

# **TAXES AND THE 2017 ELECTION**

**How Czech political parties plan on  
fighting tax evasion**

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## WHO IS WHO ON THE CZECH POLITICAL SCENE

Name	Brief characteristic / member of EP group*
<b>ANO</b>	anti-establishment, business-led, populist party (ALDE)
<b>ČSSD</b>	Social democrats (S&D)
<b>KDU-ČSL</b>	Christian Democrats (EPP)
<b>KSČM</b>	Communists (GUE-NGL)
<b>ODS</b>	Conservatives (ECR)
<b>Pirate Party</b>	Anti-establishment
<b>SPD*</b>	Extreme right-wing
<b>STAN</b>	Central right, region-based
<b>TOP 09</b>	Central right (EEP)
<b>Greens</b>	Greens

\*If the party has its elected MEPs

## SUMMARY

Effective tax collection and the fight against tax evasion was one of the leitmotifs of the outgoing government coalition of ČSSD, ANO and KDU-ČSL. However, discussion on measures aimed against excise tax evasion (e.g. the tax cobra team, VAT control statements or electronic sales records) to a large degree overshadowed the **topic of corporate tax evasion**, which has plagued and continues to plague a large part of the European Union and the global political scene.

Nonetheless, the potential of better corporate tax collection is similar to more effective collection of sales tax through EET (electronic sales records): according to conservative estimates, better auditing of large multinational companies could generate 15 billion crowns annually for the state treasury (the Ministry of Finance believes EET will result in an additional 18 billion crowns).

**Not just about money.** Tax havens contribute to an increase in inequality, not just between rich and poor countries but among their citizens as well. Czechs perceive income tax evasion to be an example of a double standard, where regular people are hit the hardest.

The 283 subjects connected to the Czech Republic in the Panama Papers affair and the 38 million dollars that passed through Czech financial institutions as part of a global money laundering scandal clearly show that the Czech Republic also has its share of people and companies using the anonymity of tax havens to hide income from corruption or from organized crime, or to potentially even finance various organizations. There is more than ample reason for Czech political parties to take an interest in tax havens. So what do they offer in this regard?

Changing the domestic tax system is a priority among the ten political parties that have a chance to gain seats in the Chamber of Deputies in the fall of 2017. Even if most parties emphasize that the system must above all remain stable, if they are to achieve at least some of their promises, then **stability of the tax system** is the last thing that one might expect after the elections.

Only three parties do not mention the problem of shifting profits to tax havens in their platform. Even if representatives of political parties admit that **international cooperation** is necessary in this area, only four parties clearly state what measures they intend to pursue on the international level. And this information can be found directly in the platform of only two parties.

Although political parties mention international tax evasion in their platforms, the overwhelming majority address the problem purely from a Czech perspective. That is, only in terms of the impact it has on the Czech Republic, or what benefits might be gained from regulating it. Even if one might expect certain parties to **look beyond Czech borders** to address this problem, the overwhelming majority do not consider it necessary to consider the impact of Czech or European rules outside the country or the continent.

We understand that Czech elections are primarily concerned with “Czech taxes”. However, it would be nice to see a greater number of political parties realize that “Czech taxes” are **increasingly intertwined** with the international environment and international rules.

Chapter 1 was written before the elections and show how the major political parties **reflect on tax agenda**. Chapters 2 and 3 are based on actual **election results** and offer a quick analysis what this could mean for EU tax agenda.

## 1. COMPARING ELECTION PLATFORMS

In this section we will compare the election platforms of individual parties in terms of the significance of proposed changes in the area of direct taxes (especially the corporate taxation), the perception of the need for international cooperation for effective tax collection, the proposals they are willing to support in this regard, and the degree to which they take into account the impacts of tax evasion and avoidance outside the Czech Republic, specifically on developing countries. Our comparison is based on the election platforms and other available program documents, as well as interviews with representatives of the political parties that were willing to meet with us.

### Above all, make taxes simple, progressive, and on-line

The tax and financial proposals of ANO, KDU-ČSL and ODS first and foremost promise stability of the tax system. The platforms of every party that we read emphasize that the **current tax system must be changed**.

In particular they intend to **simplify** it, both by decreasing the number of various exceptions, as well as the manner of paying tax. In this regard, ANO, the Pirate Party and the Greens mention making the system electronic to enable on-line payment of taxes.

A number of parties plan on **changing the income tax rate**. ODS promises to reduce taxes to 15 % of gross wages, TOP 09 wants a uniform rate of 19% for both individuals and legal entities. ČSSD wants to introduce a **progressive tax** for the 2 % of people with the highest incomes. Progressive taxation of the “oligarchs” is also mentioned in the platform of KSČM. Progressive taxation on personal income is also implied by the proposal of ANO, which wants to introduce two rates of 19 % and 24 %. ANO, KDU-ČSL, ODS, the Pirate Party, STAN and TOP 09 are also planning or considering a **reduction in social security contributions**.

Several parties are planning higher income taxes in certain sectors, but for different reasons. ČSSD wants to introduce a **progressive tax for companies with high profits**, and explicitly mentions banks. KSČM wants a progressive tax on the profits of large corporations. The Pirate platform mentions a direct **sector tax** for banking, telecommunications, water and other markets with little competition where profits generally leave the country. SPD wants to force companies controlling the water market and collecting subsidies in the energy sector to **reinvest** half of their profit back into the Czech Republic. The Greens want to increase the role of **ecological taxes** and introduce progressive taxes based on the principle of “polluters pay”. ODS and STAN are fundamentally **opposed to sector taxes**. STAN also propose that corporations which reinvest their profit in the Czech Republic pay **lower or even no taxes** on this reinvested profit. KSČM, the Pirate Party and the Greens also want to motivate foreign companies to reinvest, but they don't list specific proposals.

ANO, ČSSD and STAN also want to focus on various **tax breaks** that primarily benefit large companies and in this regard promise changes in the system to help medium and small businesses. ODS promises up to twice the amount of depreciation that can be claimed by medium and small businesses. Support for small and medium businesses instead of large corporations is also mentioned in the TOP 09 platform, but it is not clear whether this is to be achieved through tax instruments. The Greens want to rationalize tax breaks based on real needs ensuing from the business cycle and the government's economic strategy.

In their platform, the Greens also mention the introduction of certain **new taxes**. These include a tax on financial transactions at the EU level that should become a source of funding for the EU budget.

They also propose taxing air fare, the proceeds of which would be used to fund international development cooperation and eliminate the effects of climate change.

**If the political parties intend on implementing at least part of their platform promises, then one can say with certainty that regardless of whichever party ends up in power, stability of the current tax system is the last thing that can be expected.**

### **We can't address tax evasion on our own**

The only parties that do not mention in their election platform or other documents the problem of **profits leaving the country for tax havens and the need for international cooperation to effectively collect taxes** are ODS, SPD and STAN. The other parties differ considerably with respect to the amount of space devoted to this topic and the specificity of measures they propose.

The Green platform provides the greatest detail in this regard. Stopping multinational companies from shifting their profits to tax havens is also one of the financial priorities of the Pirate Party, while this topic is also considered important in the platforms of ČSSD and KDU-ČSL.

The Greens clearly support better **disclosure of the ownership structures of companies and trust funds** through public access to a register of beneficial owners. The Pirate Party also supports public register. The platform of TOP 09 promises to continue in the process of disclosing beneficial owners, however, it is not clear whether they want to apply this to all companies or only those bidding for public contracts. According to the interview with a representative of KSČM, his party would not have a problem with a public register of beneficial owners. Likewise, when interviewed a representative of ANO expressed support for public access to registers, although he expressed reservations about including family trust funds. At our meeting, the representative of ODS was skeptical of increasing transparency, but ODS is open to discussion on the matter. The opinions of ČSSD, KDU-ČSL<sup>1</sup>, SPD and STAN on greater transparency of ownership structures are not known.

The question of greater **transparency in the accounting of large international corporations** is similar to that of actual ownership structure. The Green platform expresses clear support for public access to this information. The Pirate Party confirmed their support during the interview. Representatives of ANO and KSČM also declared in the interview that their party has no problem with this proposal. ODS is skeptical of the proposal, but open to discussion. We were not able to determine the position of the other parties – ČSSD, KDU-ČSL, SPD, STAN and TOP 09.

Of the topics that we focused on in this analysis, **EU cooperation in coordinating the rules for taxing the profits of multinational corporations** gained the greatest attention of the political parties. In principle, ČSSD, KDU-ČSL, the Pirate Party and the Green Party all directly agree with this step in their platforms. TOP 09 promises in its platform to fully engage in global and European initiatives in the area of effective tax collection. It is not clear, however, whether this means direct support for harmonizing and consolidating an EU tax base. Interviews with representatives of the other parties revealed that ANO also agrees in principle with this approach but would need to see the actual proposal and its impacts on the Czech Republic before approving it. KSČM is hesitant in this regard. ODS is against any harmonization, and sees it to be the first step towards unified tax rate. SPD and STAN do not address this topic in their platforms and we were not able to determine their positions.

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<sup>1</sup> However, in the past Member of KDU-ČSL tabled an amendment in favour of public registers.

To summarize the content of platforms in this area, the majority of parties realize that to effectively collect taxes, especially from multinational corporations, it is not possible to address the problem only on a national level. With a few exceptions, however, their platforms do not state which measures they consider important on an international level. It appears that many of them do not have an entirely clear opinion on this matter.

### Missing dimension of tax evasion

None of the political parties we surveyed directly address the issue of **international tax evasion and avoidance with respect to its impact on developing countries** in their platforms.

In the interview, the Greens did add that they generally endorse the principles of global responsibility and they perceive this to be an important dimension of the tax agenda. During the interview, the representative of the Pirate Party added that his party supports the exchange of tax information with representatives of developing countries, but they have not yet formed an opinion on the creation of an international tax body under the auspices of the UN.

When asked in the interview about the development dimension of tax evasion, representatives of ANO, KSČM and ODS confirmed that their parties had not given the matter deeper thought. However, the representative of ODS added that his party generally does not support the creation of new structures of global governance, as this is viewed as a threat to democracy.

We were not able to determine the position of the other parties – ČSSD, KDU-ČSL, SPD, STAN and TOP 09 – on this matter.

**It follows from our analysis that the political parties address tax evasion primarily from a Czech perspective (if at all). That is, based on the impact that tax havens have on the Czech Republic or the benefits that might be gained from their regulation. Even if certain parties can be expected to take into account the development dimension at relevant moments, it can generally be said that the overwhelming majority of Czech political parties do not think about the impact of Czech or European rules beyond the borders of the country and continent. Awareness of the concept of policy coherence for (sustainable) development is still very low among the parties, let alone ideas about its practical implementation.**

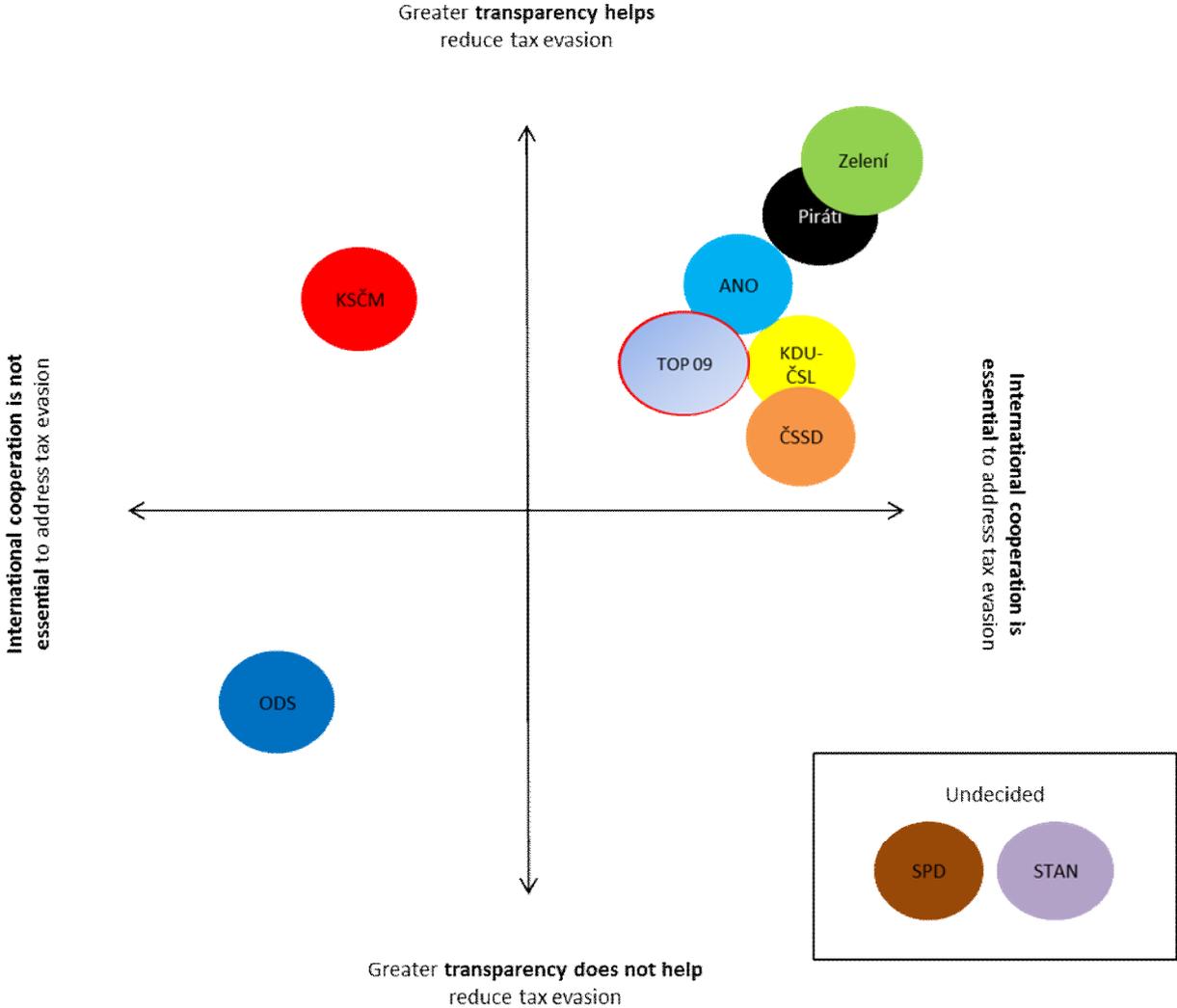
**Table 1: Brief comparison of the tax proposals of individual parties\***

	ANO	ČSSD	KDU- ČSL	KSČM	ODS	Pirates	SPD	STAN	TOP 09	Greens
<b>Changes in the tax system in the area of direct taxes</b>										
Simplification of the tax system	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Electronic tax collection	✓			✓		✓				✓
Abolition of super-gross wages	✓	✓			✓					✓
Progressive taxes	✓	✓		✓						
Introduction of sector taxes		✓		✓	X	✓	✓	X		✓
Reduction of income tax rates for individuals and/or entities					✓					
Reduction of social security contributions	✓		✓		✓	✓		✓	✓	
Tax breaks benefitting medium and small businesses	✓	✓			✓			✓	✓	
New taxes										✓
Motivation for reinvestment				✓		✓	✓			✓
<b>Importance of international cooperation to effectively collect corporate taxes</b>										
Address tax evasion/ effective tax collection at the international level	✓	✓	✓	✓		✓			✓	✓
Public register of beneficial owners	✓(?)			✓	X	✓			✓(?)	✓
Public country-by-country reporting	✓			✓	X	✓				✓
Coordination of rules to tax corporate profit (CCCTB)	✓(?)	✓	✓	X	X	✓			✓(?)	✓
<b>Development dimension of tax evasion</b>										
Willingness to consider the development dimension of tax rules						✓				✓

\*The authors believe that the comparison corresponds to the information obtained from the platforms and interviews. However, the degree of detail in individual election platforms differs and therefore the comparison should be considered approximate.

- ✓ If the measure appears in the platform or the party is considering it (e.g. mentioned it in the interview);
- X if there is explicit and fundamental disagreement;
- x if the party tends to disagree or is skeptical of the measure;
- (?) if there is only general agreement (e.g. it is not clear whether the party agrees with a specific measure) or only partial agreement.

**Graph 1: Significance placed by individual parties on transparency and international cooperation to prevent tax evasion.**



The comparison of parties is complicated by a lack of information. In the case of SPD and STAN, there was so little information that we declared these parties to be “undecided”. In the graph we differentiate whether or not the party explicitly declares support for transparency and international cooperation in its platform or mentioned it in the interview.

## 2. ELECTION RESULTS: WHAT IT MEANS FOR EU TAX AGENDA

### Highlights: One party to rule them all?

The Czech election was won by ANO, a party formed by Czech billionaire Andrej Babiš, which won 29.64 % of votes. What is most striking is the **distance between ANO and the second-strongest party**, the conservative, EU-sceptic Civic Democrats (ODS) who won 11.32 % of votes. The Social Democrats (ČSSD), who won the previous elections and formed the ruling coalition with ANO for the previous four years, received only 7.27 % of the vote. Similarly, Czech Communists lost almost half of their support and with 7.76 % recorded their worst election result since 1996. Another surprise of this election is the third-place finish of the anti-establishment Czech Pirate Party winning 10.79 %. The extreme right-wing, strongly anti-EU Freedom & Direct Democracy (SPD) came in fourth with 10.64 %. The liberal, pro-EU centre is fragmented between three parties (KDU-ČSL, STAN, TOP 09) which barely overcame the 5 % election threshold. The Greens with 1.46 % were far from winning any seats.

### EU tax agenda after the elections: possible allies and obstacles in the Parliament

Besides the Greens, who did not make it into the Parliament, only the Pirate Party explicitly promised in their election manifesto to support proposals which would increase tax transparency. With 22 seats (out of 200) they can become a strong voice in favour of public country-by-country reporting and fully public registries of beneficial owners, but they are far from being able to pass such legislation alone.

Liberal, central-right parties (KDU-ČSL, TOP 09 and STAN) could support this agenda, nevertheless it is not a “matter of life and death” for any of them. The **key player for this agenda (and all others) will be ANO**. Before the elections they signalled support for greater transparency of owners as well as multinational company reporting, however, in the previous government in which they held the Ministry of Finance, they did not show much enthusiasm for this issue. Clear obstacles for the EU tax agenda are ODS and SPD, who control almost 25 % of seats. For more information, see table 2: Tax transparency and cooperation – possible allies and blockers (below).

### Czech government positions regarding the EU tax agenda: possible options

In general, the Czech government needs to get 101 votes in the Parliament to be able to govern. However, there have also been cases of minority governments in the past. It is clear that **no government can be formed without the ANO Party**. Besides the ideas on the tax system, the government’s positions could be strongly influenced by the relationship of coalition parties to the EU.

Currently all parties (with exception of the extreme right-wing SPD) refuse to join (or support) an ANO government with Mr. Babiš as Prime Minister. The reason is that Andrej Babiš and his right-hand man Mr. Faltýnek are under investigation for misuse of 2 million euro from EU funds. However, this situation is likely to change during the post-election negotiations. In the graphs on page 11 we suggest the most likely coalitions at the moment.

**Table 2: Tax transparency and cooperation – possible allies and blockers**

Name	Brief characteristic / member of EP group	Attitude towards the EU	Power (seats in the assembly)	Position on CCCTB	Position on public CBCR	Position on full access to BO
<b>ANO</b>	anti-establishment, business-led, populist party (ALDE)	ambiguous, rather critical	Strong (78/200)			
<b>ČSSD</b>	Social democrats (S&D)	pro-EU	Weak (15/200)			
<b>KDU-ČSL</b>	Christian Democrats (EPP)	pro-EU	Very weak (10/200)			
<b>KSČM</b>	Communists (GUE-NGL)	critical	Weak (15/200)			
<b>ODS</b>	Conservatives (ECR)	critical	Rather weak (25/200)			
<b>Pirate Party</b>	Anti-establishment	pro-EU	Rather weak (22/200)			
<b>SPD*</b>	Extreme right-wing	anti-EU	Rather weak (22/200)			
<b>STAN</b>	Central right, region-based	pro-EU	Very weak (6/200)			
<b>TOP 09</b>	Central right (EPP)	strongly pro-EU	Very weak (7/200)			
<b>Greens</b>	Greens	Strongly pro-EU	Absent (0/200)			
<b>QUICK POWER ANALYSIS REGARDING MAJOR EU TAX AGENDA / DIRECTIVES</b>				pro/neutral/against 47/91/62	pro/neutral/against 115/38/47	pro/neutral/against 37/116/47

\* The position of SPD was not available, however from its strong anti-EU stance we assume that their representatives would vote against any EU directive.

In favour or considering support
Position is not clear / available
Tends to disagree or is sceptical

### 3. WHO WILL SIT IN THE GOVERNMENT: MOST LIKELY OPTIONS



**Coalition:** ANO and ODS, pragmatic, right-wing, EU-sceptic  
**Probability:** 80 %  
**What it means for the tax agenda:** Czech Republic likely to block initiatives in the EU



**Coalition:** ANO minority government, supported ad-hoc by democratic parties  
**Probability:** 60 %  
**What it means for the tax agenda:** Czech Republic will follow the majority in the Council, will not actively support neither block tax initiatives



**Coalition:** ANO, ODS and Pirates, pragmatic, right-wing, moderately EU-sceptic  
**Probability:** 40 %  
**What it means for the tax agenda:** Czech Republic could be possible supporter of tax transparency (pCBCR, AML), likely to block harmonization (CCCTB)



**Coalition:** ANO, ČSSD and KDU-ČSL, pragmatic, centre-right, moderately pro-EU  
**Probability:** 30 %  
**What it means for the tax agenda:** status quo, CZ moderate supporter of “EU discussion”



**Coalition:** ANO minority government supported by SPD and KSČM  
**Probability:** 15 %  
**What it means for the tax agenda:** highly EU-sceptic government, possible threat of “Czexit”

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