for example, economic stimulation, whether through incentives to employ certain disadvantaged groups, investment incentives, support for education, or ensuring the competitiveness of the Czech Republic. The state also implements its social policy through tax relief, using certain instruments, typically tax discounts, to "reward" taxpayers for certain behavior or status. In these cases, it is usually a form of compensation, as only taxpayers with reported income benefit from these reliefs. The only exception is the child tax credit, which is also provided in the form of a tax bonus, i.e., even if the taxpayer is not required to pay income tax in the given period [Krajňák 2022].

The literature does not agree on the exact definition of instruments that are or are not tax relief [Smržová Hrubá, Mrkývka 2020 or Radvan 2021]. The authors of this article agree with the majority opinion that these instruments are:

- Items reducing the tax base (e.g. donations)

- Deductible items (e.g. tax losses)
- Non-taxable parts of the tax base (e.g. interest on mortgage loans)
- Tax credits (e.g. basic personal tax credit)

Other instruments frequently classified as tax relief include a wide range of tax-deductible expenses that reduce the tax base but differ in their mechanism from the above-mentioned deductions [Hnátek 2020]. Tax relief is also often considered to be tax exemption, i.e. the exclusion of certain income from taxation, or possibly also a flat-rate tax for natural persons [Sušánková 2021].

2.1. The Governing Principles of the Tax Relief System

Tax relief must primarily comply with the principle of equality and must not be discriminatory [Radvan 2021]. The assessment of the equality of a given tax relief measure inevitably depends on the perspective adopted, since different tax benefits are applicable to different categories of taxpayers. There is, however, a risk that, unless a tax relief is appropriately designed and targeted at a specific group for a specific purpose, its intended impact is diminished. This is particularly evident in cases where tax benefits disproportionately favour high-income taxpayers who are better positioned to take full advantage of such reliefs, in contrast to low-income taxpayers who may only partially benefit due to their limited tax liability. It is certainly not the legislature's intention to deepen disparities between income groups or to disregard the so-called middle class. In the context of tax relief mechanisms, a so-called *break-even point* arises, where a taxpayer's total tax liability is lower than the amount of tax credits or deductions they are entitled to claim. Consequently, the principle of equality in the application of tax relief may be regarded as debatable.

Another fundamental principle underlying tax reliefs is the principle of *legality*, i.e. that tax benefits must be enshrined in law, and also the principle of *transparency*, particularly in terms of their application [Pelc 2021]. Tax reliefs should further adhere to the principle of *efficiency*, as they have a direct impact on public budgets and the net income of taxpayers [Kubátová 2015]. This is closely linked to their intended purpose: the reduction in public revenue (i.e. the taxpayer's reduced tax burden) is meant to be offset by behaviour that the legislature seeks to encourage. An illustrative example is the tax credit available to employers who employ individuals with disabilities.

In this case, the reduction in revenue from corporate income tax is offset by a corresponding reduction in state expenditure on social benefits for disabled individuals.

From the perspective of the advantages of tax reliefs as a tool of state social policy, one notable benefit is their relatively low administrative cost, as tax relief provisions are often applied automatically by the taxpayer, possibly with the cooperation of the tax authority. As a result, tax reliefs do not constitute direct state expenditure, unlike standard welfare mechanisms such as direct payments. For this reason, tax reliefs may be considered a sustainable and long-term instrument of social policy, suitable for promoting employment and economic activity. Generally speaking, tax reliefs are also a more politically acceptable form of social policy. However, a certain delay must be taken into account due to the length of the tax period and the deadline for filing the tax return, on which the payment of any tax overpayment depends.

On the other hand, the tax relief system can be relatively complex and non-transparent for the average taxpayer, which runs counter to the principle of transparency. This creates the risk that some taxpayers may fail to claim reliefs they are entitled to, while others may exploit the loopholes in the complex system. In this light, the system may even be regarded as discriminatory, since high-income taxpayers have the financial means to consult tax professionals and thereby take full advantage of all available tax optimisation opportunities. For example, in the case of deductions that reduce the tax base, the effect may even be considered regressive, as they generate a higher absolute benefit for higher-income taxpayers.

In connection with the ongoing debate on the fairness of the tax relief system, the question of its effectiveness must also be addressed. As noted above, from the perspective of administrative costs to the state, tax relief is an efficient tool. However, one must also consider the effectiveness of tax relief in achieving its intended behavioural outcomes – that is, whether the desired behaviour on the part of taxpayers actually occurs, and whether it occurs within the targeted group. While this aspect is inherently difficult to measure, it is nevertheless clear that a system of ongoing evaluation should be in place. By way of example, reference may be made to the *student tax credit*, which was abolished as part of the recent fiscal consolidation package, as it primarily benefited students with relatively high taxable incomes (i.e. those

earning over CZK 17,100 per month), contrary to its intended social purpose [Ministry of Finance of the Czech Republic 2023].

3. Social benefits and their purpose

Social security benefits represent a broad array of tools within the state's social policy framework, closely influencing the quality of life of individuals throughout all phases of life, particularly in social situations associated with income reduction or loss. Simplistically, we distinguish three fundamental social situations: illness, old age, and unemployment. Somewhat paradoxically, the system of social benefits is based on the principle of maximizing individual autonomy, as the individual is, in the first instance, expected to address their social situation independently and from their own resources through economic activity. Only subsequently does the state intervene through the provision of social support benefits, thereby compensating the individual's "adverse" condition [Holub et al. 2019]. In the theory of social policy, social benefits can be considered at two fundamental levels: the conceptual level, encompassing the typology and classification of individual benefits, and the level of practical implementation of the social benefits system [Tomeš 2018].

3.1. Classification of social benefits

To properly introduce the purpose of individual social benefits, it is first appropriate to briefly classify them. The basic division is between contributory (insurance-based) and non-contributory benefits. In simple terms, contributory benefits are instruments that operate on the principle of deferring part of present consumption for an uncertain future event or situation, in order to ensure at least a minimum standard of living. The payment of these benefits is conditional upon prior participation in the system and the payment of insurance contributions [Kukalová, Moravec 2019: 29].

Non-contributory benefits can be further internally divided according to the type of social situation they address – primarily into state social support and social assistance.

- First, there are benefits designed to assist in typical social situations, such as parental allowance or care allowance. These benefits are not determined based on previous income, but they do compensate for a reduction in an individual's standard of living, without necessarily requiring the recipient to be on the verge of social need.

- Second, there are benefits aimed at helping in “crisis” situations, such as subsistence minimum benefits or extraordinary immediate assistance [Krebs 2015].

It is also worth noting that the fiscally most significant component of the social system – old-age pensions (constituting up to 70% of social expenditure) – comprises both a non-contributory component (the basic pension amount, funded from general taxation) and a contributory component (funded through social insurance). This reflects the structure of the broader social security benefits system, wherein categories are not strictly delineated due to historical developments and the multifaceted objectives of social policy. Thus, rigid adherence to categorical distinctions is neither practical nor desirable. Ultimately, the current system is the result of a continuous, evolving, and thus inherently inconsistent process of public choice. The advantage of an effectively designed social support system lies in its unified direction – harmoniously defined and implemented goals – which, however, stands in stark contrast to the inconsistent nature of public decision-making.

3.2. Objectives and principles of social benefits

To adequately define the purpose and evaluate the effectiveness of the social benefits system, it is necessary to briefly outline its fundamental objectives and principles.

As indicated above, social benefits serve to mitigate life events or conditions associated with reduced or lost income, or the loss of the ability to earn income. From a system design perspective, there is generally no attempt by the state to motivate individuals to avoid situations covered by social benefits—except in the specific cases mentioned below. In accordance with Article 30(1) of the Charter of Fundamental Rights and Freedoms, it is enshrined that: *“Citizens have the right to adequate material security in old age and during incapacitation for work, as well as in the case of loss of a provider.”* Thus, the state primarily fulfills a protective and securing function, aiming to minimize the risk of social exclusion.

The system also seeks to reduce social inequalities between individuals in order to fairly distribute life opportunities [Tomeš 2018]. From a macroeconomic perspective, the system aims to act counter-cyclically and stabilize the economy—social transfers should function as automatic stabilizers,

since they are linked to the economic cycle and do not require discretionary activation.

As for the principles of the social benefit system, it is characterized by a combination of universality (i.e. non-discriminatory provision to all) and targeting (i.e. focusing support on those in genuine need). The ideal balance of this combination ensures both the fairness and efficiency of the system, including its fiscal sustainability. Another key pair of principles is solidarity and equivalence. Solidarity is grounded in the obligations and responsibilities of the welfare state, while equivalence reflects the relationship between contributions made and entitlements received. Additionally, though more as *de lege ferenda* aspirations than enforceable principles, we may identify subsidiarity, transparency, and economic efficiency.

In practice, however, the system does not fully achieve its objectives and principles, mainly for two reasons:

1. Abuse of the system, i.e. benefits being claimed by unauthorized individuals or to an excessive extent.
2. Non-take-up, where individuals who are entitled to benefits fail to claim them. This phenomenon arises particularly when eligibility is subject to means-testing [Mareš 2000: 145].

Most legislative and administrative reforms aim to address these shortcomings.

3.3. Directions for further development of state social assistance

In connection with the most recent major amendment so-called “super-benefit” (*superdávka*) it is necessary to highlight the implications for the state social assistance system. Generally, the more complex a system is (e.g. in terms of legislation, terminology, classification, eligibility assessments, etc.), the more costly it becomes, both for the state budget and in terms of administrative burden on individuals. A high degree of fragmentation and overlap among support instruments leads to increased complexity.

The super-benefit reform merged four previously separate benefits into a single consolidated benefit:

- Housing allowance
- Living allowance
- Child allowance
- Housing supplement [Czech Labour Office 2024].

However, this merger does not automatically reduce administrative demands, either for individuals or for the state. The central idea lies in significantly reducing the number of applications due to their consolidation. Yet, this unification introduces the risk of insufficiently targeted support in specific areas. It must be evaluated whether a reduction in administrative burden does not simultaneously lead to barriers in determining individual entitlements within the various components of social support.

One might intuitively expect the system of state social support to be internally coherent and harmonized. However, this is far from guaranteed, and tools of social policy often operate in contradiction to one another. A defining feature of social benefits is their targeted nature, i.e. their focus on individuals who need assistance from the state most. The super-benefit introduces a work bonus, incentivizing employed individuals in line with the principle of individual autonomy [Ministry of Labour and Social Affairs 2024].

The conditionality of benefits such as economic activity, demonstrable efforts to seek employment, or children's regular school attendance has been proven to be an effective, sustainable tool. It reduces the risk of benefit dependency and discourages a passive reliance on the social system. The super-benefit introduces such conditionality through degressive benefit levels, aiming to eliminate benefit cliffs and increase work incentives.

4. Interrelations between both systems

The analysis of both systems clearly shows that tax reliefs and social benefits, under the umbrella of social policy, pursue similar objectives and, in many cases, influence individual behaviour in the same direction. Due to their mechanisms, both tax reliefs and social benefits are targeted instruments. Income level generally plays a significant role, serving as a threshold for determining who is entitled to a particular tax relief or social benefit.

In the case of tax reliefs, income is usually the primary criterion. Except for tax credits, which affect the final tax liability, most tax reliefs reduce the tax base. Entitlement to a specific tax relief is also subject to other qualifying criteria that the taxpayer must meet. For example, a certain number of dependent children is required in order to claim the child tax credit. A notable exception is the basic taxpayer tax credit, which is a universal form of tax relief.

To qualify for a social benefit, individuals are usually subject to a means test and, in most cases, to other criteria to verify that they are in a life situation warranting state assistance [Joumard, Kongsrud, Nam, Price 2004].

Both instruments of social support require a certain degree of active engagement on the part of the individual. In the case of tax reliefs, this is typically the responsibility of the tax remitter in cooperation with the taxpayer, or the taxpayer alone. Compared to social benefits, the process of claiming tax relief may appear simpler, as income taxation in the Czech Republic is administered on a regular annual basis. Claiming a tax relief is therefore just one additional step in fulfilling standard tax obligations, whereas social benefits must generally be applied for separately.

On the other hand, a certain disadvantage of tax reliefs lies in the delay between the moment the entitlement arises and the actual claiming of the benefit. In some cases, the effect on income is visible in the next payroll cycle, while other reliefs are applied only during annual tax settlement or in the tax return. In contrast, social benefits are generally more operational during crises, and there is usually no significant delay between entitlement and payment [Burns, Yoo 2002]. The mechanism of granting and paying out social benefits ensures greater transparency, is easier to monitor, and is more flexible [Mlčoch 2009]. This applies not only from the perspective of benefit recipients but also in terms of budgetary policy, since it is clear who is entitled to which benefit and in what amount, as opposed to tax reliefs, which have a more long-term impact on the state budget and for which it is not possible to determine with certainty who benefits most in terms of social stratification.

Given the above-mentioned greater flexibility of social benefits, it is logical that they are primarily aimed at assisting the most vulnerable segments of the population, particularly low-income individuals who are often completely dependent on state financial intervention, for example due to medical incapacity to participate in the labour market [Jacina, Mareš 2019]. Conversely, eligibility for a tax relief arises only for individuals who engage in economic activity, generate income, and therefore incur a tax liability. An exception is again the tax bonus, or negative income tax in the form of the child tax credit, which is payable even if the tax liability is lower than the amount of the credit, or even zero.

The closest category of tax policy instruments to social benefits is, unsurprisingly, the frequently discussed tax credits. Their mechanism is more straightforward than that of other categories of tax relief, as a fixed amount is subtracted directly from the taxpayer's liability. It is clear that family policy is implemented primarily through tax credits due to their simplicity, directness, and clarity [Aliyev, Bobková, Štork 2014].

5. Housing support

Discussions on housing affordability are driven by motives of public policy, social equity, and macroeconomic stability. Housing is a fundamental social human right intrinsically linked to human dignity. According to the OECD, the lack of access to affordable housing is one of the key factors contributing to the deepening of social inequalities [Zore 2025]. For this reason, it is indisputable that public policy, when viewed through the lens of social rights, focuses on the growing divide in society, namely the so-called disappearing middle class. It is in the interest of the state to regulate emerging inequalities across society, particularly through instruments that encourage individuals to address their social issues independently. As outlined above, the state should act as a safety net only in cases where an individual, typically due to external circumstances, is no longer able to help themselves and finds themselves on the brink of poverty.

The unavailability of home ownership and the exponential rise in rental costs, particularly in the largest cities in the Czech Republic, are increasing the number of individuals for whom even rental housing is becoming unaffordable. Since 2015, housing prices in the Czech Republic have risen faster than the median income [Alisová 2025]. This development necessitates state intervention. As of October 2024, housing allowance was received by 280,000 individuals, with total state expenditure reaching CZK 17 billion [Smutná 2025]. Particularly alarming is the fact that this benefit is no longer granted exclusively to socially vulnerable individuals. One of the contributing factors is the insufficient pace of new housing construction, partly due to the burdensome administrative procedures involved. An amendment to the Building Act and the digitalisation of building permitting procedures were intended to help, but neither of these measures has delivered significant relief. Another part of the problem lies in the unfavourable legislative framework governing leases, under which it is currently very difficult to evict

a tenant. Landlords have raised objections and are calling for legislative reform concerning the termination of leases in cases of non-payment. A new legal instrument, the order for eviction, is expected to address this issue [Kučera 2023].

As indicated above, the issue of housing is a multidimensional phenomenon. Recommendations for reform have also been advanced by the National Economic Council of the Government, which advocates, among other things, for promoting long-term rental housing, strengthening public housing construction, introducing regulatory frameworks to enhance tenant protection, and decentralising housing policy to the municipal level [National Economic Council of the Government 2024].

It must also be stressed that the housing affordability crisis is not an isolated issue. In the Czech Republic, unaffordable housing also affects purchasing power, restricts labour mobility, indirectly contributes to the postponement of family formation and thus to declining birth rates, and ultimately, through the benefit system, facilitates the phenomenon of so-called poverty business. In addition to the above-mentioned legislative changes, this systemic problem must be addressed through a broader range of measures, including benefit policy reform and tax incentives.

5.1. New tax relief: Deduction of interest on cooperative share

Starting in 2026, taxpayers will be allowed to deduct from their tax base the interest on cooperative housing included in the so-called annuity, which is paid by members of housing cooperatives and represents their share of the cooperative's loan [Česká justice 2025]. This measure aims to align the tax treatment of alternative forms of housing acquisition. Instead of supporting only the direct purchase of real estate, the acquisition of a share in a cooperative, i.e., in a business corporation, will also be newly supported. Until now, tax support has been focused on taxpayers who finance housing through mortgage loans. To level the playing field for homeowners and to promote interest in cooperative housing financing, a new tax relief in the form of a deduction of interest on cooperative housing is currently pending its third reading in Parliament.

Limiting the tax advantage to mortgage financing has resulted in privileging mainly the highest social strata of society, thereby deepening class disparities.

This approach reduces access to homeownership and, in practice, leads to increased rental prices due to demand exceeding supply. As a result, rental housing has also become less accessible in certain localities [Tax Policy Center 2021].

The National Economic Council of the Government, in connection with discussions preceding the adoption of the consolidation package, proposed abolishing the tax relief in the form of a deduction of mortgage interest. The reason cited was the selective and progressive nature of this relief, which targeted the wealthiest segments of the population, as the absolute amount of the tax relief increased proportionally with the price of the property. This system most favored those who could afford large mortgage loans. Annual expenditures for this tax relief amounted to as much as CZK 4.5 billion [National Economic Council of the Government 2023]. Due to these redistributive distortions, the relief was assessed as inefficient and was also seen as implicitly contributing to the increase in property prices.

To illustrate the distribution of this tax relief, i.e., the deduction of mortgage interest—the following simplified table is provided, based on data from the Czech Statistical Office and EU-SILC:

	Income quintile	Gross monthly income (CZK)	Average mortgage (CZK million)	Annual interest (CZK)	Tax savings (CZK)	Share of total benefit
1	Lowest 20%	22.000,-	1,2	60.000,-	9.000,-	9,2%
2	2. kvintil	32.000,-	1,8	90.000,-	13.500,-	13,8%
3	3. kvintil	41.000,-	2,4	120.000,-	18.000,-	18,5%
4	4. kvintil	54.000,-	3,1	155.000,-	23.250,-	23,8%
5	Top 20%	82.000,-	4,5	225.000,-	33.750,-	34,6%

In the table we can observe that the benefit increases toward higher-income groups of the population. This relief is therefore targeted, albeit likely unintentionally, at the wealthiest taxpayers, specifically those who take out the highest possible mortgage loans for housing. In contrast, the target group of the new tax relief concerning the deduction of interest on cooperative housing consists of lower-income groups, presumably primarily the middle class, who would not otherwise qualify for a mortgage loan. Groups without income, or with an insufficient tax base, do not benefit from this type of relief

due to the mechanism by which it operates. It is therefore not a completely new instrument, but rather an extension of the existing one.

It is worth reflecting on the mechanism itself, that is, the type of tax relief instrument. Non-taxable parts of the tax base, that is, deductions, primarily serve to ensure tax neutrality. They reflect necessary expenditures to cover basic living needs (such as housing) and ensure horizontal equity. However, in contrast to tax credits or tax bonuses, the behavioral effects of deductions are minimal [Batchelder, Goldberg, Orszag 2006: 921].

The table below highlights the differences between the deduction mechanism and the tax credit mechanism:

Function	Deduction	Tax credit
Impact	Reduces the tax base	Reduces tax
Interference with the structure	Linear tax	Tax progressivity
Target group for support	Higher income groups = higher tax base	Uniform impact (except for zero tax liability)
Aim of support	Investment support	Social support

The new tax deduction can be considered acceptable, as it builds on an already existing form of housing support. The aim of deductions is not direct redistribution, as is the case with tax credits or social benefits, but rather the adjustment of the tax base so that it reflects the taxpayer's actual ability to pay tax [Šíroký 2008]. From the perspective of social policy for low-income groups, support is further provided through the system of social benefits, where home ownership is generally not assumed for the recipients.

A comparison is provided in the table below:

Criterion	Tax deduction (e.g. interest on a mortgage/cooperative)	Direct subsidy (e.g. housing allowance/super allowance)
Type of support	Reduction of the tax base - indirect support	Direct financial support from the state budget
Revenue impact	Regressive - increases with income	Progressive - decreases with income

Target groups	Property owners with a loan	Low-income households regardless of ownership
Eligible forms of housing	Mortgages, loans, cooperatives	Rental housing, sometimes even owner-occupied
Fiscal efficiency	Lower – high costs, weak targeting	Higher – targeted at those in need
Administrative complexity	Low (through tax return)	High (forms, income verification, checks)
Regularity of payment	Once a year upon settlement	Monthly / quarterly
Motivational effect on behavior	Favors larger loans → motivation for higher investments	Reduces the risk of losing home
Support for cooperative housing	Yes (from 2026)	Usually not – it is not recognized as rent
Sensitivity to changes in income	Low	High – recalculated according to the current situation

Tax reliefs are not targeted at low-income households. This “gap” is addressed through the system of social benefits. Tax reliefs are aimed at the middle and upper classes, and thus at potential homeowners. The mechanism of tax relief does not provide a solution for short-term crises, unlike social benefits [Krebs 2007: 163–164]. Social benefits are therefore fiscally more efficient but carry a risk of misuse or misallocation of support.

A possible compromise could be the introduction of a tax bonus for low-income groups in connection with the new relief. However, as mentioned above, low-income groups are not the target group for owner-occupied housing. Another argument against such a measure is the effort to simplify the system of reliefs, which an exception to an exception would contradict.

The risk of the new tax relief, according to the authors of this article, lies in the direction of its actual benefit. In the end, it may benefit the cooperative as an institution or the developer rather than the individual taxpayer. Another open question for the future is whether the value of cooperative membership rights will increase in direct response to the applicability of the tax deduction. Unlike a mortgage loan, the taxpayer is not a direct debtor and therefore is not legally bound by the loan. As a result, the cooperative may artificially

increase the repayment amount or the base itself to such an extent that the effect for the taxpayer is nullified [Ojong et al. 2023]. There is therefore no mechanism to guarantee a reduction in the taxpayer's monthly housing costs, especially in the case of new housing projects.

In contrast, the positive impact of the new relief is expected by the legislator to occur through support for collective housing construction. This is associated with the effect of reducing the risk of housing instability and evictions. The tax relief serves as an incentive to invest in home ownership, that is, in a share of cooperative housing.

6. Consequences of replacing social benefits with tax relief

Tax correction instruments and direct subsidies in the form of social benefits ultimately pursue the same goal, but they do so through different pathways. It would therefore seem logical to simplify the entire system so that only one legislatively selected mechanism would be financed and administered from public budgets, while ensuring that the impact for the recipients remains unchanged³. This would result in public expenditure savings, as tax deductions are currently administered and monitored by the Financial Administration of the Czech Republic, while social benefits are managed separately by the Czech Social Security Administration. This parallel model also results in lower transparency for beneficiaries⁴.

Among experts, the idea of abolishing or at least minimizing social benefits and replacing them with tax correction mechanisms is regularly discussed. The main reason is that taxes are always and regularly administered, and in the case of employees, most of the administration is handled by employers, with public authorities only performing control functions. From the perspective of administrative costs, this would undoubtedly represent a saving for the state.

Regardless of whether the chosen instrument would be a tax credit, tax allowance, or a deduction, the change may initially appear logical. The intended recipients would receive appropriate benefits in the form of reduced tax liability. In the case of low-income individuals or those without income,

³ Any changes would be made by the decision of the legislature.

⁴ Which, from a certain point of view, could even be intentional, as not all eligible individuals are actually claiming social benefits.

the principle of a tax bonus could be applied, meaning a portion of the relief would be paid out (possibly even monthly).

However, a second perspective must consider the source of financing and the fairness of taxation in relation to public revenue. At present, social support benefits are funded from the state budget, and municipalities do not participate in their financing. This is not the case with tax correction mechanisms. Personal income tax is a shared tax, the revenues of which are distributed not only to the state budget but also partially to regional⁵ and municipal⁶ budgets. Municipalities thus receive more than one-third of income tax revenues into their budgets.

An increase in correction mechanisms would result in a reduction in personal income tax revenues. The consequence would be that the state budget would bear only two-thirds of the financial burden, while the remaining portion would be borne by municipal budgets. While the state currently bears the full cost of social benefits, after the change it would bear only part of the cost, even if the change would be revenue-neutral for the beneficiary. A possible solution would be to increase the municipal share in the tax revenue distribution. However, this would introduce greater economic uncertainty into municipal budgets, because although the share would be increased, the correction mechanisms would have to be paid out in a fixed amount regardless of actual tax revenue. In other words, municipalities would always lose a portion of their revenue, but any additional revenue from increased tax collection would only benefit them if the actual tax base increased. In times of recession, this would lead to further disruptions to the financial stability of municipalities.

7. Conclusion

The expansion of tax reliefs for individuals during a period of multiple overlapping crises in the Czech Republic may represent a viable path forward. However, it is necessary to take into account the broader implications, including the potential interaction with the system of state social benefits.

⁵ Specifically, 9.45% of the national gross tax revenue, see § 3 of Act No. 243/2000 Coll., on the Budgetary Allocation of Revenues from Certain Taxes to Territorial Self-Governing Units and Certain State Funds [Act No. 243/2000 Coll.].

⁶ Specifically, 24.16% of the national gross tax revenue, see § 4 of the Act on the Budgetary Allocation of Revenues from Certain Taxes to Territorial Self-Governing Units and Certain State Funds [Act No. 243/2000 Coll.].

Because of the overlap in the meaning and purpose of tax reliefs and social benefits, the principles of fair and efficient taxation and the prohibition of discrimination are currently not being fulfilled. In the current framework, the impacts of taxation on specific entities or groups are assessed independently and in isolation, in order to ensure that the imposed tax is lawful and complies with all principles of constitutional limitations on taxation. Separately, the conditions for entitlement to state social benefits are evaluated. However, both systems must be assessed simultaneously, as only this approach allows for a proper reflection of the real economic impact on individual subjects.

According to the authors, it is not possible to separate the effects of the two stages of handling public funds, namely their collection and subsequent redistribution. A similar issue arises when considering the possibility of individual remission of an already assessed tax, where inequality is permitted *ex post*. Inequality among taxpayers arises in situations where tax law sets the same liability for everyone, but one individual is subsequently granted remission, at least partially. From the requirement of equality in taxation, it follows that constitutionally acceptable arrangements must not include unjustified differences that create an economic advantage for one group of individuals over another. Tax remission is not absolutely prohibited, but it must be a rationally justified procedure permitted by law. In practice, the remission of a tax and the provision of a social benefit have the same economic effect on the individual subject. There is therefore no reason to assess the consequences differently depending on which relief system is applied.

The principle of fair and efficient taxation must be respected not only at the level of the individual taxpayer, but also with regard to the entity that receives the respective tax revenue. The constitutionally guaranteed right of municipalities and regions to own property and manage their own finances is secured through the statutory definition of revenues to which they are entitled. A reduction in the tax revenues allocated to municipalities would constitute an interference with municipal property, even if the combined system of tax reliefs and social benefits proved to be more effective and less costly overall. Legislative interventions must therefore be proportionate to the pursued objective, and savings on the side of the state budget must

not be the sole reason for increasing the financial burden on other public budgets.

The hypothesis proposed in this paper, that the existence of tax reliefs and social benefits as two separate systems fulfils the principle of fair taxation, has not been confirmed. The authors deliberately state that the hypothesis has not been disproved either, as the economic impacts of tax reliefs and social benefits are not currently monitored or publicly presented in an integrated manner at the national level.

Post-election developments in the Czech Republic will determine which direction the legislature will take and how it will address the long-term unsustainable condition of the state budget. However, it must be stressed that under all circumstances, the principles of fair and efficient taxation and the prohibition of discrimination must be upheld, both from the individual perspective and in the overall context.

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