

Tax Equity and Tax Literacy as Causality of Tax Incidence

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Abstract—This article is focused on important part of current tax theory and tax policy which explains tax incidence as a phenomenon following the taxes from the very beginning. The factors influencing the opinions on the tax system equity are important for the analysis of the impacts of taxes on the taxpayer. The analysis is based on the quantitative measurement through the tax collection and efficiency of this collection into the state budget. This article is focused on the qualitative analysis where the factors of tax incidence are to find, due to the opinions of the respondents of the questionnaire. The important role for the responses assessment and drawing of the conclusions has the level of economic, precisely tax literacy among the respondents. The analysis of this literacy is second important part of this article. Analyzed issue is part of broader context which is solved within the project of specific research of team from Department of Economics, Faculty of Informatics and Management, University of Hradec Králové, called “The Causalities of Tax Incidence”. The aim of this project is to identify the key factors of tax incidence and their scope according the different groups of inhabitants.

Keywords—Effectiveness of taxation, equity of taxation, fair taxation, tax.

I. INTRODUCTION

THE tax is characterized as obligatory, law intended, non-purpose, non-equivalent, and regular payment into public budget. The mostly solved topics connected to the tax issues are tax burden, tax rates, etc. However, this article is focused on the other tax issue.

This paper is based on the data collected in the pilot survey of the project “The Causalities of Tax Incidence”, where the respondents answered among others the questions about tax equity and tax knowledge. The authors of this article are presenting results from this questionnaire survey.

From the theoretical point of view it is necessary to distinguish horizontal and vertical tax equity. Horizontal equity means, that the individuals with same incomes should pay same taxes, where vertical equity means, that the individuals with higher incomes should pay higher taxes than the individuals with lower incomes. The quantification of this point of view is quite complicated; there is the analysis of Act

of Income Tax in this article. [1, 8]

In the current version of the Act, there is more than 150 times phrase “except”. Some exceptions are logical (liberation of incomes from credits and loans, incomes from sickness insurance, etc.), where some exceptions are creating inequality among taxed subjects (disciplinary rewards, retirement requirements, housing benefit for members of armed forces, etc.). [4, pp. 114] The similar role has also different employee benefits, where these benefits are available only for selected employees of some companies. In these cases is not valid the statement, that the individuals with same incomes are paying same taxes, moreover, there could be such situation, where the individuals with lower incomes are paying higher taxes than the individuals with higher incomes. From this point of view it is not possible to consider the tax system in Czech Republic as equitable. [9,10]

The other important aspect of tax equity is effectiveness of taxation. [7] It is obvious, that if there is given some need for resources, which must be collected through the tax system, the costs of this collection are redundant, unproductive, and irrelevant. The costs for tax collection are divided into direct costs (costs of tax administrator) and indirect costs (costs of taxpayer). While direct costs compared with the collected taxes are decreasing in CR, the calculation of indirect costs is very complicated and almost impossible in the practice. [2, 5] Based on the fact, that the decrease of direct costs is mainly done because of the transfer of obligations on the taxpayers, it is possible to make a partial conclusion, that the indirect costs are growing, and the tax collection is continuously more difficult and costly for the payer, that means more inequitable.

The last problem, which lies outside the economy, is imposition of taxes. In democratic societies are taxes imposed by laws, which are approved by parliament elected in free elections. There is a possibility that the numerically strongest group of voters will try to transfer the tax burden through for example progressive taxation on those groups of inhabitants, which do not have such strong representation in parliament. The majority will in a democratic way imposed unfair taxes to the minority. F. A. Hayek considered as inequitable when “... the question to solve is more to whom is possible to transfer the tax burden, and when as a result of this process the majority feel that its decision making process is related to the expenditures paid by the other people.” [3, pp. 313] It is obvious, that this process is completely normal in Czech tax policy, where the highest tax benefits are used by those, who

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are making tax decisions. From this point of view is tax burden of individual seen as completely inequitable.

II. PROBLEM FORMULATION

The basic areas solved in this paper are focused on the answering of following questions.

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

The important part of tax issues, not only in this article, is general awareness about taxes. Tax literacy, as a basic part of knowledge based economy, is analyzed in this research through the questions related both to the opinion on the main purpose of taxes, and to the explanation of terms direct and indirect taxes. [6]

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

The other point of view on the respondents in the questionnaire is according to the position on the labor market. The most numerous group are the employees in the private sector (87 respondents), then students (82 respondents), employees in the public sector (55 respondents), retirees (27 respondents), entrepreneurs (23 respondents), unemployed (5 respondents), and then the other position (14 respondents), such as mothers on maternity leave, brigadier, or free artist.

The questionnaire distinguishes respondents also according to the place of residence, the size of the municipality, the size of incomes, or the number of persons in the household. However, these criteria are not used for the analysis of tax equity and tax literacy.

A. The Tax Equity

291 respondents answered the question about tax equity in Czech Republic by selection of the choice yes or no [see Fig. 1]. There were only two respondents who did not answer this question. The distribution of the answers show, that the vast majority of inhabitants in Czech Republic understand the tax system as inequitable.

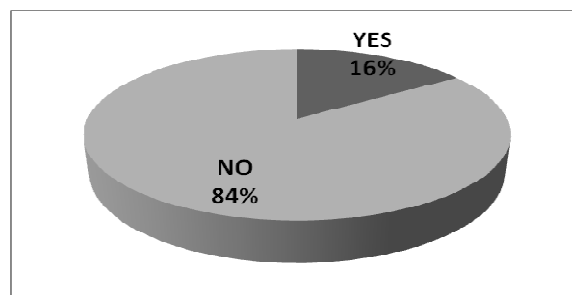


Fig. 1: Equity of Czech Tax System according to 291 Respondents
Source: own processing

According to the sex, the results are quite similar. 89% of women consider the tax system as inequitable, while only 11% of them consider the system as equitable. Men consider the tax system in the Czech Republic as inequitable in 80%, while only 20% of them answered, that the tax system is equitable in the Czech Republic [see Fig. 2].

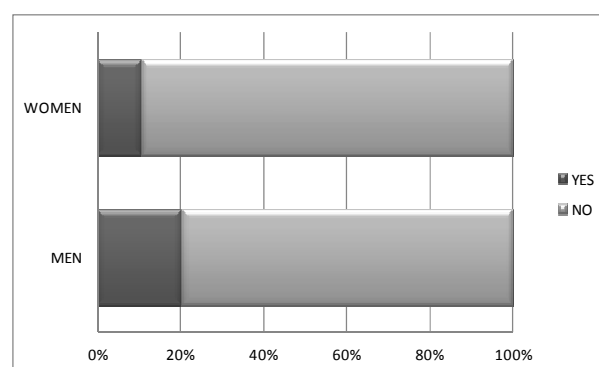


Fig. 2: Equity of Czech Tax System according to the Sex
Source: own processing

The other analyzes of opinions on the Czech tax equity in this article are made according to the age [Fig. 3], to the education [Fig. 4], and to the position on the labor market [Fig. 5].

According to the age, the group, where the most respondents think the Czech tax system is equitable, is between 31 – 40 years. The respondents in this group are actively working in private or public sector, and 27.5% of them consider the tax system as equitable. In the group 15 – 20 years old, there are 25% of respondents who considered the tax system as equitable. The group 51 – 60 years old (1 respondent from 29) and the group 61 and older (2 respondents from 29) evaluate the tax system as equitable least.

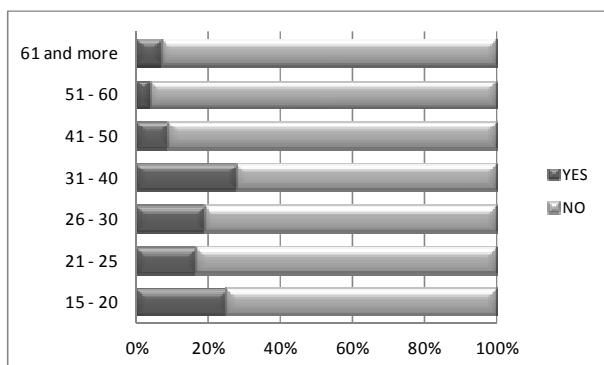


Fig. 3: Equity of Czech Tax System according to the Age
Source: own processing

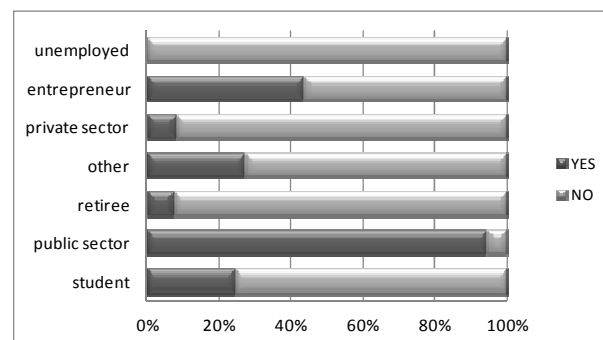


Fig. 5: Equity of Czech Tax System according to the Position on the Labor Market
Source: own processing

There is an analysis of Czech tax system equity according to the education in the following Fig. 4. At first sight, it seems that the group of graduates from community college has clear opinion about tax system equity. However, there are only 5 respondents in this group and 3 of them consider the tax system as equitable, therefore the weight of this sample is not significant. More significant results are in the group of university-educated respondents, where 19 from 91 consider the tax system as equitable, and in the group of respondents with high school (22 from 140). On the other side, the graduates with vocational certificates and graduates with elementary education perceive the tax system in Czech Republic as inequitable. In the group of trade schools graduates, only 2 respondents from 41 consider Czech tax system as equitable, while all of 14 respondents with elementary education consider Czech tax system as inequitable.

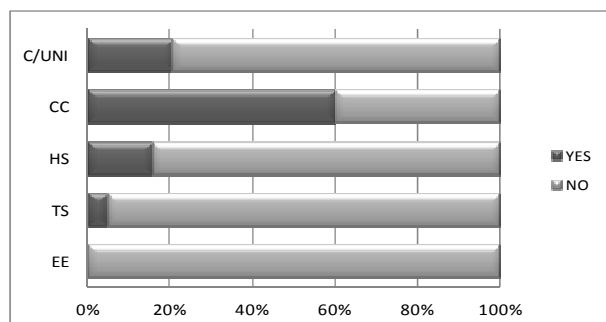


Fig. 4: Equity of Czech Tax System according to the Education
Source: own processing

According to the position on labour market, the most numerous group, where the respondents consider the Czech tax system as equitable, is group of employees of public sector (52 respondents from 55) [see Fig. 5]. Second group is the group of entrepreneurs (10 from 23 respondents); the other group are students (20 from 82 respondents). Unemployed and retirees consider the Czech tax system as inequitable, where only 2 pensioners from 27 consider tax system as equitable, and all of 5 unemployed consider tax system as inequitable.

There are also questions about main problems of equitable or inequitable Czech tax system in the questionnaire. In other words, where are according to the respondents the biggest problems related to taxes? The analysis of opinions is focused on vertical and horizontal equity together with the questions about too high taxes for poor income groups [question nr. 1 in Fig. 6] or vice versa too low taxes for rich income groups [question nr. 2 in Fig. 6].

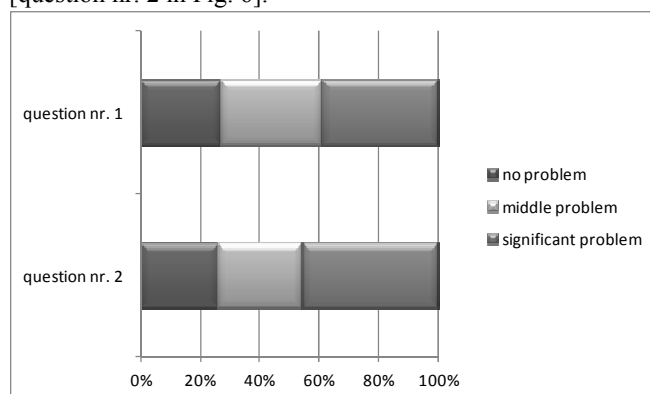


Fig. 6: The Issues of Too High Taxes for Poor Income Groups (Question Nr. 1) and Too Low Taxes for Rich Income Groups (Question Nr. 2)
Source: own processing

The amount of taxation is important fact for the analysis of opinions on tax equity. Almost 40% of respondents consider too high taxes for poor income groups as significant problem, while 46% of respondents consider as a significant problem too low taxes for rich income groups.

Too high taxes for poor income groups are main problems especially for the respondents with lower level of education [see Fig. 7]. There is neither 10% of respondents who do not think that too high taxes for poor income groups are problems among the respondents with elementary education or with trade school. On the contrary, this group of respondents sees too high taxes for poor income groups as main problem the most, precisely 63% of respondents from trade schools and 71% of respondents with elementary education. Among the respondents with higher education level only 40% of them consider too high taxes for poor income groups as main

problem, while among the respondents with university education only 24% of them.

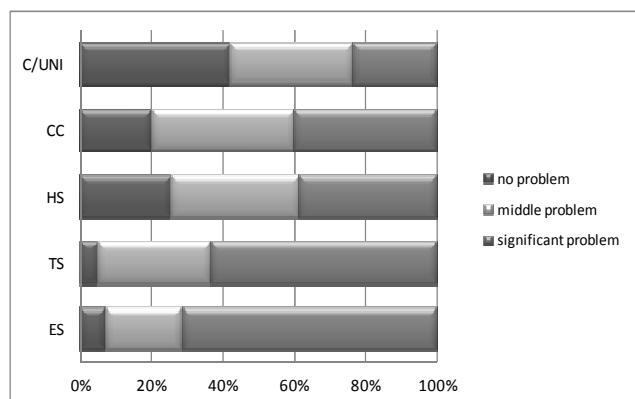


Fig. 7: The Issue of Too High Taxes for Poor Income Groups according to the Education
Source: own processing

The issue of too low taxes for rich income groups is main problem again mostly for respondents with lower education level, that means with vocational certificates and with elementary education [see Fig. 8]. In this case, only 1 respondent from 14 with elementary education and 1 respondent from 41 with vocational certificates do not consider too low taxes for rich income groups as main problem. Moreover, these groups of respondents perceive this issue very strongly, where 70% of respondents with elementary education or from trade schools evaluate this issue as serious problem. Considering the groups with higher education level, 34% respondents with university education and 43% respondents from high school agree with this opinion. It can be stated that, according to the education level, the issue of the size of income tax is important factor influencing the opinion on the equity of tax system in the Czech Republic.

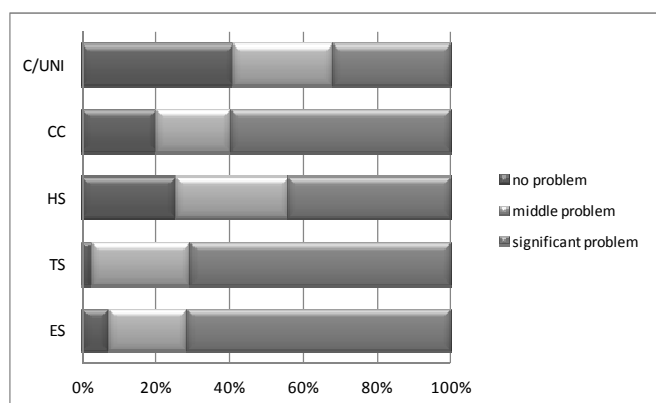


Fig. 8: The Issue of Too Low Taxes for Rich Income Groups according to the Education
Source: own processing

According to the age, the issue of too high taxes for poor income groups is the smallest problem for the group 26 – 30 years old [see Fig. 9]. One third of the respondents in this age

have this opinion, while two thirds of them think that the tax system disadvantages the poorest groups. Interesting results have the group of respondents in the group 15 – 20 years old, where only 13% think there is no problem in too high taxes for the poor income groups. Similar opinion have the respondents in the group 61 years old and older, where 17% of them have this opinion. However, there is obvious point of view of senior group, where the most inhabitants have lower incomes. This fact is influencing opinion of this group on the equity of tax system in the Czech Republic.

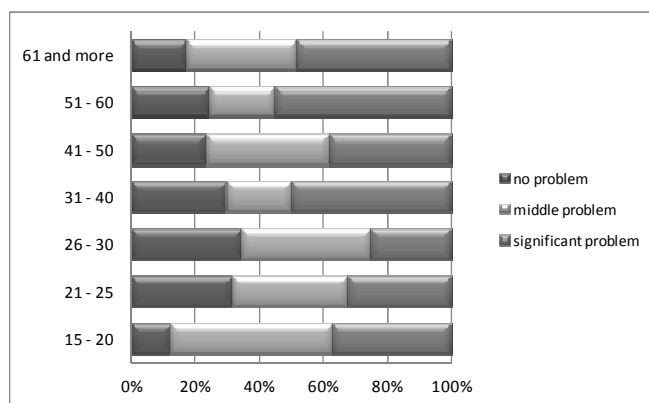


Fig. 9: The Issues of Too High Taxes for Poor Income Groups according to the Age
Source: own processing

The issue of too low taxes for rich income groups is main problem for seniors over 60 years, as well as the groups of respondents 51 – 60 years old and 41 – 50 years old [see Fig. 10]. Only 10% of seniors over 60 years do not perceive the issue of too low taxes for rich income groups, as well as 14% of respondents between 51 – 60 years, and 20% of respondents between 41 – 50. Despite the fact that the results of younger respondents are different from the results of older ones, the issue of too low taxes for rich income groups is still main problem for 55% of respondents between 31 – 40 years, 44% of them between 26 – 30 years, 40% of them between 21 – 25 years, and even 46% of them in the group 15 – 20 years old respondents. It can be stated again that the equity of tax system in the Czech Republic is perceiving very negatively in connection with too low taxes for rich income groups.

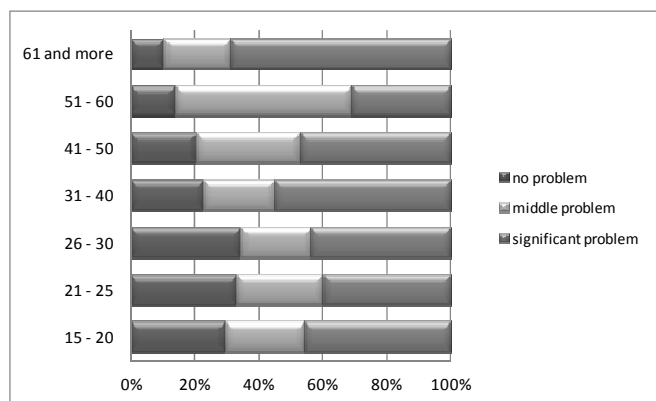


Fig. 10: The Issues of Too Low Taxes for Rich Income Groups according to the Age
Source: own processing

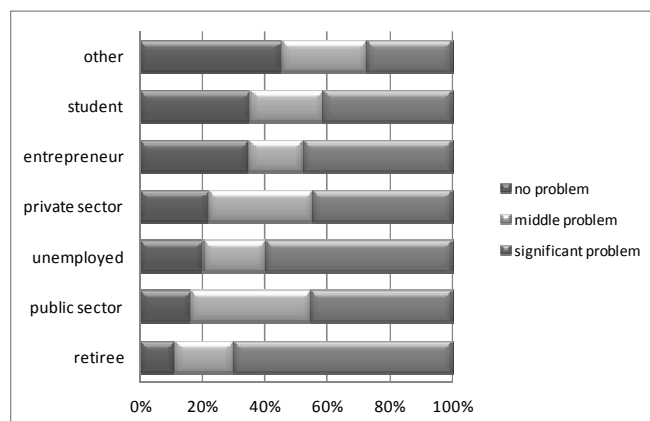


Fig. 12: The Issues of Too Low Taxes for Rich Income Groups according Position on the Labor Market
Source: own processing

The analysis according to the position on the labor market shows [see Fig. 11] that the entrepreneurs perceive the issue of too high taxes for low income groups at least (40%), vice versa, as a main problem perceive this issue retirees (52%), employees in public sector (49%), unemployed (40%), and employees in private sector (38%).

The criticism of too high taxes for low income groups, according to the position on the labor market, comes especially from retirees, employees in public sector, and unemployed.

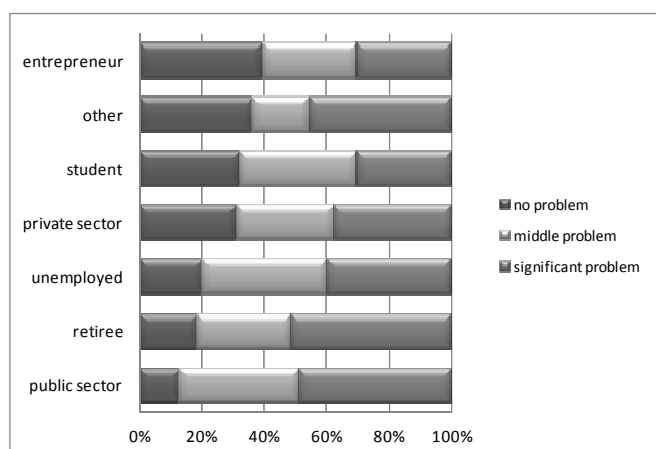


Fig. 11: The Issues of Too High Taxes for Poor Income Groups according to the Position on the Labor Market
Source: own processing

The tax system in the Czech Republic in the point of view of too low taxes for rich income groups is criticized mostly from retirees [see Fig. 12], where 70% of them consider this issue as a serious problem. The similar opinion have also employees in public sector and unemployed.

The other analysis of tax equity is focused on evaluation of the answers on the questions about the size of VAT [question nr. 3 in Fig. 13] and about the size of real estate taxes [question nr. 4 in Fig. 13].

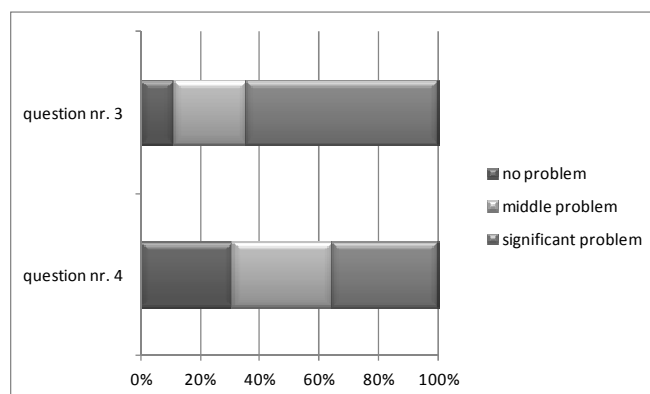


Fig. 13: The Issue of Too High Consumption Taxes – Value Added Tax (Question Nr. 3) and The Issue of Too High Real Estate Taxes (Question Nr. 4)
Source: own processing

Especially VAT is considered as big problem when evaluating equity of Czech tax system [3]. From deeper analysis is possible to further indicate that there are not differences in opinions on VAT among the respondents according to the age [see Fig. 14] and education. There are some differences and tendencies among the respondents according to the position on the labor market and according to the household income.

The real estate tax is significant problem for 36% of respondents (104 from 292). 47% of respondents between 41 – 50 years [see Fig. 15] perceive the real estate tax as a serious problem. On the contrary, 47% of respondents between 26 – 30 years have no problem with real estate tax.

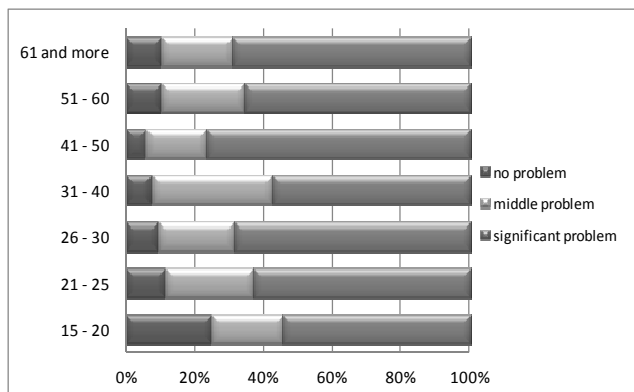


Fig. 14: The Issue of Too High Consumption Taxes – Value Added Tax according to the Age
Source: own processing

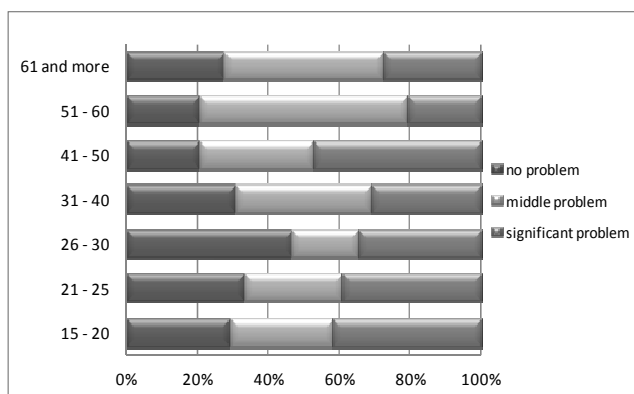


Fig. 15: The Issue of Too High Real Estate Taxes according to the Age
Source: own processing

To determine other problems of tax system, there are questions about frequent changes in taxes and complicated system with lots of exceptions in the questionnaire [question nr. 5 and nr. 6 in Fig. 16].

From both questions is obvious, that the tax system in Czech Republic is considered by the inhabitants as complicated, frequently changing, and therefore inequitable. The question about system complexity is evaluated as significant problem by 198 respondents from 291, while 183 of them consider as a significant problem also frequent changes in tax legislation.

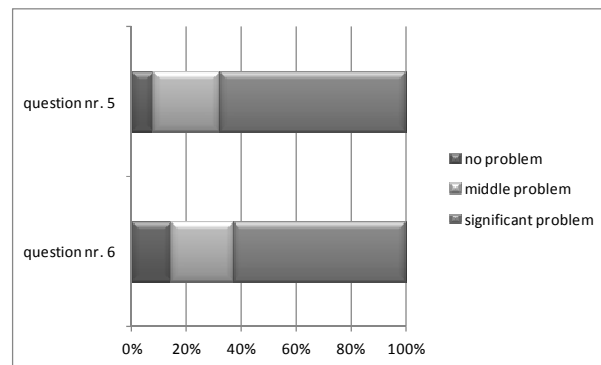


Fig. 16: The Issue of Complicated System with lots of Exceptions (Question Nr. 5) and The Issue of Frequent Changes in Taxes (Question Nr. 6)
Source: own processing

B. The Tax Purpose

One question in the questionnaire deals with the issue of tax purpose. The aim of this question is to identify basic knowledge about tax issues among general public. The possible variants for the answer are as follows:

- ensure public budget revenues,
- redistribute financial resources from the rich to the poor income groups,
- collect money for payment of pensions, social benefits, unemployment compensations and other payments,
- other purpose – here is the space for other answer that answers mentioned above.

From the definition of taxes is obvious, that correct variant is the first one, where is possible to find the non-purposefulness, while the other variants have some purpose included.

This question was answered by 291 respondents. Following figures are describing the structure of the answers.

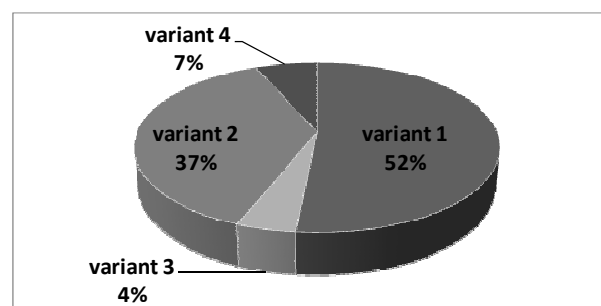


Fig. 17: The Overview of the Response Rates for the Question “What Is according to Your Opinion Main Tax Purpose?”
Source: own processing

This Fig. 17 is showing total results of above mentioned question. It is obvious, that 52% of respondents answered correctly, that means they understand non-purposefulness of taxes. However, the second most numerous answer is variant 3, which means the variant with emphasized expenditure side of public budget, in other word with emphasized of specific

purposes. Among other answers, there is quite frequent the answer (in slight variations) “to ensure functioning of the state” (8 responds), the other answers are individually.

The other analysis of this problem is based according to the education. 291 respondents answered this question, while 14 have elementary education, 41 have vocational certificates from trade schools, 139 are high school educated, 5 of them finished community college, and 92 are university-educated. Nevertheless, the results according to the education are in the Fig. 18.

From the Fig. 18 is obvious, that the respondents with higher education (university or community college) answered correctly from 60 %. University-educated respondents have as a second variant nr. 3 (payment of pensions etc.), graduates of community college have no 4th variant and the frequency of 2nd and 3rd variant is the same (it is necessary to note, that there are only 5 graduates of community college, therefore both the 2nd and the 3rd variant were answered only by 1 person). The distribution of response among graduates with high education is similar as total distribution, thus slightly more than half correct answer (52%), then variant 3 (39%). However, the respondents with lower education have different distribution of the answers. The graduates of trade schools have only 44% of correct answer, while the 3rd variant reaches 46% frequency in this group. The respondents with elementary education have only 7% of correct answer (1 respondent from 14), while 8 of them choose variant 3 (57%).

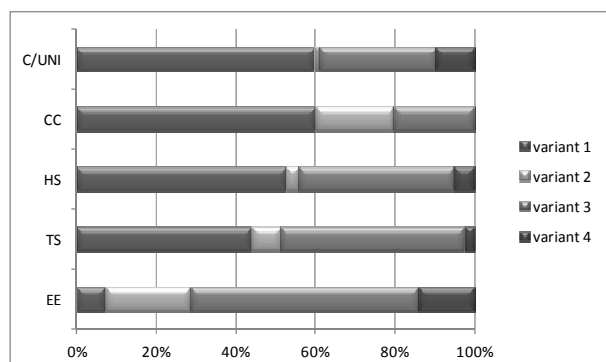


Fig. 18: The Overview of the Response Rates for the Question “What Is according to Your Opinion Main Tax Purpose?” according to the Education

Source: own processing

It is possible to make a partial conclusion based on these data, that together with growing education is also growing the knowledge about main tax purpose, while the inhabitants with low education (elementary education, vocational certificate) have really bad knowledge about taxes and majority of them think, that the main tax purpose is to pay pensions, social benefits, unemployment contributions and other state expenditures. The distribution of response of graduates with high education is similar to total results. On the other hand, the answers of university-educated respondents are not dizzily correct, therefore it is possible to assume, that the correct answer was presented only by those respondents, who

completed at least kind of basics of economic education during their study. The rest of the population, which can use only data from media and other available resources, do not know the main tax purpose so good.

The second question dealing with the tax knowledge is the question about the difference between direct and indirect taxes. The respondents can choose from following variants:

- I do not know these terms,
- I know these terms, but I am not sure about the meaning,
- direct taxes are paid directly to the Financial Office, indirect taxes are paid by intermediary,
- indirect taxes have different payer and taxpayer, while this person is the same at direct taxes,
- other explanation – the respondents can write their own opinion.

According to the valid legislation is correct the 4th answer, that means variant, where indirect taxes have different payer and taxpayer, while this person is the same at direct taxes. Typical indirect tax is VAT, where taxpayer (person, who is really burdened by the tax) is final consumer and the payer (person, who is filling tax declaration and paying the tax to the Financial Office) is the company. Direct tax is for example company income tax, where the company itself fill the tax declaration and pay the tax from own resources. In this context, slightly confusing is personal income tax for the employees, where the practice in Czech Republic is that the company is paying the tax to the Financial Office instead of employees. This situation could be perceived at first sight as separation of payer and taxpayer. However, this is not this situation, because the employer only makes simple bank transfer after calculation of reserve on personal income tax, while the tax declaration is given to the Financial Office by every employee or by authorized representative. In other words, there is no difference between payer and taxpayer, only the reserves on tax are paid to the Financial Office by other person (employer).

This question was also answered by 291 respondents. Total distribution of response is on the following Fig. 19.

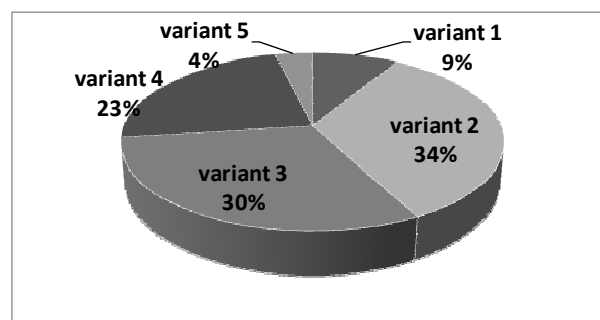


Fig. 19: The Overview of the Response Rates for the Question “What Are according to Your Opinion Direct and Indirect Taxes?”

Source: own processing

As shown on Fig. 19, the knowledge about direct and indirect taxes is spread relatively few among the population.

The most numerous group of respondents answered, that they know these terms, but they do not know the difference between them. The second most common response is that direct taxes are paid directly to the Financial Office, while the indirect taxes are paid by intermediary. This is wrong variant too, because according to this explanation the above mentioned personal income tax is indirect tax, which is wrong. The right answer (variant nr. 4) is on the 3rd position with frequency only 23%. 9% of respondents answered, that they do not know terms direct and indirect tax, and 4% of respondents stated different answer, where the respondents usually use some example. These examples are usually right (direct tax for example income tax, indirect tax for example VAT), but it does not explain the difference between direct and indirect taxes.

In the following Fig. 20 is analysis of direct and indirect taxes according to the education. As mentioned above, the results for graduates from community college are slightly misrepresented, because of few amounts of respondents, where 2 answered correctly and 3 choose wrong variant nr. 3 (direct taxes are paid directly, indirect are paid by intermediary).

However, the other types of education are showing, that higher education means also better answers for this question. While university-educated respondents answered correctly in almost 35%, it was only 18 % by graduates of high school, less than 20% by graduates of trade schools, and only 7% by respondents with elementary education (1 from 14 persons). There is also evident the decrease both in the 1st variant (I do not know these terms) and in the 2nd variant (I know these terms, but I am not sure about the meaning).

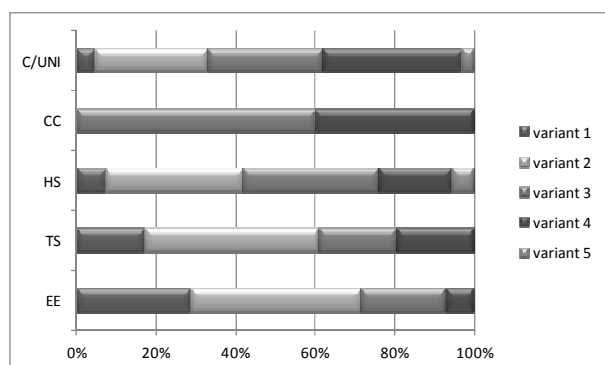


Fig. 20: The Overview of the Response Rates for the Question "What Are according to Your Opinion Direct and Indirect Taxes?" according to the Education
Source: own processing

III. CONCLUSION

It is possible to make a conclusion, that the majority of respondents consider the tax system in Czech Republic as inequitable. Basic elements of this inequity are both in horizontal and in vertical level, as well as in the failure of the legislative framework both during creation and during application of tax laws.

The provable majority of respondents who perceive the tax system as inequitable are retirees, unemployed, or students. That means low income groups, which perceive the payment of taxes as significant amount decreasing their incomes, more or less their standard of living. On the other side, these respondents are criticizing the tax system as inequitable, because there is a lack of taxation of rich income groups and therefore the lack of revenues for public budgets. This situation is important for retirees, employees from public sector, students, and unemployed, which are dependent on the revenues of public budgets.

The analysis of two important taxes (VAT and real estate tax) only confirms general opinion of respondents about inequity of tax system. The vast majority of respondents regardless of age, position on labor market, or education, perceive the taxation of consumption as too high. The taxation of ownership of real estate influences only some respondents. One third of respondents have no problem with real estate tax, one third of them have middle problem with this taxation, while one third perceive this taxation as a serious problem.

The equity of the system was also tested from the point of view of simplicity, respectively complexity of tax system in the Czech Republic in the questionnaire. The opinions of respondents on the exceptions and on frequent changes in tax laws was analysed as well. The tax system in the Czech Republic is confusing and unstable for majority of respondents. The sex, the age, the education, and the position on labor market have only small influence on these results.

Next analysis shows that the awareness of general public in the area of tax issues is relatively low. The purpose of taxes is known for approximately half of the population. According to the education, better results have respondents with higher education (university-educated or graduates from community college).

The results of the question about the difference between direct and indirect taxes are significantly worse. The correct answer is known by less than quarter of respondents, while the third admits that they know terms direct and indirect taxes, but they do not know the meaning of these terms. According to the education, also here is possible to find the increasing frequency of correct answer together with growing education.

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