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The Causalities of the Tax Incidence and the Modeling of Tax Processes

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Abstract

Taxation is at the heart of citizens' relationship with the State. Taxes have significant effect on individual population groups, and become an important political tool as well. Nevertheless, although most countries have adopted similar principles for the operation of their tax system, there remain many differences in the way it is implemented. There are a number of variations in the application of value added taxes and other consumption taxes, including different interpretation of the same or similar concepts. This article is focused on the analysis of the opinions of different groups of inhabitants on the size of the value added tax, on the size of the real estate tax, on the issue of complicated system with lots of exceptions, and on the issue of frequent changes in taxes. The analyzed issue is a part of a broader context which has been solved within the project of specific research conducted by the team from the Department of Economics, Faculty of Informatics and Management, University of Hradec Králové, called "The Causalities of Tax Incidence and the Modeling of Tax Processes". This project follows another project of specific research called "The Causalities of Tax Incidence", while the data from this project have been used for the analysis within this article. Most public finance economists acknowledge that nominal tax incidence is not necessarily identical to actual economic burden of the tax, but disagree greatly among each other on the extent to which market forces disturb the nominal tax incidence of various types of taxes under various circumstances.

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1. Introduction

Developed economies should base on the fact that taxes are not just the source of income into the state budget but they also have important social and other functions. By means of tax collecting the desirable behaviour of consumers can be stimulated. If the tax imposition is too big, it can be expected that people will not be able to get a house, to bring up children, they will reduce their consumption and economies will get worse by Bronchi and Burns (2001). Therefore, it is important to find the optimal amount of taxation, so that people can cope with paying taxes and do not aim towards tax evasion. A bigger consumption can bring positive results. We can expect that more money will get into the economy, which will improve macroeconomic ratios, business environment and thanks to that businesses can increase their productivity. They will sell more products or provide more services by Dušek and Janský (2012).

The majority of tax burden analyses are focused on the incidence of direct taxes, but neither in tax theory nor in practice the impact and comparison of the rate change of indirect tax on respective income groups of population is sufficiently analyzed. The typical tax of this kind is the value added tax by Slintáková and Klazar (2010).

For this reason the research team in the Department of Economics at FIM UHK introduced the idea of the project "The Causalities of Tax Incidence", which they have been working on since 2011 by Hájek et al. (2013).

In 2014 we continue with the research within the project "The Causalities of Tax Incidence and the Modeling of Tax Processes". The main objective of this project is to prove the hypothesis that the decrease of VAT rates would ultimately result in the increase in tax revenue. This main hypothesis is based on partial hypotheses:

- inhabitants of the Czech Republic consider VAT rates too high and therefore discouraging from consumption
- the decrease in VAT rates would lead to a bigger volume of purchased goods and services.

Based on the above mentioned facts, the presented paper deals with the analysis of the questionnaire survey where respondents express their opinion on the tax system and evaluate its main problems.

Value added tax as a classic representative of an indirect tax burdens in the final result the end-user, i.e. the citizens. However its impact is often hidden to the general public in the methodology of its functioning as an indirect tax – i.e. the taxpayer is not obliged to pay this tax personally at the appropriate revenue authority. This will be done by the respective VAT registered company instead by Svátková et al. (2007).

Hence this tax is becoming not only an important tool of the state budget income but also an important political tool, although its use in a political fight is more complicated due to the fact that the general public is often not able to perceive the pros and cons resulting from the change of the tax rate, unlike for example the income tax of natural persons. From the theoretical point of view it is necessary to distinguish horizontal and vertical tax equity. Horizontal equity means that the individuals with same incomes should pay same taxes, where vertical equity means that the individuals with higher incomes should pay higher taxes than the individuals with lower incomes. The quantification of this point of view is quite complicated; there is an analysis of the Act of Income Tax in this article.

2. Methodology and Data

This paper is based on the data collected in the pilot survey of the project "The Causalities of Tax Incidence", where the respondents answered among others the questions about tax equity and tax knowledge. The authors of this article are presenting results from this questionnaire survey. The basic areas solved in this paper are focused on the answers to the following questions.

Is, according to the respondents' opinion, the tax system in the Czech Republic equitable? What are the main problems of the tax system in the Czech Republic?

The important part of tax issues, not only in this article, is general awareness of taxes. Tax literacy, as a basic part of knowledge-based economy, is analyzed in this research through the questions related both to the opinion on the main purpose of taxes, and to the explanation of terms direct and indirect taxes.

The total amount of respondents is 293, where 160 are men and 133 women. According to age, the most numerous group is 21 – 25 years old (105 respondents), then 31 – 40 years old (40 respondents), 41 – 50 years old (34 respondents), 26 – 30 years old (32 respondents), 51 – 60 years old (29 respondents), 61 and older (29 respondents) and the last group 15 – 20 years old (24 respondents). According to education, the most numerous group has high school "HS" education (145 respondents), then university-educated "C/UNI" (93 respondents), then trade schools graduates "TS" (41 respondents) and 14 respondents have elementary education "EE".

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