



EU News

Monthly Journal

Number 116,
May 2013

- | | |
|----------------|---|
| Page 5 | Events: EP fails to support backloading of emission permits |
| Page 10 | Microscope:
Poor North against rich South? |
| Page 11 | Topic of the Month:
Personal taxes in the EU |
| Page 17 | Doing Business:
Hungary |
| Page 19 | Journey into History:
Enlargement of EU II. |



EU OFFICE

Česká spořitelna, a.s.

Olbrachtova 1929/62

140 00 Praha 4

tel.: +420 956 718 012

fax: +420 224 641 301

EU_office@csas.cz

<http://www.csas.cz/eu>

Jan Jedlička

Head of EU Office

+420 956 718 014

jjedlicka@csas.cz

Iva Dlouhá

+420 956 718 015

idlouha@csas.cz

Jana Majchráková

+420 956 718 012

jmajchrakova@csas.cz

Tomáš Kozelský

+420 956 718 013

tkozelsky@csas.cz

under the auspices of Pavel Kysilka

CEO of ČS

Dear readers,

Welcome to another edition of our Monthly, which is again loaded (not only) with news regarding European integration. And what kind of news did the month of April bring? In my opinion, mainly positive news from Italy, where following the gridlock elections in February, politicians have managed to set up a functioning government. It is headed by Prime Minister Enrico Letta from the centre-left Democratic Party, who shortly after his election began a trip around Europe. According to information reported by news agencies, it became apparent following their meeting with the leaders of Germany and France that the Italians are pushing for the quick establishment of a banking union and support for job creation, mainly for young people.

The first mentioned Italian priority hit a snag last month, when German Finance Minister Wolfgang Schäuble announced that for a banking union to emerge, it would be necessary to amend the Lisbon Treaty. However, the Eurozone is resolving the banking crisis right now, and it cannot afford to wait several years for the process of ratification of amended EU founding treaties to be completed. It remains a question whether or not the German finance minister's statement can be read as a shift by the Germans away from the entire project. It will be better to push the second priority. Support for job creation can be read as a green light for the policy of supporting economic growth against the main current pushed so far by the "north wing" of the EU: painful austerity. And here, the Italians, the French and peripheral countries in the southern part of the continent have gained an important ally, European Commission Chairman José Barroso.

The European Central Bank has made a noteworthy contribution to the discussion regarding the topic of "the rich northern part of the Eurozone rescuing the poor south". Its published study reveals that on average the poorest households in the Eurozone are not in Greece or Portugal, but, brace yourselves... in Germany! On page 10 in the In Focus section, you can read about what the EU Office thinks about this and what the reality is.

Our analytical eye has not overlooked Eurostat's report about tax trends in the EU either. According to it, although the Czech Republic cannot be considered a tax haven, Czech taxes are lower than the EU average. Coincidentally, we have included the issue of taxation, in relation to personal retirement taxes, as one of the main topics of this edition of the Monthly. On pages 11-16, you can also read about curiosities, such as the fact that in Luxembourg there are 19 (!) tax brackets. Contrastingly, there are seven EU states with a flat (linear) personal tax rate; since it has imposed a 7% solidarity surcharge, the Czech Republic is no longer one of them.

We remind you that May is not only a month of love, but also the month of European Days, in the Commission's column section on page 8, presented exclusively by the European Commission's representative office in Prague.

Dear Readers, I wish you joyous celebration of the days of May and enjoyable reading of our Monthly.

Jan Jedlička

Germany demands amendment to Lisbon Treaty over banking union. The policy of tough budget cuts, which was adopted for the purpose of easing the economic crisis, is losing support. The European Commission has asked for an additional 11.2 billion euros as part of the budget for 2013. Italy and the UK have reservations about the financial transaction tax. A study by the company London Economics has revealed that the tax will also harm surrounding states that will not join it.

ECONOMY AND EURO

Germany wants to amend Lisbon Treaty over banking union

German Finance Minister Wolfgang Schäuble stated following an informal meeting of the Eurogroup that in order for joint rules to be implemented for reviving and restructuring banks, something which is one of the pillars of the planned banking union, **the Lisbon Treaty would have to be amended.**

"The banking union makes sense only if we will have rules for reviving and restructuring of banks. But if we want to create a European institution, it is necessary to amend the Treaty," Schäuble explained.

The first step towards implementation of the banking union is **creation of joint bank supervision.** As of July 2014, that supervision is expected to be the European Central Bank's responsibility. That is expected to be followed by **enshrining of a joint system for solving banking problems.** The system should facilitate the process of rescuing banks. The last step of the banking union is expected to be a **joint plan for insuring deposits.**

Germany is concerned that the ECB's new supervisory role could threaten its independent monetary policy. Therefore, at the Eurogroup meeting, German officials convinced the other Eurozone countries to sign a political declaration in which they committed to future amendments of Treaties. Schäuble believes that such amendments are necessary also for **a functioning system for solving the banking crisis.**

Germany's new requirement will not enable quick approval of a banking union, which is being called for by financial markets, since the process of amending the EU's founding treaties, which were last amended by the Lisbon Treaty, takes a long time. Amendment of primary EU law requires ratification in all member states. This process will take at least 1-2 years, and it remains a question whether the change will even be approved by all member states.

Bertelsmann Stiftung Study: Eurozone membership remains in Germany's interest

The rescue packages to assist Greece, Portugal and Ireland are not very popular among the German public. German taxpayers have the feeling that they themselves are financing the assistance to a great extent. The prevailing position in Germany according to public opinion polls is that it would be better for Germany to return to its former national currency. In one of the surveys conducted last year, **65% of German respondents expressed**

support for ditching the euro. However, according to a new study, **Germany still enjoys major advantages as a Eurozone member.** "Without the euro, GDP growth in Germany would be 0.5% lower," the study says.

If the euro were abandoned, Europe would also begin falling apart politically, and Germany would lose its global competitive edge as a result. A return to the Deutsch mark would reportedly also worsen the situation on the labour market. This is because a **0.5% decline in GDP growth** would cause **the loss of 200,000 jobs.** Moreover, Germany has good economic outlooks for the future. If all of the benefits of the euro are added up, Germany will earn a total of **1.2 trillion euros** from 2013 to 2025. This means that in the mentioned period, each euro will bring each German citizen around 1,100 euros annually. The results of the study are based on the advantages of membership in the Eurozone, which are not directly noticeable. For example, German membership in the monetary union reduces the costs of foreign trade and protects against exchange rate fluctuations.

http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-8C17B3E8-D331E8C3/bst/hs.xsl/nachrichten_116155.htm
<http://ec.europa.eu/avservices/focus/index.cfm?sitelang=en&focusid=305>

Budget savings suffer setback

European Commission Chairman José Manuel Barroso has said the policy of tough budget cuts, which the EU 27 have been using to attempt to alleviate the economic crisis, is losing support. He is convinced that at least political and social support is necessary for such policy to be a success. However, it has been lost in recent months.

According to the latest data from Eurostat, the economic situation in the Eurozone and by extension the EU as a whole has not improved. Governments have not managed to **reduce the overall deficit to below the required maximum of 3% of GDP,** and public debt continues to rise. In all of the economies in which the trio (the Commission, the ECB and the IMF) has imposed a strict diet, **public debt has been growing very quickly.** The only exception is Greece, although part of its debt was written off by private creditors. As a result of that measure, **Greece's** debt fell from 170% of GDP in 2011 to the current 157% of GDP, but it remains the highest debt in Europe. The second and third places on the ladder belong to **Italy** (127% of GDP) and **Portugal** (124%). In the **Czech Republic,** public debt grew during last year by 5% of GDP to nearly 46% of GDP. That is nearly double the figure from 2001.

Barroso has expressed support for **France** and southern Eurozone states, which are pushing a policy of fiscal stimulus, unlike **Germany** and northern states, which have taken a path of fiscal temperance.

In the EU Office we do not believe that the debt crisis can be solved by increasing public debts, which would be paid for by fiscal stimulus. Politicians should rather support the economy through **measures on the side of supply**, such as through further liberalisation of markets, cancellation of certain ineffective forms of regulation, tightening the actual internal market involving services in the EU or negotiating a trans-Atlantic trade and investment partnership.

http://europa.eu/rapid/press-release_STAT-13-64_en.htm?locale=en

BUDGET

Czech Republic agrees with increasing the EU budget for 2013

At the end of March, the European Commission presented a proposal for increasing the EU budget for this year. It did so, because there is not currently enough money in it, mainly for financing the cohesion policy. It is drawn from by the Czech Republic, which supports increasing the budget, unlike Britain.

After the **EU budget for 2013 was approved** last December, the European Parliament received an assurance from the Commission and the Council of the EU that potential deficits would be resolved. Based on that agreement, **the European Commission requested an additional 11.2 billion euros**. Most of those funds (specifically 9 billion euros) is intended to go towards financing the cohesion policy, which represents over **45% of the total EU budget for 2013**. The Czech Republic also supports increasing of financing in this area. If the EU budget is actually increased by 11.2 billion euros, the Czech Republic would have to contribute an additional CZK 3.1 billion (about 120 million euros) to it.

However, during this year the Czech Republic expects significant drawing of cohesion policy resources. According to the Czech Finance Ministry, the Czech Republic's revenues from the proposed increase of the EU budget are expected to be much higher than the costs for the additional contribution. **In the current programme period of 2007-2013, the Czech Republic has the opportunity to draw within the cohesion policy a total of 26.7 billion euros**. The Commission's proposal for adding to the budget will first have to be approved by the Council of the EU by a qualified majority, after which the European Parliament will vote on it.

Draft Amending Budget EU for 2013 (in mil. EUR)

Chapter	Approved budget 2013	Budget increase
1a. Competiveness for Growth and Employment	11 904.0	982.6
1b. Cohesion for Growth and Employment	47 348.4	9 001.1
2. Preservation and Mgmt . of Natural Resources	57 487.0	608.5
3a. Freedom, Security and Justice	917.7	128.4
3b. Citizenship	639.1	15.2
4. EU as a Global Player	6 409.4	489.5
5. Administration	8 430.4	-
6. Compensations	75.0	-
Total	133 211.0	11 225.2

Source: European Commission

http://europa.eu/rapid/press-release_IP-13-291_en.htm

TAXATION AND CUSTOMS UNION

Path to taxing financial transactions may get complicated

The tax on financial transactions, which as of next year 11 EU states plan to introduce, may be in jeopardy. Italy, which has got involved in boosted cooperation related to taxation of financial transactions, is demanding a major overhaul of the current proposal. Italy's permanent representative in Brussels, Ferdinando Nelli Feroci, has said he believes that **transactions with state bonds should not be taxed**. He described such possibility as a "red line", about which he said the Italians would not be willing to negotiate.

However, the European Commission argues that leaving out state bonds would have a major effect on tax revenues. Those revenues are estimated at 30-35 billion euros annually. State bonds, after all, make up a major part of financial markets. **The planned 0.1% tax on transactions with bonds and shares and the 0.01% tax on derivatives** are intended to affect all financial transactions in which at least one of the participants is seated in one of the participating states, regardless of where the transaction occurs. However, the transaction tax will not apply to regular transactions carried out by individuals and businesses, such as loans, payments, insurance, deposits, etc.

The other country that has a problem with taxation of financial transactions is Britain. It is considered one of the



Events

According to Eurostat's regular report about tax trends, lower taxes are paid in the Czech Republic compared to the rest of the EU. The EC has come up with proposals for how to help people overcome obstacles that prevent them from working in other countries. German investors have described the Czech Republic as the most attractive location for business in Central and Eastern Europe. The EP has rejected a proposal for temporary withdrawal of 900 million emissions permits. The emissions trading system is currently impacted by a huge excess of permits.

main opponents of such taxation and has voiced its objections to it to the EU Court Tribunal. Although it is not entirely clear what exactly it has argued to the Court Tribunal, its arguments pertain to the rules of boosted cooperation. **Britain's main objections are regarding the extent of the taxes**, which could affect transactions even outside of the eleven participating states.

Study: Financial transaction tax will harm surrounding states

London's City financial district has had a study carried out by the firm London Economics, in order to assess the impacts of the financial transaction tax (FTT) on EU states. **According to the London study, the result of the taxation will be an increase in the prices of capital as well as in the cost of investments** (in the case of companies) **and an increase in government debt and expenditures** (in the case of governments) across the EU. The negative impacts will be greater in the case of corporate bonds issued in states that do not participate in the FTT than in those participating. **The costs of government financing will also rise**, and according to calculations made as part of the analysis, the introduction of the FTT would cost the British government GBP 3.95 billion (based on this year's data). However, the report from the study stresses that government costs will be much higher for countries that join the FTT. The results of the study thus support the arguments of states that are concerned that the tax could also harm those that do not participate in it.

<http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/The-impact-of-a-financial-transaction-tax-on-corporate-and-sovereign-debt.aspx>

Taxes in Czech Republic are below EU average

At the end of April, Eurostat published its regular report about tax trends in the EU, which has revealed that taxes paid in the **Czech Republic** are lower than the EU average. The highest individual income tax rate after the implementation of the 7% solidarity surcharge in the **Czech Republic** is 22%, which is the seventh lowest rate in the EU 27. The highest tax rates are paid in **Sweden** (56.6%), **Denmark** (55.6%) and **Belgium** (53.7%), while the lowest tax rates are in states such as **Bulgaria** (10%), Lithuania (15%) and **Hungary and Romania** (both 16%). The average in the EU 27 is 38.3%.

As far as corporate income taxes are concerned, the highest taxes are paid in **France** (36.1%), **Malta** (35%) and

Belgium (34%), while the lowest are in **Bulgaria and Cyprus** (both 10%) and in **Ireland** (12.5%). The **Czech Republic** is eighth on the ladder with 19%. The average corporate tax in the EU is 23.5%. Eurostat's report also looked at VAT. In the **Czech Republic**, its basic rate is 21%, and **Luxembourg's** VAT rate of 15% is the lowest in the EU 27. **Cyprus and Malta** also have low VAT (both 18%). Contrastingly, the VAT rate in **Hungary** is 27%. The average VAT rate in the EU 27 is 21.3%.

In the Monthly, we focus regularly on taxation in EU member states in the **Main Topic section**. In January, we focused on VAT, in February on corporate taxes and in this issue on page 11 you will find an analysis of personal taxation.

http://europa.eu/rapid/press-release_STAT-13-68_en.htm?locale=en

INTERNAL MARKET

European Commission: Working elsewhere in EU should be easier

Some EU states more than others are currently affected by **high unemployment, mainly among young people**. Therefore, the European Commission has introduced a proposal for helping people overcome obstacles that prevent them from working in other EU countries. The Commission believes that the **main obstacles** are: **a lack of awareness of the rules** in particular countries and **a lack of understanding of the rules**. Newly arriving workers often do not know whom to turn to regarding problems, such as **discrimination on the job market**.

The Commission's proposals are:

- creation of contact points within states for providing information, help and advice for workers from other countries,
- setting of appropriate corrective measures at a national level,
- enabling administrative proceedings to be commenced in relation to trade unions, NGOs and other entities on behalf of individual workers in the event of discrimination,
- providing of better information both to migrating workers and to employers.

Four member states (the UK, Germany, the Netherlands and Austria) are complaining to the European Commission about **welfare tourism**. Their cities are reportedly becoming full of immigrants from other member states, who are living off of welfare without even fulfilling all of the requirements for it. However, the European Commission rejects these



Events

arguments and points out that welfare may be provided only to those who work or live long-term in a particular country. **The European Commission says there is no evidence that migrating workers are taking jobs from other inhabitants of host countries.** The Commission argues that the mobility of the labour force is beneficial for the host countries' economies, because it enables companies in the host countries to fill work positions that otherwise would remain empty.

http://europa.eu/rapid/press-release_IP-13-372_cs.htm

ENTERPRISE

Opportunities attracting German investors to CR, but they mind corruption and non-transparent tenders

The Czech-German Chamber of Commerce and Industry has conducted a survey, which reveals that most German business operators in the Czech Republic view the country as **the most attractive location for doing business** in Central and Eastern Europe. Two thirds of respondents said they viewed the current economic situation in the Czech Republic as good or satisfactory. Only 9% do not share that opinion and view the Czech economic situation negatively. However, compared to last year that opinion is shared by 10% more companies.

According to the survey, 14% of companies expect the economic situation to improve, which compared to in 2012 represents an increase by 5%, but a decrease by 32% compared to 2011. More than half of respondents expect stable conditions, while more than a third expect a further decline. Investor's positively evaluate **the Czech Republic's EU membership**. A total of 52% would support the adoption of the euro, while 38% are opposed. However, in 2010, Czech membership in the Eurozone was supported by more than 80% of respondents.

Five best conditions

1. EU membership	3.53
2. Employee performance and motivation	3.23
3. Quality and availability of local suppliers	3.23
4. Employee qualifications	3.20
5. Academic education	3.15

Notes: 1 = unsatisfied, 2 = mostly unsatisfied, 3 = somewhat satisfied, 4 = satisfied, 5 = very satisfied.

Source: Survey by the Czech-German Chamber of Commerce and Industry

The surveyed investors positively evaluated **well performing, motivated and qualified employees and local suppliers**. However, the things that ruffle their feathers are **the fight against corruption, the often ineffective state administration and problems with transparency during tenders**.

Five worst conditions

1. Fight against corruption. crime	1.67
2. Transparency during tenders	1.83
3. State administration	2.04
4. Political stability	2.04
5. Legal certainty	2.09

Notes: 1 = unsatisfied, 2 = mostly unsatisfied, 3 = somewhat satisfied, 4 = satisfied, 5 = very satisfied. Source: Survey by the Czech-German Chamber of Commerce and Industry

http://tschechien.ahk.de/fileadmin/ahk_tschechien/Presse/PM_2013/Vysledky_konjunkturalniho_pruzkumu_CNOPK_2013.pdf

ENERGY AND TRANSPORT

European Parliament fails to support backloading of emission permits

The European Parliament during its plenary session In April did not support a proposal for withdrawing 900 million emission permits from the trading system. The vote received a lot of attention across the EU, because it was an important signal about the future of the entire emissions trading system (ETS).

The market has long been saturated with **a large excess of permits for greenhouse gas emissions**, which are reducing their prices to a minimum level and not motivating energy companies to make investments into efficient technology. The process known as **"backloading"** would have withdrawn a lot of permits from the market, but it did not receive support from MEPs. **The price of emissions permits fell sharply shortly after the parliamentary vote from 4.5 euros to 2.63 euros.**

According to experts, the voting result means that the Commission will have problems pushing through longer-term changes in emissions trading. However, this outcome does not mean a definitive end of the proposal. The document will now be returned to the parliamentary committee for the environment for further consideration. The issue is also expected to be taken up by ministers from



The EC has recommended to the Council that it commence accession negotiations with Serbia. On the other hand, accession negotiations with Iceland are expected to be halted, because that country's parliamentary elections have been won by anti-EU parties. Drawing of resources from EU funds in the next programme period will be significantly delayed. Non-drawn resources from certain operational programmes in the Czech Republic will probably be shifted elsewhere.

individual countries at informal meetings of the councils for environment and energy.

<http://www.europarl.europa.eu/sides/getDoc.do?type=IM-PRESS&reference=20130416IPR07332&format=XML&language=EN>

ENLARGEMENT

Commission says Serbia is prepared for accession talks

The main obstacle to commencing accession talks between the EU and Serbia so far has been the **tense relations between Serbia and neighbouring Kosovo**. However, on 19 April Serbian Prime Minister Ivica Dačić and Kosovo Prime Minister Hashim Thaçi entered into an agreement prepared by the EU for normalisation of their relations, following months of negotiations.



Dačić describes the negotiated agreement as very beneficial for Serbia. Thaçi has similarly welcomed the document and says that **it will ensure international recognition of Kosovo statehood, sovereignty and territorial integrity**. He also described it as a historic agreement that enables further normalisation of relations between Serbia and Kosovo. Those relations are complicated mainly by the large ethnic Serb minority in northern Kosovo. Under the agreement, Kosovo will have autonomy in matters pertaining to economic development, education and healthcare. It will also have its own police chief and appeals court. Both parties have also pledged not to attempt to block each other's European integration efforts.

The agreement has already officially been approved by both Kosovo's parliament and the Serbian government. In response, the Commission announced on 22 April 2013 that it was recommending **commencement of accession negotiations** with Serbia. However, the Commission

stressed that it would continue to monitor further developments in Serbia, and it praised the country's reform efforts. The exact date when accession talks with Serbia are expected to begin is not yet known. **The European Commission has also recommended starting negotiations with Kosovo about the Stabilisation and Association Agreement.** Even despite the progress in the negotiations, in the EU Office we do not believe that Serbia is likely to join the EU sooner than the end of this decade.

Iceland puts distance between itself and EU after elections

Elections were held in Iceland at the end of April, which were won by opposition anti-EU parties **the conservative Independence Party** (26.7%) and **the liberal Progress Party** (24.4%), which governed the country before the country's economic collapse in 2008. Icelanders have thus expressed their dissatisfaction with the tough austerity measures that the Social Democratic government has carried out in recent years. Both centre-right parties, which have already begun negotiating about setting up a government, are also against Iceland becoming an EU member. Iceland filed an application for EU membership in 2009 in connection with the effects of the financial crisis on the country's economy. Accession talks were commenced in 2011, but they are not likely to be revived in the near future.

http://europa.eu/rapid/press-release_IP-13-347_en.htm

http://europa.eu/rapid/press-release_IP-13-348_en.htm

COHESION POLICY

2014-2020 EU funds braked by yet unapproved legal framework

Drawing from EU funds in the next programme period, which begins in 2014, apparently will face greater delays than originally expected. This is because the future cohesion policy **still lacks a valid legal framework** or a **form of a multi-year financial framework for 2014-2020**. Without these documents, negotiations regarding the amount of national allocation cannot be concluded, nor can binding strategic documents be signed by the Commission and member states.

Those interested in EU subsidies from structural funds therefore will have to be very patient as of the start of the next programme period of 2014-2020. Drawing of EU funds certainly will not begin as of the beginning of next year, as it was officially supposed to, but later. Although the proposed form of the multi-year EU financial framework



was approved by the European Council in February, the European Parliament swept it from the table. Uncertainty regarding legislation is impeding mainly the negotiations regarding **the Partnership Agreement**.

In the EU Office we believe that the system of subsidies from EU funds for 2014-2020 will begin in the Czech Republic at the earliest at the end of 2014, but we also do not rule out the first quarter of 2015. By that time, **the domestic operational programme** is expected to be approved definitively by the European Commission. It remains a question whether or not certain operational programmes will announce the first calls for submission of grant applications sooner than Brussels approves the operational programme. Legislation enables this.

Commission has questions about the form of the Partnership Agreement

The Partnership Agreement is a crucial and binding document for the 2014-2020 programme period, which each member state is entering into with the European Commission and which also contains a description of the national implementation structure. Since the current period is approaching its end, the Commission insists that the Agreement be signed with each member state this autumn. However, **member states still do not have a clear idea of what form the Partnership Agreement will have**. The Commission's expectation regarding the document is that member states will submit it in two forms. The first form will be as a **strategic document**, which will contain an explanation of the areas into which the particular country wants to invest EU resources after 2013. The second document is expected to have a simple table form with a pre-defined number of characters, meaning a **uniform format for all countries**.

<http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2013-78>

http://europa.eu/rapid/press-release_SPEECH-13-276_en.htm#PR_metaPressRelease_bottom

Three operational programmes await a shift of non-drawn EU grants

This year is key for **drawing of resources** from EU structural funds and the Cohesion Fund. This is the year in which rule n+3 for allocation intended for 2010 and rule n+2 for allocation from 2011 will be put into practice. The Regional Development Ministry therefore plans due to the risk of a loss of non-drawn resources from European funds this year **reallocation from three specific operational programmes: Environment, Technical Assistance and**

ROP Northwest. The document, which still must be approved by the government, is now undergoing a feedback process. **Resources from the Environment Operational Programme** that are not drawn this year **are to be shifted to the Transport Operational Programme**, where they will support the modernisation and development of the Prague Metro. The total reallocation from the programme is expected to be around CZK 3 billion.

There has also been a low drawing level from the **Technical Assistance OP**, from which technical support and a coordinated approach during management of the other OP are financed. The ministry is considering shifts among priority axes within the programme, and a shift to other OP is also being considered. There is also expected to be a shift of resources from **ROP Northwest**, where payments are not currently being made due to a police investigation. Moreover, the Commission has imposed a broad financial correction on the programme, which still has not been paid. The resources in the amount of allocation for 2013 should be divided among different operational programmes: regional operational programmes, and due to the need to preserve relationships between the objectives of Convergence and Regional Competitiveness also the **OP Prague Competitiveness**.

EC: Cohesion policy fulfilling its objectives

The European Commission says the cohesion policy is fulfilling its objectives and contributing to growth and progress, which is benefiting citizens. This is according to the second strategic report, which evaluates management of resources from **structural funds for 2007-2013** in all EU member states.

Most successful projects in entire EU

- 1.9 million more people can use high-speed internet;
- 2.6 million more people can draw project benefits related to water supplies and another 5.7 million people can take advantage of benefits from waste water treatment projects;
- 460 km of roadways and 334 km of railways have been constructed within the trans-European traffic and transport network;
- nearly 3.4 million people have access to better public transport;
- 2.4 million people have found new jobs thanks to contributions from the European Social Fund.

<http://www.strukturalni-fondy.cz/cs/Informace-o-cerpani/Mesicni-monitorovaci-zprava>

http://europa.eu/rapid/press-release_IP-13-336_en.htm



Commission's Column

In this issue the European Commission Representation in the Czech Republic focuses on European Days in the Czech Republic. On 9 May 1950, French Foreign Minister Robert Schuman issued a declaration, in which he proposed the creation of the European Coal and Steel Community. That grouping was the first of a series of multinational European institutions, which later resulted in what is today the EU. Several interesting events will occur in the Czech Republic from 6-16 May as part of the European Days festival.

9 MAY - EUROPE DAY

Each year on Europe Day we remember the declaration that was presented on 9 May 1950 in Paris by then French Foreign Minister Robert Schuman. It was the first step towards creation of the multinational organisation that we now call the European Union. The Czech Republic began participating in the tradition following its accession to the EU in 2004, and this year to mark the occasion a series of events are being held from 6 to 16 May under the collective name European Days.

Programme of European Days in the Czech Republic

The culmination of this year's European Days is a festival, which will be held on 10 May from 15:00 to 22:00 on Kampa Island. It will include a rich cultural programme with stands presenting information about study, work, travel and life in the EU. Several dance and music groups will take turns on the main stage, including a surprise in the form Kryštof Michal's new Czech group Portless and the international group N.O.H.A.

European Days offers besides an open-air festival also a lot more, and from the wide range of projections, exhibits, seminars and discussions, we have selected the most interesting:

Conference "Nine years of the Czech Republic in the EU – what's next?"

WHEN: 6 May 13:00-18:30

WHERE: Aula Mathematics and Physical Faculty of Charles University, Malostránské náměstí 25, Prague 1

The Czech Republic joined the EU nine years ago. The world has changed since then. Powerful political forces are questioning further European integration. What path will our country take? What could and should be its role and the role of us, citizens, in this uneasy world?

Read more at www.europeanmovement.cz

Dobro došli! – Celebration of Croatia's accession to the EU

WHEN: 8 May 10:00-18:30

WHERE: Ministry of Foreign Affairs (Garden of Černín Palace), Loretánské náměstí 5, Prague 1

We will celebrate Croatia's accession to the EU in the garden of Černín Palace with a concert by Čechomor and

the Croatian music group Kampanel. Visitors will be able to view the accompanying exhibits "Magical Croatia", "Moravian Croats" and "Europe without Barriers".

Read more at www.mzv.cz/chorvatsko_v_EU

Discussion about Europe's future

WHEN: 13 May 17:00-19:00

WHERE: DOX contemporary art centre, Poupětova 1, Prague 7

Come join the debate about the future of Europe and listen to proposals for improving everyday life in the EU and its functioning.



The public dialogue is open to the general public, non-profit organisations, the academic community, business representatives and other interest groups. Everyone can attend.

The debate with the public will be participated in by European Commissioner for Enlargement and Neighbouring Policy Štefan Füle, Irish Minister for Commerce John Perry and other representatives of European and national institutions. Martin Veselovský will moderate the discussion. It will also be possible to watch it live on the internet and social networks. In the evening, participants can enjoy a concert by Lithuanian Fusedmarc and the Czech-Irish group Rí Rá.

Read more at www.evropska-unie.cz, ZEK_Praha on Twitter or EvropskakomisevCR on Facebook.

The European Days are being held by the European Commission's representative office in the Czech Republic, the Information Office of the European Parliament in the Czech Republic and the Department of Information about European Affairs of the Czech Government Office in cooperation with embassies and cultural institutions of EU member states and other partners.

The events are being held under the auspices of Czech Prime Minister Petr Nečas, Czech Deputy Prime Minister and Minister of Foreign Affairs Karel Schwarzenberg and the Irish presidency of the EU.

Read more at www.evropskedny.cz

Our Information Service section outlines upcoming sessions of EU decision-making bodies accompanied by other significant events such as international summits with super powers. Often agendas for negotiations by these important bodies are not ready until a few days before the actual meetings so they can be as up-to-date as possible.

Agendas can be found at: <http://europa.eu/eucalendar/>.



Meeting of the key EU institutions

8 – 9 May 2013	Brussels, Belgium
- EP Plenary Session	
13 May 2013	Brussels, Belgium
- Eurogroup	
13 - 14 May 2013	Brussels, Belgium
- Agriculture and Fisheries Council	
14 May 2013	Brussels, Belgium
- Economic and Financial Affairs Council	
16 - 17 May 2013	Brussels, Belgium
- Education, Youth, Culture and Sport Council	
20 - 23 May 2013	Strasbourg, France
- EP Plenary Session	
21 May 2013	Brussels, Belgium
- General Affairs Council	
22 May 2013	Brussels, Belgium
- European Council	
22 - 23 May 2013	Brussels, Belgium
- European Economic and Social Committee plenary session	
26 - 28 May 2013	Dublin, Ireland
- Informal Meeting of Ministers for Agriculture	
27 - 28 May 2013	Brussels, Belgium
- Foreign Affairs Council	
29 - 30 May 2013	Brussels, Belgium
- Competitiveness Council	
30 - 31 May 2013	Brussels, Belgium
- Committee of the Regions plenary session	

Access as of May 3rd 2013



A shocking headline took the media by surprise in early April: Germans, who pay the most for rescuing the Eurozone, are the poorest people in the entire Eurozone. This was shown by a study comparing the wealth of households in a sampling of 62,000 respondents, from a very reliable source, the European Central Bank. Was the headline justified? Or is it just a journalism bubble, which does not have a lot to do with reality?

POOR NORTH AGAINST RICH SOUTH?

Taxes have always been a symbol of a particular territory's national. While reading the findings of the European Central Bank's study and mainly their interpretation, it was impossible not to think of former British prime minister Benjamin Disraeli's notorious statement: "There are three kinds of lies: lies, damned lies, and statistics." By pointing this out, we certainly do not wish to question the credibility of the European monetary authority, but while reading statistics, we must not forget about common sense.

We should note that in the [press release](#) presenting the results, no difference between the wealth of northern and southern states is mentioned at all. The study is not as much as comparison of absolute household wealth as an analysis of the structure of household property and its development over time. Questions that bet to be asked are what portion of household property consists of real estate, how much households in different countries place in financial assets and how much debt households have. Shocking titles are represented in the text by one table at the end of the more than 100-page study.

Net household wealth in the Eurozone (in thous. EUR)

	Median	Average
Luxembourg	397.8	710.1
Cyprus	266.9	670.9
Malta	215.9	366.0
Belgium	206.2	338.6
Spain	182.7	291.4
Italy	173.5	275.2
France	115.8	233.4
The Netherlands	103.6	170.2
Greece	101.9	147.8
Slovenia	100.7	148.7
Finland	85.8	161.5
Austria	76.4	265.0
Portugal	75.2	152.9
Slovakia	61.2	79.7
Germany	51.4	195.2

Source: ECB Eurosystem Household Finance and Consumption Survey

So are Germans (or representatives of "Northern Europe") really poorer than Southern Europeans? The wealth of a nation and its citizens is not only about statistics in the column of wealth held by households (after being cleaned of debt). A better indicator, as is pointed out by economists

Paul De Grauwe and Yuemei Ji, is "net capital stock" per capita, where besides household property and the private corporate sphere, the public sector's property also belongs. And in this indicator, understandably (and correctly), the rich north of the EU wins over the poor south.

If in a particular country housing rental is a developed and extensive market (which is typically a characteristic of wealthier countries), there is not as much pressure encouraging acquisition of own housing, which make up the main part of household property in the ECB survey. It is clear from the study that German and Austrian households more often live in rented apartments than their southern counterparts. Does this mean that they are richer? Not at all, it just means that German real estate is more often owned by companies and the public sector than by households. On the other hand, Germany and its crowd spend more time on services and similar amenities, which for definition reasons did not make it into the ECB survey. How would the statistics of participants in cruises around the world turn out based on individual nationalities?

The household "wealth" statistics in the particular study are based particularly on ownership of real estate and its prices. Blowing up the real estate bubble then leads to statistical enriching of households in a particular country. This has significantly influenced the position of Spanish households (in median expression the 5th richest), where a survey was carried out in 2008, just before the real estate bubble burst. The results also affected the form of households - the more residents live in the average household, the richer it will be as a whole. While in Finland, Germany and Austria, only just over 2 residents lived in the average household, richer southern households are shared by more people; the average Cypriot household is 35% larger than the German one.

Approximately 40% of German households have only one member. We can also successfully take issue with the result of the median household (Germany in last place) and the average household (Germany in the middle). From the relationship between the average and the median, there is an apparent relatively high inequality related to property in German households.

We began with a quote, and we are ending with a quote, this time attributed to another former British prime minister, Winston Churchill: "I don't believe any statistics that I falsified myself."

Jan Jedlička, Vít Macháček, EU Office ČS



Main topic

In the last edition of the Monthly, we presented an overview of the development of VAT and corporate taxes in individual EU states, including the Czech Republic. In this issue, we have returned to the topic of taxes and focused on another form of direct taxes, personal taxes, specifically individual income taxes.

PERSONAL TAXES IN THE EU

INTRODUCTION

Even if indirect taxes (VAT and consumer taxes) are regulated by EU directives, which became valid many years ago already, and rules are set regarding the amount and number of rates (although some EU states use a lot of exceptions), personal retirement taxes are not regulated by any European legislation or are affected only to a limited extent.

Individual EU states alone determine what final form individual income taxes will take, whether this concerns the number and amounts of individual tax rates, tax discounts, etc. Some states have imposed a flat tax, based on which

the have set a single rate for all incomes, and other states have set several rates as well as municipal rates, various surcharges, etc. Even despite many variations of these systems, it is possible to identify a certain trend. Like with corporate taxes (referred to in Czech as "daň z příjmu právnických osob"), in the case of individual income taxes there is also an apparent gradual decrease in the highest average rates in the EU. Individual states are resorting to increasing indirect taxes and reducing direct taxes in an effort to reduce the financial burden for companies and reduce the cost of human labour.

DEVELOPMENT OF INDIVIDUAL INCOME TAX RATES IN CZECH REPUBLIC

Individual income taxes have undergone many changes in the Czech Republic since 1993. The numbers and amounts of tax rates have changed, and tax bases have been adjusted. First the amounts changed for basic deductible items from the tax base, and then these were replaced by income tax discounts, etc. From 1993 to the end of 2007, the individual income tax rate in the Czech Republic was progressively fluctuating, which meant that limits were set, above which a higher tax rate was applied only to the portion of the pension that exceeded that particular limit.

From 1993 to 1995, the Czech Republic had six brackets, and in 1993 the so far highest rate of 47% was imposed from a base exceeding CZK 1.08 million. This highest rate was reduced in later years to 44% in 1994 and 43% in 1995. Then the number of brackets was reduced to five by 2000,

and the highest rate was reduced to 40%. Therefore, in those years only the tax base amounts were changed. From 2000 to 2007, the number of brackets was reduced to four, and the amounts of the two lowest rates and tax bases were adjusted. From the end of 1993 to the end of 2005, deductible items from the tax base were used in the Czech Republic (the tax base consists of income following deduction of expenses) for these purposes:

- for the taxpayer,
- for each child in the household,
- for a spouse in a joint household with own income less than set in individual years,
- for a taxpayer who was a user of a partial or full disability pension,
- for a holder of a ZTP-P disability card,
- for a tax payer up to age 26, who is studying to prepare for a future career.

Since 2006 (for a raised child already from 2005), instead of deductible items from the tax base, a tax discount has been applied (deducted from the resulting taxes, not from the tax base). Tax discounts are applied due to taking into consideration the taxpayer's social status.

As of 1 January 2008, the system of sliding progressive rates was changed to a single flat rate. That rate was set as 15%. Due to the existence of deductible items and tax discounts, however, there is still a certain progressive approach. However, this at first glance simplification and rapid reduction has a typical "Czech flavour".





Main topic

Development of Czech individual income tax rates from 1993-2007

Year	Tax base (in CZK)		Tax (in CZK)	From base exceeding in CZK
	from	to		
2006-2007	0	121 200	12%	-
	121 200	218 400	14 544 + 19%	121 200
	218 400	331 200	33 012 + 25%	218 400
	331 200	and more	61 212 + 32%	331 200
2001-2005	0	109 200	15%	-
	109 200	218 400	16 380 + 20%	109 200
	218 400	331 200	33 012 + 25%	218 400
	331 200	and more	61 212 + 32%	331 200
2000	0	102 000	15%	-
	102 000	204 000	15 300 + 20%	102 000
	204 000	312 000	35 700 + 25%	204 000
	312 000	and more	62 700 + 32%	312 000
1999	0	102 000	15%	-
	102 000	204 000	15 300 + 20%	102 000
	204 000	312 000	35 700 + 25%	204 000
	312 000	1 104 000	62 700 + 32%	312 000
	1 104 000	and more	316 140 + 40%	1 104 000
1998	0	91 440	15%	-
	91 440	183 000	13 716 + 20%	91 440
	183 000	274 200	32 028 + 25%	183 000
	274 200	822 600	54 828 + 32%	274 200
	822 600	and more	230 316 + 40%	822 600
1997	0	84 000	15%	-
	84 000	168 000	12 600 + 20%	84 000
	168 000	252 000	29 400 + 25%	168 000
	252 000	756 000	50 400 + 32%	252 000
	756 000	and more	211 680 + 40%	756 000
1996	0	84 000	15%	-
	84 000	144 000	12 600 + 20%	84 000
	144 000	204 000	24 600 + 25%	144 000
	204 000	564 000	39 600 + 32%	204 000
	564 000	and more	154 800 + 40%	564 000
1993-1995*	0	60 000	15%	-
	60 000	120 000	9 000 + 20%	60 000
	120 000	180 000	21 000 + 25%	120 000
	180 000	540 000	36 000 + 32%	180 000
	540 000	1 080 000	151 200 + 40%	540 000
	1 080 000	and more	367 200 + 43-47%*	1 080 000

Source: Legislation regarding individual income taxes, Note: *the highest rate in 1993 was 47%; 1994 - 44%, 1995 - 43%

Besides this change, a practically unknown new term, "super gross wage", was introduced. This term represents a gross wage increased by social security and health insurance, which the employer is required to pay for each employee. The collective rate of mandatory premiums in

2008 was 35%, of which 9% was for health insurance and 26% was for social security. Since 2009, this collective rate has been reduced to 34%, social security has been reduced from 26% to 25% (the amount of disability insurance dropped from 3.3% to 2.3%, retirement insurance remained at 21.5%, and the contribution to state employment policy remained at 1.2%). The set 15% rate from the super gross wages therefore represents 20.1% of the gross wages (15*1.34).

In the conditions of 2008, this meant 20.25%. So the current 15% rate is basically only a cosmetic adjustment of the actual individual income tax rate amounting to 20.1% of gross wages in the Czech Republic.

As of 1 January 2013, another change occurred in relation to individual income taxes in the Czech Republic. From the flat rate that we have had for five years, we have switched based to a system of sliding progressive rates. In the Czech Republic, the individual income tax is defined in Act No. 586/1992 Coll., on income taxes.

It is covered specifically in the first part of the Act (Sections 2 to 16), and the second part of the Act defines corporate income taxes. In individual paragraphs, individual particulars of the Act are defined, including details regarding individual income taxpayers, subjects of tax, tax relief, the tax base and more as well as regarding tax rates and solidarity contributions that increase them.

Development of Czech individual income tax rates from 2008-2013

Year	Tax rate
2013	15% + (7%)*
2008-2012	15%

Source: Legislation regarding individual income taxes, note: *solidarity increase of taxes by 7% of monthly income above 4 times the determined average monthly salary (CZK 25,884 in 2013), meaning CZK 103,536

The introduction of a solidarity increase in Section 16a of the act on income taxes has created a new rate, which has transformed the flat rate valid from 2008 to 2012 to a sliding progressive system. The solidarity tax increase is 7% of the positive difference between:

- the sum of income included in the partial tax base pursuant to Section 6 of the act on income taxes and the partial tax base pursuant to Section 7 of the act on income taxes in the particular tax period, and
- 48 times the average wage determined based on the act governing premiums for social security.



This solidarity increase in taxes is calculated from an amount exceeding 48 times the average wage. For monthly expression, this represents a 7% solidarity tax from an amount above 4 times the average salary, which has been determined for 2013 as CZK 25,884. This determination is based on Labour Ministry Decree No. 324/2012 Coll., which sets:

- the amount of the general assessment base for 2011 as CZK 25,093,
- the amount of the recalculation coefficient for adjustment of the general assessment base for 2011 as 1.0315.

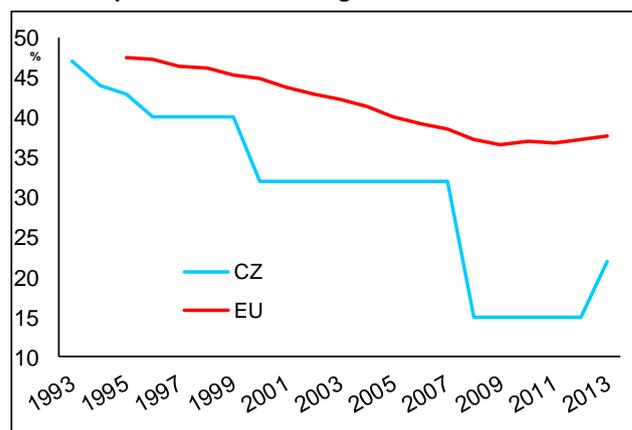
This method was used to determine the average salary for setting the calculation base in the amount of CZK 103,536 ($25,093 \times 1.0315 = 25,884$; $25,884 \times 4 = 103,536$). From an amount exceeding the monthly income of CZK 103,536, a solidarity tax is also deducted at the rate of 7%. Another change was the cancellation of the basic tax discount for the taxpayer among working pensioners (CZK 24,840), and the ceiling for health insurance was also abolished.

However, the current system is not expected to last long. As of 2015, the super gross wage is expected to be cancelled, and the individual income tax rate will be increased to 19%. The tax will then be calculated as the product of the tax base, reduced by the non-taxable portion of the tax base and by a deductible item from the tax base rounded down to whole hundreds of CZK and tax rates.

The newly established solidarity 7% tax is also expected to be cancelled.

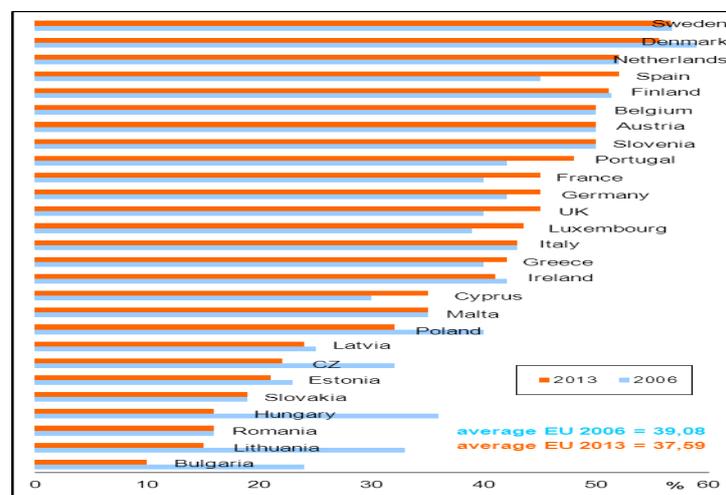
The development of the highest individual income tax rates has a declining trend not only in the Czech Republic, but also on average in the EU. While the average for the EU was just under 48% in 1995, this year it is just under 38%, which is 10% less. Some states (including the Czech Republic, where for 2013 the highest rate is 22% (15% + 7% solidarity tax) have resorted in recent years to increasing the highest rates of personal retirement taxes.

Development of the top individual income tax rates in the Czech Republic and on average in the EU-27



Source: Eurostat

Development of the top individual income tax rates in the Czech Republic and on average in the EU-27



Source: Eurostat

PERSONAL TAX RATES IN THE EU

The systems and development of rates and taxable income among individual income taxes are overseen by individual EU states. This corresponds both to the needs and setting of taxes in individual countries, and it is also a question of certain traditions. Therefore, the spectrum of individual income taxes is very wide, from relatively simple systems, in which states have implemented flat tax rates or in which

they have several sliding progressive rates, to different taxation based on social status and the practice by certain states in adding to state rates municipal, church, solidarity and other fees.

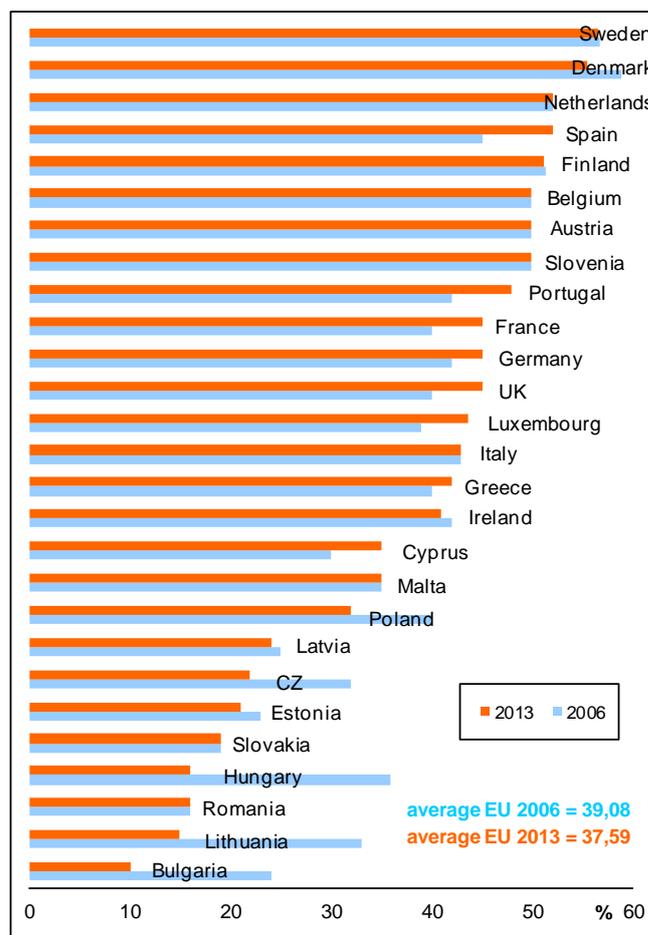
A simplified overview is practically impossible, but we can evaluate individual systems in terms of their complexity and transparency or compare individual numbers and amounts



of rates. However, we can observe a certain trend in the EU among personal retirement taxes. It amounts to gradual reduction of the highest individual income tax rates. The highest rates have traditionally been in northern states. This is apparent from the data in the Eurostat document "Taxation trends in the European Union", according to which the rates were over 60% in 1995 and now are just over 50%. The largest reduction in rates of personal retirement taxes has occurred in former Communist countries in Eastern Europe, where today the rates are among the lowest and which also have the simplest systems (most have a flat tax).

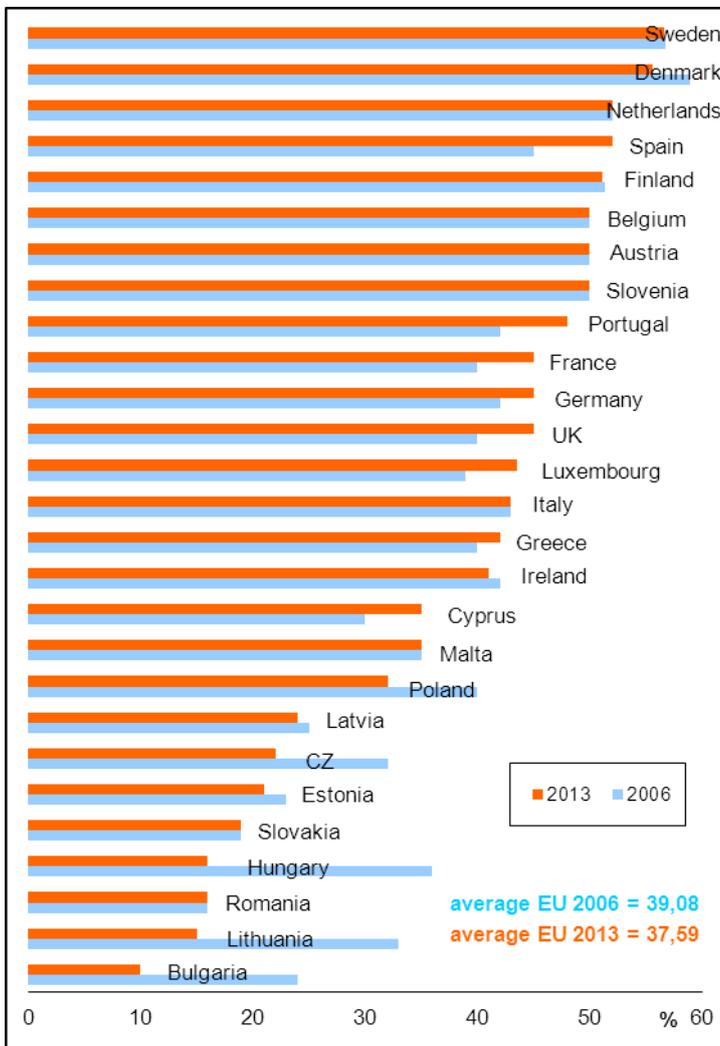
The highest rates have fallen by more than 20% in the Czech Republic, Hungary, Romania and Slovakia. The clear winner in this respect is Bulgaria, which today has a flat rate of 10%, although in 1996 it had the highest rate at 50%, which represents a reduction by an unbelievable 40%. Although most states have reduced their highest rates since 1995, Portugal, Greece and the UK have taken the opposite approach and have increased their highest individual income tax rates. However, Malta and Austria have each maintained the same highest rate during the mentioned period of 1995-2013. Therefore, personal retirement tax rates in the EU vary greatly, from 10% in Bulgaria (Bulgaria and Cyprus each also have lowest corporate tax rate, 10%), 15% in Lithuania and rates exceeding 50% in Denmark, Belgium, Spain, the Netherlands and Portugal.

Development of the top individual income tax rates in the EU



Source: Eurostat

Development of the top individual income tax rates in the EU



Source: Eurostat

Current individual income tax rates in the European union

We can divide the systems of individual income tax rates based on whether the states use a flat tax rate or a sliding progressive rate.

Flat rates are used by:

- Bulgaria (10%)
- Estonia (21%)
- Latvia (24%)

- Lithuania (15%)
- Hungary (16%)
- Romania (16%)
- Slovakia (19%)

early as last year, the Czech Republic was also in this category, but with the introduction of the 7% solidarity tax, basically gained an additional rate and therefore returned sliding progressive rates, which it had used until the end 2007. These states not only have a relatively simplified item using only single flat rates, but they are also among the EU states that have the lowest rates and therefore a more advantageous system for taxpayers.

Flat rates are most often used for sliding progressive rates. However, a certain extreme is Luxembourg, which has an unbelievable 19 rates. Other differences in individual systems can be created by taxpayers' social statuses. In Ireland, the amount of taxable income at the 19% rate differs depending on whether the taxpayer is single/widowed, whether he/she has children and whether spouses have only joint income or both have income.

For example, in Germany, there is a different annual taxable income for joint taxation of spouses along with a 5.5% solidarity surcharge. A solidarity surcharge is also applied in Portugal, 2.5% for income above 80,000 euros, for which a 48% rate is applied, along with an additional 4% charge for a salary above 6,790 euros, meaning that the highest rate can be greater than 50%.

Malta has five individual income tax rates, but different amounts of taxable income for individuals and joint taxation of spouses and for parents caring for a studying child between the ages of 18 and 21. In the Netherlands,

contributions for national social insurance are added to the first two rates (5.85% and 10.85%), and those contributions are divided into several categories (for more see J. Šíroký: Taxes in the EU Scandinavian countries are a separate chapter, and besides their national rates they also have municipal tax rates (Sweden approximately 29-34%), church taxes, etc. In Finland, these additional tax rates amount to 16 to 24%. The upper individual income tax rates in Scandinavian countries are among the highest in the EU.

Personal tax rates in Luxembourg in 2013

Taxable income (EUR)	Rate in %
0 - 11 265	0
11 266 - 13 173	8



13 174 - 15 081	10
15 082 - 16 989	12
16 990 - 18 897	14
18 898 - 20 805	16
20 806 - 22 713	18
22 714 - 24 621	20
24 622 - 26 529	22
26 530 - 28 437	24
28 438 - 30 345	26
30 346 - 32 253	28
32 254 - 34 161	30
34 162 - 36 069	32
36 070 - 37 977	34
37 978 - 39 885	36
39 886 - 41 793	38
41 794 - 100 000	39
over 100 000	40

Source: web pages of Luxembourg's Ministry of Finance

Some states (including the Czech Republic) have taken certain steps in relation to individual income tax (and rates) only for a definite period, or they have already planned changes for later years. Slovenia has added an additional 50% rate for taxable annual income of more than 69,313 euros for 2013 and 2014.

Malta intends to reduce its second highest 32% rate in 2014 to 29%, and it will only be 25% in 2015, which should reduce the number of rates to four. A recently discussed item in the media was a proposal to tax high incomes in France more, and the media mainly mentioned it in relation to actor Gérard Depardieu and his citizenship.

In France additional rates are already used for higher incomes,

for an individual:

- 3% of income between 250,000 and 500,000 euros,
- 4% of income above 500,000 euros,

for a couple:

- 3% of income between 500,000 and 1 million euros,
- 4% of income above 1 million euros,

but they also proposed an exceptional contribution of 18% for income exceeding 1 million euros, which in combination with social contributions would have made the highest tax rate 75%. However, that proposal was rejected by the constitutional council. It is interesting that

this particular proposal was rejected mainly due to a formal shortcoming, which would have created an unjust difference between households with the same income levels, but different income among individual members of the household.

Personal tax rates in the EU in 2013

Country	Tax rates in %
Belgium	25 / 30 / 40 / 45 / 50
Bulgaria	10
Czech Republic	15 / 22
Germany	0 / 14-42 / 42 / 45
Estonia	21
Ireland	20 / 41
Greece	22 / 32 / 42
Spain	24.75 / 30 / 40 / 47 / 49 / 51 / 52
France	0 / 5.5 / 14 / 30 / 41 / 45
Italy	23 / 27 / 38 / 41 / 43
Cyprus	0 / 20 / 25 / 30 / 35
Latvia	24
Lithuania	15
Luxembourg	0 - 40*
Hungary	16
Malta	0 / 15 / 25 / 32 / 35
The Netherlands	5.85 / 10.85 / 42 / 52**
Austria	0 / 20.44 / 33.725 / 50
Poland	18 / 32
Portugal	14.5 / 28.5 / 37 / 45 / 48
Romania	16
Slovenia	16 / 27 / 41 / 50
Slovakia	19
Finland	6.5 / 17.5 / 21.5 / 29.75**
Sweden	0 / 20 / 25**
UK	20 / 40 / 45

Note: *Luxembourg has 19 rates; **additional information in text

The share of personal tax income in 2000 and 2011

Country	% GDP		% of total taxation	
	2000	2011	2000	2011
Belgium	13.2	12.3	29.4	28.2
Bulgaria	4.0	2.9	12.7	10.5



Czech Republic	4.4	3.6	13.0	10.8
Denmark	25.6	24.3	51.9	50.9
Germany	9.5	8.4	22.9	21.8
Estonia	6.8	5.4	22.1	16.1
Ireland	9.2	7.6	29.3	32.0
Greece	5.0	4.3	14.4	14.6
Spain	6.7	7.4	19.6	23.7
France	8.4	7.6	19.0	17.9
Italy	11.4	11.7	27.5	27.1
Cyprus	3.7	4.2	12.2	11.9
Latvia	5.6	6.2	18.8	20.3
Lithuania	7.7	3.6	25.6	13.6
Luxembourg	7.2	7.9	18.3	22.2
Hungary	7.3	6.5	18.5	13.3
Malta	5.6	6.0	19.9	19.1
The Netherlands	6.0	8.5	15.0	20.9
Austria	10.0	9.7	23.3	23.2
Poland	4.4	4.5	13.5	13.8
Portugal	5.3	5.6	17.1	18.5
Romania	3.5	3.3	11.4	11.8
Slovenia	5.6	5.7	15.0	15.0
Slovakia	3.4	2.3	9.9	8.8
Finland	14.5	12.5	30.6	29.4
Sweden	18.1	15.7	35.2	33.8
UK	10.8	10.1	29.4	27.9
EU-27	9.8	9.1	24.3	23.5

Source: Taxation trends in the European Union, Eurostat

Importance of personal taxes in relation to overall taxation

FINAL SUMMARY

Individual income taxes are not very regulated in the EU, and their form is in the hands of individual states. The differences between systems are wide ranging. However, a certain trend can be identified. In many EU states, the highest individual income tax rates are being gradually reduced. Some states (most former Communist countries in Central and Eastern Europe) have introduced a flat tax (which the Czech Republic had from 2008 to 2012).

These states are also among those that have a much lower rate than the highest rates in other (mainly northern) EU states. However, the advantageousness of the system for the taxpayer can only be determined based on the amount of rates. It is also necessary to monitor the taxable income to which the particular rate applies and other additional

taxation (for example, Scandinavian countries have imposed various municipal, church and other taxes).

Although a trend of reducing the lowest rates among certain EU states is apparent, the share of individual income tax in GDP and in overall taxation remains very high. Between 2000 and 2011, this share fell in the EU by one percent, but in some states it grew (Ireland, Spain, Luxembourg, the Netherlands and Portugal).

Individual income taxes remain a very important and large source of revenue for many states, in which the share of individual income taxes in GDP is more than 10% (Britain, Italy, Finland, Sweden, Belgium); in Denmark it is nearly 25%. From the point of view of overall taxation, personal retirement taxes have a very high share. In the states mentioned above, it is around one third, and in Denmark it is even just under half (in the Czech Republic, the share of individual income tax in overall taxation fell between 2000 and 2011 to 10.8%).



taxation (for example, Scandinavian countries have imposed various municipal, church and other taxes).

The tax area is very "lively" due to the implemented and planned changes in EU states (since 2013 a new solidarity tax has applied in the Czech Republic, and there is a plan to abolish the "super gross wage" and introduce a 19% rate). Time and possibly also the EU's future efforts to regulate these systems will demonstrate whether states will move towards simplification or attempt to combine additional exceptions and additional adjustments into individual income taxes.

The Guide to Doing Business Section is part of the advisory programme "Foreign Business Guide", which the EU Office has offered since the beginning of this year. Within the program, we provide our clients from among small and medium-sized businesses with information about how to expand abroad successfully and what business environment awaits them there. You can find more information about the programme here: www.csas.cz/eu. In this issue we present Hungary.

HUNGARY

Official name	Hungary (Magyarország)
Population	9 957 731 (2012)
Area	93 028 km ²
Currency	Forint (HUF)
Ethnic groups	Hungarian (92.3 %), Gypsies (1.9 %)

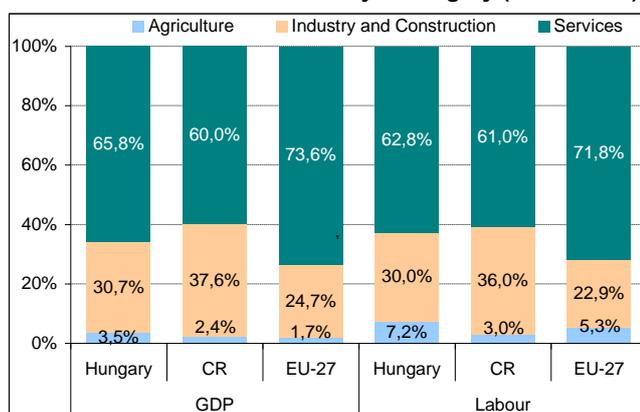
Source: CIA World Factbook

Hungary gained its independence following the break-up of the Austro-Hungarian Empire in 1918. After World War II it fell into the sphere of Soviet influence, where it remained until 1989. The country joined NATO in 1999 and the EU in 2004. Hungary is a parliamentary democracy. Its government, led by the prime minister, asks the unicameral National Assembly for confidence. Once every 5 years, the president is elected by secret ballot. Since the last elections in 2010, the country has been governed by Viktor Orbán and his nationally conservative party Fidesz.

Structure of economy and foreign trade

It is initially obvious that in the Hungarian economy a greater role is played by agriculture, which depends mainly on arable land. The country's main crops are grain, maize and sunflower seeds. Industry, the importance of which is greater than in the Czech Republic, is focused on mining, metallurgy, construction materials and engineering. Hungary exports mainly engineering products and food. It exports the most to Germany (25%), Romania (5.7%) and Austria (5.4%). Hungarian companies mostly buy engineering products and fuel abroad. The most important export partners are Germany (25%), followed by Russia (8.6%) and China (8.4%).

Sectors of the National Economy – Hungary (CR and EU)



Source: Eurostat, data as of 2010 (GDP) and 2011 (labour)

Macroeconomic outlook

After a nearly 7% economic decline in 2009, subsequent short recovery was followed last year by a further decline, and the outlook for 2014 does not indicate that much growth is likely.

The economic decline from 2012 was caused mainly by domestic demand, which weakened by more than 3%. Companies' investment activities amid stricter conditions for financing have declined for four years in a row. Declining available income and increasing unemployment have been the main factors for the repeated decline in consumption. The country's economic activities were not given a boost even by the decline in agriculture caused by record dry weather. A greater decline in GDP was prevented only by strong exports.

Basic indicators	2011	2012	2013 ^e	2014 ^e
GDP Growth (%)	1.6	-1.7	0.3	1.3
Unemployment rate (%)	10.9	10.8	10.8	10.6
Inflation (%)	3.9	5.7	5.3	3.9
Government deficit (%)	4.3	-2.5	-2.9	-3.5
Public debt (%)	81.4	78.4	77.1	76.8

Source: Eurostat

This year and next year, Hungary's economy is expected to reach a growth phase, and for 2014 the winter prognosis of the European Commission expects growth by 1.3%.

Labor market

The average unemployment level in Hungary was 10.8% in 2012, and it is not expected to change in the near future.

Basic indicators of labor market		
Unemployment level (2012)	10.8 %	
Labor productivity (% to Ø EU; 2011)	60.1 %	
Minimum monthly wage (1H/2013)	336 EUR	
Ø monthly labor cost in sectors (EUR) 2012	Hungary	CR
Manufacturing	1 302	1 448
Construction	1 199	1 483
Wholesale and retail trade	1 244	1 494
Real estate activities	779	932
Accommodation and food services	2 506	2 826

Source: Eurostat

Average work productivity is lower than in the Czech republic and amounts to 60.1% of the EU average. The minimum monthly salary in Hungary is the equivalent of 336



euros, which is about 6% higher than in the Czech Republic. Compared to the Czech Republic, monthly labour costs in all selected sectors in Hungary are lower. For example, labour costs are approximately 13% lower in the processing sector.

Labor law basics

An employment contract must be in writing. It can be entered into for a definite or an indefinite period. An employment contract for a definite period may be entered into for a maximum length of 5 years. The employment contract must specify a probationary period, which can last a maximum of 3 months, during which the employee can be terminated without specifying a reason.

An employee may end his/her employment for an indefinite period at any time without specifying a reason. An employer must give 30 days of notice when terminating an employee and must pay severance pay equal to 1 to 6 monthly salaries.

Commercial law Basics

Company formation is the most common form of foreign investment in the Hungarian market. A limited liability company (Kft.) or a joint-stock company (Rt.) may be founded by one or more partners. Partners (shareholders) guarantee their obligations only up to the amounts of their investments.

The minimum required capital for a limited liability company is HUF 500,000, equivalent to CZK 45,000. For larger business projects, joint-stock companies are used more without a public offer for subscription of shares (Zrt.), whose registered capital must be a minimum of HUF 5 million (CZK 450,000).

Form of Company	Minimum Capital
Limited Liability Company	not required
Joint Stock-Company	not required
European company	500 000 HUF
Co-partnership with public offer	20 mil. HUF
Co-partnership without public offer	5 mil. HUF
European Partnership Company	120 000 EUR

Source: Hungarian Investment and Trade Agency (HITA)

In the World Bank's collective index "Doing Business" Hungary ranked in 54th place, putting it ahead of the Czech Republic (65). Registration of a company in Hungary takes less than a week on average and costs approximately 150,000 to 365,000 forints (CZK 13,000-32,000).

Main taxes and additional labor costs

Corporate income tax is for profit of up to 500 million forints (CZK 44 million) 10% of the tax base, and is 19% for income above that amount. For individuals who are non-residents, a withholding tax of 16% applies, and for legal entities who are non-residents this tax does not apply. The individual income tax rate is a flat 16%.

The basic VAT rate is 27%; the reduced VAT rate of 18% applies to hotel services, milk and bread. Pharmaceuticals, books, newspapers, etc. also have a reduced rate of 5% VAT. Hungary's social security system is relatively costly for employers, who pay 27% of their employees' gross earnings into it. Employees contribute 18.5% of their gross earnings to social security.

Tax/payment	Rate
Corporate Tax	10/19 %
Dividend tax for non-residents	16 %
Individual Income Tax (flat tax)	16 %
VAT (basic / 1. lower / 2. lower rate)	27/18/5 %
Social insurance – employee	18.5 %
Social insurance – employer	27 %

Source: Hungarian Investment and Trade Agency (HITA) and web pages of Ministry of Finance

Energy

The price of electricity in Hungary reached its peak in the second half of 2009 at the price of 13 euro cents per kWh. Immediately afterwards in 2010, it fell to 10.5 euro cents per kWh, and next year in 2011 it fell further to below 10 euro cents per kWh. However, in the first half of 2012, it began to grow again slightly and reached 10.6 euro cents per kWh.

As of the beginning of the financial crisis at the end of 2008, the price of natural gas in Hungary first fell to its lowest level in the monitored 5-year period, 8.30 euros per GJ in 2010, and then for a year it fluctuated at around 9 euros per GJ and then between 2011 and 2012 relatively sharply rose to nearly 14 euros per GJ.

Ø of wholesale price in 2H/2012	Hungary	CR
Electric Energy (EUR/kWh)	0.1079	0.1029
Natural Gas (EUR/GJ)	14.265	9.392

Source: Eurostat



To mark the occasion of Croatia's accession to the EU this June, on this page of the monthly we go back in time to follow in the footsteps of the European integration process. We devoted attention in the last edition to the first three enlargement waves, based on which in 1986 the European Community grew to 12 member states. In the current edition, we will focus on the enlargement waves in 1995 and 2004.

HISTORY OF EU ENLARGEMENT II.

The 1st of January 1995 brought the EU besides a new year also three new members: Finland, Austria and Sweden. Their entry into the EU was eased by the fact that already in the past they were member states of the European Association of Free Trade and were contractual parties to the Treaty on the European Economic Space. Another country that was supposed to join the EU that year was Norway. However, Norwegians rejected EU accession in a referendum.

The impacts of the fourth enlargement on the EU's economy and practical functioning were minor compared to the previous EU enlargement. The easy blending of new members with the rest of the EU was due in part to the economic development of the newcomers and to cultural harmony with the existing member states. However, in terms of the institutional functioning of the Community, the impacts of the fourth enlargement were more noticeable. The admission of Sweden and Finland together with the existing member state Denmark created a "Scandinavian bloc", whose priorities within the EU were environmental protection and human rights. Moreover, representatives of that bloc more vocally argued for commencement of accession talks with the Baltic states. The states of the "Scandinavian bloc", as immediate net contributors to the EU budget, also began demanding budget reforms.

EU enlargement in time

Original members	Belgium, France, Italy, Germany, The Netherlands
1973	Denmark, Ireland, United Kingdom
1981	Greece
1986	Portugal, Spain
1995	Finland, Austria, Sweden
2004	Czech republic, Estonia, Cyprus, Lithuania, Latvia, Hungary, Malta, Poland, Slovakia, Slovenia
2007	Bulgaria, Romania
2013	Croatia

Source: *European Commission*

The largest problems accompanying enlargement were in the EU's very institutional structures, such as in relation to Council voting rights or the composition of the European Commission. It was only a question of when discussions would begin about another change to the treaties on the

functioning of the EU. That situation was eventually reflected by the Amsterdam Treaty from 1997, which institutionally changed the running of the EU, and hand in hand with the difficult process of integrating the former Communist countries of Central and Eastern Europe into EU structures, also the Nice Treaty, which in 2001 paved the way for enlargement of the EU by countries from Central and Eastern Europe. Starting in the mid 1990s, eleven Central and Eastern European countries submitted official applications for membership. The Czech Republic did so in 1996 during the Italian presidency of the EU. The European Commission subsequently prepared for all candidate countries assessments of their fulfilment of the Copenhagen criteria, which included stability of democracy, the rule of law and human rights, the existence of a market economy and the ability to cope with market pressures of the Community.

Based on the candidate countries' ability to satisfy the specified criteria and based on monitoring of these countries by the European Commission, the states were divided into two groups, the Luxembourg group and the Helsinki group. The Luxembourg group was set up in 1997 (Czech Republic, Poland, Hungary, Slovenia, Estonia and Cyprus), which enabled the commencement of talks with these six best prepared countries. The Helsinki group (Bulgaria, Lithuania, Latvia, Malta, Romania and Slovakia) was not created until later in 1999, but within it the commencement of accession talks was confirmed.

The answer to the question of which countries would eventually be part of the fifth wave of enlargement was the meeting of the European Council in Laeken at the end of 2001. There the Luxembourg states and selected Helsinki group states were merged into the Laeken group, which included ten candidate countries, including the Czech Republic. The successful referenda in candidate countries, which occurred during 2003, confirmed the trend of the proceeding integration of Central and Eastern European countries into European structures, and as of 1 May 2004, the EU 15 expanded to 25.

Helsinki group members Romania and Bulgaria ended up remaining outside of this wave of European integration and were not admitted to the EU until 2007. We will focus on that sixth enlargement and on the planned admission of Croatia in the next and also the last chapter of our integration history, which you can find in the June Monthly.

The statistical window in a tabular form shows important macroeconomic indicators from all member states and the EU as a whole. It includes economic performance indicators (per capita GDP as compared to the EU average, GDP growth, unemployment rate), external economic stability indicators (current account to GDP), fiscal stability indicators (public budget to GDP, public debt to GDP), and pricing indicators (annual inflation based on HICP, base price level).

Key macroeconomic indicators

in %	GDP Growth				GDP per capita (PPS, % of ø EU)				Price level to ø EU			
	2009	2010	2011	2012	2008	2009	2010	2011	2008	2009	2010	2011
Belgium	-2.8	2.4	1.8	-0.2	116.0	118.0	119.0	119.0	110.3	112.3	111.4	111.8
Bulgaria	-5.5	0.4	1.7	0.8	43.0	44.0	44.0	46.0	49.4	51.3	50.8	51.0
CR	-4.5	2.5	1.9	-1.1	81.0	83.0	80.0	80.0	77.2	73.1	75.2	76.7
Denmark	-5.7	1.6	1.1	-0.4	124.0	123.0	128.0	125.0	139.7	143.8	142.4	142.2
Germany	-5.1	4.2	3.0	0.7	116.0	115.0	119.0	121.0	103.5	106.1	104.3	103.4
Estonia	-14.1	3.3	8.3	3.2	69.0	63.0	63.0	67.0	76.7	76.5	74.8	78.9
Ireland	-5.5	-0.8	1.4	0.7	132.0	130.0	129.0	129.0	129.7	126.7	119.1	116.7
Greece	-3.1	-4.9	-7.1	-6.4	92.0	94.0	87.0	80.0	91.7	95.0	95.1	95.1
Spain	-3.7	-0.3	0.4	-1.4	104.0	103.0	99.0	98.0	95.1	97.8	97.1	97.4
France	-3.1	1.7	1.7	0.0	107.0	109.0	108.0	108.0	110.7	112.4	110.8	110.7
Italy	-5.5	1.8	0.4	-2.2	104.0	104.0	101.0	100.0	102.4	104.9	103.5	103.1
Cyprus	-1.9	1.3	0.5	-2.3	99.0	100.0	97.0	94.0	87.7	90.1	89.2	89.4
Latvia	-17.7	-0.9	5.5	5.3	58.0	54.0	54.0	58.0	75.0	76.0	72.2	74.1
Lithuania	-14.8	1.5	5.9	3.6	65.0	58.0	61.0	66.0	65.9	67.4	65.1	65.6
Luxembourg	-4.1	2.9	1.7	0.2	263.0	255.0	266.0	271.0	117.2	120.9	120.5	121.9
Hungary	-6.8	1.3	1.6	-1.7	64.0	65.0	65.0	66.0	69.4	63.4	64.9	64.3
Malta	-2.4	2.7	1.6	1.0	81.0	84.0	86.0	85.0	77.4	78.4	78.0	78.0
Netherlands	-3.7	1.6	1.0	-0.9	134.0	132.0	131.0	131.0	104.1	107.8	107.6	108.0
Austria	-3.8	2.1	2.7	0.8	124.0	125.0	127.0	129.0	105.1	108.0	106.3	106.7
Poland	1.6	3.9	4.3	2.0	56.0	61.0	62.0	64.0	69.2	58.2	61.9	60.1
Portugal	-2.9	1.9	-1.6	-3.2	78.0	80.0	80.0	77.0	87.9	89.2	88.2	87.5
Romania	-6.6	-1.1	2.2	0.2	47.0	47.0	47.0	49.0	63.1	57.6	58.8	59.8
Slovenia	-7.8	1.2	0.6	-2.3	91.0	87.0	84.0	84.0	82.8	85.6	84.6	83.5
Slovakia	-4.9	4.4	3.2	2.0	73.0	73.0	73.0	73.0	69.8	73.6	71.7	72.4
Finland	-8.5	3.3	2.8	-0.2	119.0	114.0	113.0	114.0	120.7	124.7	123.5	125.2
Sweden	-5.0	6.6	3.7	1.0	124.0	120.0	124.0	127.0	112.9	108.5	121.6	127.8
UK	-4.0	1.8	0.9	0.2	113.0	111.0	111.0	109.0	103.0	96.6	100.3	101.7
EU	-4.3	2.1	1.5	-0.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

in %	Public budget deficit to GDP				Public debt to GDP ratio				Current account saldo to GDP			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2011
Belgium	-5.5	-3.8	-3.7	-3.0	95.7	95.5	97.8	99.8	-1.4	1.9	-1.4	1.5
Bulgaria	-4.3	-3.1	-2.0	-1.0	14.6	16.2	16.3	18.9	-8.9	-1.5	0.3	-0.7
CR	-5.8	-4.8	-3.3	-5.2	34.2	37.8	40.8	45.5	-2.4	-3.9	-2.8	-2.9
Denmark	-2.7	-2.5	-1.8	-4.0	40.6	42.9	46.6	45.6	3.4	5.9	5.6	4.8
Germany	-3.1	-4.1	-0.8	0.1	74.5	82.5	80.5	81.6	5.9	6.0	5.7	6.3
Estonia	-2.0	0.2	1.1	-0.5	7.2	6.7	6.1	10.5	3.4	2.9	2.1	-2.7
Ireland	-13.9	-30.9	-13.4	-7.7	64.9	92.2	106.4	117.2	-2.3	1.1	1.1	2.1
Greece	-15.6	-10.7	-9.4	-6.6	129.7	148.3	170.6	161.6	-11.2	-10.1	-9.9	-7.7
Spain	-11.2	-9.7	-9.4	-10.2	53.9	61.5	69.3	88.4	-4.8	-4.5	-3.5	-1.9
France	-7.5	-7.1	-5.2	-4.6	79.2	82.3	86.0	90.3	-1.3	-1.6	-2.0	-1.9
Italy	-5.4	-4.5	-3.9	-2.9	116.4	119.2	120.7	127.1	-2.0	-3.5	-3.1	-0.7
Cyprus	-6.1	-5.3	-6.3	-5.5	58.5	61.3	71.1	86.5	-10.7	-9.8	-4.7	-6.0
Latvia	-9.8	-8.1	-3.4	-1.5	36.7	44.5	42.2	41.9	8.6	2.9	-2.2	-2.5
Lithuania	-9.4	-7.2	-5.5	-3.2	29.3	37.9	38.5	41.1	3.7	0.1	-3.7	-0.9
Luxembourg	-0.8	-0.8	-0.3	-1.5	15.3	19.2	18.3	20.5	7.2	8.2	7.1	6.3
Hungary	-4.6	-4.4	4.3	-2.4	79.8	81.8	81.4	78.6	-0.2	1.1	0.9	2.3
Malta	-3.9	-3.6	-2.7	-2.6	67.6	68.3	70.9	73.1	-7.4	-4.9	-0.3	1.5
Netherlands	-5.6	-5.1	-4.5	-4.1	60.8	63.1	65.5	70.8	5.2	7.7	9.7	8.3
Austria	-4.1	-4.5	-2.5	-3.0	69.2	72.0	72.4	74.3	2.7	3.4	0.6	1.7
Poland	-7.4	-7.9	-5.0	-3.5	50.9	54.8	56.4	55.8	-3.9	-5.1	-4.9	-3.6
Portugal	-10.2	-9.8	-4.4	-5.0	83.2	93.5	108.1	120.6	-10.9	-10.6	-7.0	-3.0
Romania	-9.0	-6.8	-5.5	-2.9	23.6	30.5	33.4	38.0	-4.2	-4.4	-4.6	-3.8
Slovenia	-6.0	-5.7	-6.4	-4.4	35.0	38.6	46.9	53.7	-0.7	-0.6	0.0	1.9
Slovakia	-8.0	-7.7	-4.9	-4.8	35.6	41.0	43.3	52.4	-2.6	-3.7	-2.1	0.0
Finland	-2.5	-2.5	-0.6	-1.7	43.5	48.6	49.0	53.4	1.8	1.5	-1.6	-0.7
Sweden	-0.7	0.3	0.4	-0.2	42.6	39.5	38.4	37.7	6.7	6.8	7.1	7.2
UK	-11.5	-10.2	-7.8	-6.3	67.8	79.4	85.0	89.8	-1.4	-3.3	-1.4	-3.7
EU	-6.9	-6.5	-4.4	-3.8	74.6	80.0	82.5	86.8	-0.1	-0.1	0.1	0.7

Source: Eurostat, ^{*)} net balance, GDP per capita according to PPP

This publication is considered a supplementary source of information provided to our clients. The information in the publication should be seen as irrefutable or unalterable. The publication is based on the best sources of information available at time of publication that are generally considered reliable and correct. Česká spořitelna, a.s., its branches and employees cannot, however, guarantee this. The authors assume that anyone potentially using any information found in this publication will cite their sources.

Some of the pictures used in the report were taken from Audiovisual Library of the European Commission.