

Contemporary Issues in Business, Management and Education 2013

Seniors' position on the labor market from the point of view of income and related insurance and health contributions

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Abstract

Demographic aging is an objective reality and in the case of the Czech Republic is extensive and multi-dimensional. And it is the problems of the economic activity of citizens until the advanced age. Former pension systems in most countries were based on wider social solidarity of a society. A rising number of retired people along with a present decrease in a number of economically active people cause this system to be insufficient a considerably burden government budgets.

As a matter of this fact, a more general concept of the discussed problem is a seniors' position on the labor market from the point of view of income and related insurance and health contributions. At the present time, the burden on work is less influenced by the personal income tax (that is the income tax by individuals), which is, on the other hand, exposed to much more changes in the period of its new existence than the employees' social and health insurance. Taxation of the income from gainful activities, including levy obligations for social and health insurance show, however, certain specifics in the group of old age pensioners.

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Selection and peer-review under responsibility of the Contemporary Issues in Business, Management and Education conference.

Keyword: health insurance; income tax; seniors; social insurance; tax burden.

1. Introduction

The Czech Republic, as other countries are faced with the problem of population aging in the context of their participation in the labor market (Barteczková, 2009). A part of the culture of the active old age is naturally

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a number of measures, which, with respect to the shift of the pension age and parametric changes striving for the balance of the economic costs, emphasize the inhabitants' economic activity until the individual's later life. Furthermore, the limited resources for pensions' payments, with respect to the nominal amount and extent, which were set in qualitatively better times of the social state, in the period of its prosperity and expansion, require old people's excluding from the activity to be slower and be carried out in longer-term prospects, including the moment they expect the increased support of the society and family in their old age. And often discussed problem is a seniors' position on the labor market from the point of view of income tax and related contributions of the social and health insurance.

This article is divided into seven parts. The following section describes the legislation of the economic possibilities of seniors' generation. Aim of the study and methodology is the subject of part three. Part four is dedicated to genesis legislation and social approaches. In the fifth section is conducted the comparison of the tax burden on selected taxpayers. Discussion of the issue is made in the next section and is then summarized in the conclusion.

2. Legislation of the economic possibilities of seniors' generation

The final retirement is determined, particularly, by the changing legislation limit for the pension's claim. Apart from this, particularly in some professions, it is also influenced by a possibility of further active work after the origination of the pension's claim, although it was not requested for it, or also a possibility of the concurrence of employment and receiving a pension. Pensioners who concurrently work represent only a part of the economically active people in the retirement age. Nevertheless, this way of involvement into the employment favorably influences the total length of the active life and social level of many individuals over 60 years.

On 31. 12. 2011, a total number of 10 505 445 inhabitants lived in the Czech Republic. A relative distribution of the population is shown in the following graph. The group of pensioners includes old age pensioners, disability pensioners and people who receive the widower's or widow's pension.

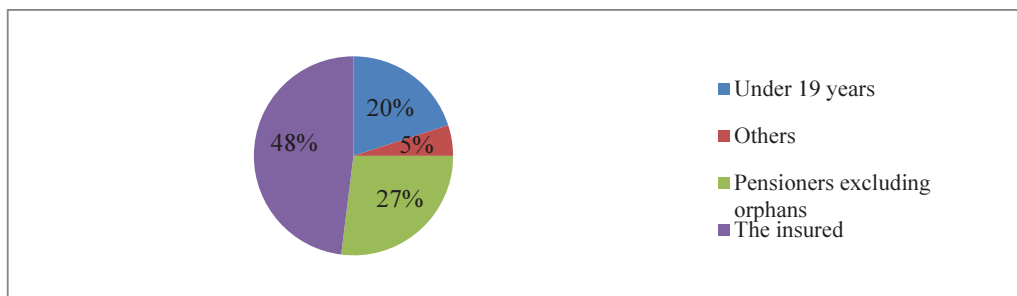


Fig. 1. Relative population distribution.

Source: Czech Social Security Administration (2012), own processing

As of 31. 12. 2011, the people who receive the old-age pension constitute less than 17 per cent of inhabitants in the Czech Republic. Majority of them is existentially dependant on the regular pension payments from the pension system, which are their only regular income. Only a minute percentage of the pensioners carry on a gainful employment, that is, they are employed or run a business.

Since 1996 we can observe a gradual increase in the pension age and its unification for both the men and women in the Czech Republic. An increase in the pension age should be also accompanied by a real increase of the economic activity of individuals in the pre-pension age (55 up to 66 years) and an increase in the average age of the withdrawal from the labor market. The employment of the people in the pre-pension and pension age is shown in the following Table 1.

Table 1. Employment in the Czech Republic (in thousands)

Age 55–59			Age 60–64			Age 65 and more		
Total	Male	Female	Total	Male	Female	Total	Male	Female
518,8	290,4	228,4	188,4	127,3	61,1	75,2	44,0	31,2

Source: Czech Social Security Administration (2013), own processing.

As per the table above, there is an evident significant difference between the employment of women and men at the age from 60 up to 64, which is caused, in particular, by the up-to-date policy of women's and men's equality.

3. Aim and methodology

The present period is characteristic for the fact that still more and more people receiving their pension earn some extra money within the employment or similar working contract, such as independent entrepreneurs performing their business. The aim of this article is to point out the differences, which arise from taxation and levy obligations in the form of social and health insurance payments of pensioners, in comparison with the payers in "non-retirement" state. Based on the comparison it would be assessed whether we can talk about justice in taxation and the fulfillment of the redistribution tax function in the case of old age pensioners' activities taxation, particularly, in the context of an increase in tax burden of the working pensioners.

The attention is focused on dependent activity (it is wage taxation fundamentally), and the reason is that employees have the highest share on profit of personal revenue tax and participate with over 90% in whole collection of personal income tax.

Appropriate measure for comparison of effective taxation of people seems implicit/effective tax rate (Blechová, 2008). It takes into consideration not only height of statutory tax rates from incomes, amount of social and health insurance but also construction of tax base including possible tax abatement.

According to the character of input data it is distinguished so called macro approach that uses aggregate macro economic data included in national accountancy of single states for the calculation of the taxation rate. In this contribution it will be used so called micro approaches that enable to quantify tax burden of an individual. Simulation models of individual payers will be used. The models are designed for chosen types of employees, namely pensioner compared with the employees without children, the employees with one child and with two children and it was chosen even a husband that supports a wife (where certain impact of social aspects included in tax legislation of the support of families with children can be observed) in mutual connection of various levels of amounts of incomes. Simultaneously it is absolutely respected legislative regulation in chosen periods, chosen employees.

Table 2. Selected tax rebates

Rebate on	2006 -7	2008 - 9	2010	2011	2012	2013
Payer	7 200	24 840	24 840	23 640	24 840	24 840
Payer - pensioner	7 200	24 840	24 840	23 640	24 840	--
Other from the married couple without incomes	4 200	24 840	24 840	24 840	24 840	24 840
Tax advantages for a child	6 000	10 680	11 604	11 604	13 404	13 404

Source: Income Tax Act N. 586/92 Coll., as amended, own processing.

It is needed to remark that at the calculation it was abstracted from tax allowances that are used mainly by middle classes (interests from mortgages, retirement insurance or private life insurance), the reason is that the effect of deductible items is decreased with cancellation of progressiveness of taxation and establishment of unified linear tax rate. The tax burden can be expressed by the help of the following formula (1):

$$ETR = 1 - \frac{NW}{GV} * 100, \quad (1)$$

where tax burden ETR comes out the relation between net wages (NW) and gross wages (GW) and includes changes in the construction of tax base including the changes in social and health insurance. It was taken into consideration the years 2007, 2008 and 2013. 2007 is the year before the reform when there were slight changes in this area in connection with reduction of degression and with the effort to increase profits of public budgets.

4. The genesis of legislation and social approaches

On the basis of an overview of tax legislation development and in relation with the limitation at the concurrence of the old-age pension and the income from the gainful employment, we cannot omit that until 31. 12. 2003, the relatively strict rules for the old age pensioners under 65 were in force, in the period of two years after the occurrence of the old-age pension claim (there was a limit of the twice the amount of the subsistence level for working pensioners as well as for pensioners running their business, who paid the obligatory tax payments from the assessment basis higher than the twice of the amount of the subsistence level). Exceeding the limit meant a sanction of the loss of the pension's claim.

The active ageing support that is the individual's effort to continue in a regular working activity is, at the present time, reflected in the absence of legislation obstacles for the work in retirement. After reaching the retirement age, a person can earn some extra money that is he/she can concurrently receive the old-age pension and have the unlimited income from the employment, business or other gainful employment. The amount of the income in the retirement age does not negatively influence the amount of the pension in any respect (Kolibová, 2013).

At the present time, the burden on work is less influenced by the personal income tax (that is the income tax by individuals), which is, on the other hand, exposed to much more changes in the period of its new existence than the employees' social and health insurance. Taxation of the income from gainful activities, including levy obligations for social and health insurance show, however, certain specifics in the group of old age pensioners.

4.1. Social and health insurance

From the point of view of the social security, there is no special regulation in force for working pensioners. There is only the advantage for the pensioners carrying on their business (in accordance with Section 7 of Act No. 586/91 of the Coll., on Income Tax, as amended, hereinafter only ITA), when this independent activity is considered so called secondary. That means that a pensioner does not have to pay the monthly advance tax payments as well as the fact that if his/her assessment base in the particular year (the income from his/her business activity minus expenses expended to achieve, ensure and retain this income) does not reach a due limit (see Table No. 3) and a pensioner does not voluntarily register for the social security, he/she does not pay the social insurance (or the social security insurance and a contribution for the government employment policy) from his/her income from business activities.

Table 3. The amount of the minimal assessment bases of self-employed persons since 2004 (in CZK)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
40 410	42 922	45 200	48 336	51 744	56 532	56 901	59 374	60 329	62 121

Source: Czech Social Security Administration (2013), own processing.

Another possibility for the individuals whose claim for the old-age pension occurred is the commencement or continuance in the employment or business activity. Yet it does not concern levy obligations, rather the decision on the increase in the old-age pension.

There was a different situation in the case of the general health insurance. A pensioner belongs among the persons, whose health insurance is paid by the government. From the point of view of the health insurance, the beneficiary of the pension is considered not only persons receiving pension, but this group also includes people

receiving the disability pension, widow's, widower's and the orphan's pensions. The health insurance contributions of these persons are paid by the government by means of the public budget of the Czech Republic. The advantage rests particularly in:

- Exemption from the liability of keeping the minimal assessment basis. The pensioners do not have to pay the lowest allowable amount for the health insurance. That means that if an employed receiver of the old-age pension receives an income lower than the minimal assessment base (that is the minimal wage of CZK 8 500), an employer pays the insurance from the actually achieved income.
- Non-payment of the insurance during days-off without income compensation.

In relation to the health insurance contributions, there was a possibility for these persons to exercise a deduction from the attained income from 1993. The deduction could be claimed by employees as well as self-employed people. The following table shows the deductions, by which the pensioners could decrease their assessment bases and thus pay the lower health insurance than regular employees.

Table 4. Pensioners' deductions from the received employment income between 1993–2004

Period	1993-95	1996	1997	1. 1. - 30. 6. 1998	1. 7. 1998-30. 6. 2001	1. 7. 2001-31. 12. 2002	2003	1.1. -31. 7. 2004
The amount of deduction in CZK	1 694	1 925	2 000	2 120	2 900	3 250	3 458	3 520

Source: Act No. 592/1992 of the Coll. On general health insurance contributions, as amended, own processing.

The deductions were considered non-system measures, which were beneficial only for employers. The compensation for employees was seen in the fact that the insurance contribution was a cost and, therefore, it decreased the tax base for the calculation of tax liability.

4.2. Pensioners' taxation specifics

Tax policy in the area of taxation of old-age pension receivers can be divided into two independent areas:

- the old-age pension as the only source of the income,
- concurrence of the old-age pension and income from the employment or business activity.

The old-age pension is a benefit paid from the government budget through the Czech social security system and the insured person's claim for the benefit occurs pursuant to the Act on the retirement income insurance.

5. The old-age pension as the only source of the income

As far as taxation is concerned, the paid old-age pension was exempted from taxation only until 1995 and subsequently partial exemption was introduced as follows:

- until 2008, this amount was enumerated,
- since 2009, the limit is determined by the thirty-six times the amount of the minimal wage that means by CZK 288 000 annually.

If the income in the form of the old-age pension exceeds the determined limit stipulated by legislation, it is subject to taxation as so called other income (Section 10 of ITA) by the 15% rate. That means the obligation for a pensioner to file an income tax return, although he/she might not have the income from the employment or business activity. However, also in this area we can find minor relieves, i.e. in the provisions of pursuant to Section 38 of ITA, which stipulates that the tax is not if the private individual's income is not more than CZK 15 000 for the

accounting period or if the amount of the tax does not exceed the limit of CZK 200. The following table shows the development of the limit for exemption of the old-age pension from taxation.

Table 5. Development of limit for exemption from old age pension income (in CZK)

1993–1995	1996–2000	2001–2004	2005–2007	2007–2008	2009–2013
Is fully exempted	120 000	144 000	162 000	198 000	Up to 36 times of the minimal wage

Source: Act no. 586/1992 of the Coll., on Income Tax, own processing.

Old age pensioners' taxation in the Czech Republic relates to such pensioners, whose annual pension is more than CZK 288 000. However, according to the statistics of the Czech Social Security Office, the number of pensioners who receive more than CZK 24 000 annually accounts for 1 245 of the total amount of 2 340 147 paid pensions, which is only 0.05% (Kolibová, 2013).

6. Concurrence of the old-age pension and income from the employment or business activity

Since 2011, in accordance with the public finance reform, a further programme in the area of pensioners' taxation has been introducing. The measure has been implementing for the pensioners with the above-the standard earnings, who are employed, as well as those, who carry on their business or are other self-employed individuals and also pensioners, who have income from lease.

This measure is the amount of CZK 840 000, which is received by a working pensioner in the total amount of the income from the dependent activity (that is, in fact, the gross wage) and partial tax bases from the business activity and other independent gainful activity and lease in the taxation period. Should the limit be exceeded, then exemption of the regularly paid pensions in the thirty-six times of the amount of the minimal age is not used. That means that, in this case, the whole paid old-age pension is subject to taxation. We can say there is a certain discrimination of 55+ people, that is a double taxation of pensions. In the Czech Republic, the following items are subject to taxation:

- the pension in the annual amount exceeding the thirty-six multiple of the minimal wage (that is the pension exceeding the annual amount of CZK 288 000, only the sum exceeding the amount of CZK 288 000 is subject to taxation),
- the whole pension if the above-mentioned limit of the income from the employment and tax bases of the business activities (that is over CZK 70 000 monthly) is exceeded.

This fact can be evaluated as a non-system measure with a minimal budgetary benefit and, therefore, also a measure that does not strengthen solidarity of the people with higher income in relation to poorer ones. The opposition's argument is also a permanent rejection of the present political representation of progressive income taxation and strengthening of the pension scheme in favour of more affluent people. The Reasoning report shows that a decrease in tax relieves in the group of working pensioners was caused by a decrease in the public budget deficit, however, the calculation of the estimated, slightly positive impact was not mentioned (Parliament press 158/0, 2012).

7. Tax burden in 2013

Social solidarity in relation to the pensioners' target group is limited by a number of government legislative measures in relation to moderation of taxation regression and an increase in public budget revenues. Since 2013 with the effective year 2015, the tax payers with the income above the social insurance ceiling are subject to a solidary tax increase in the amount of 7% of the above the limit income, that is the income received from the employment related activity and emoluments, and the business and other independent gainful activity, if they exceed the 48 multiple of the average wage. It is necessary to mention that it is the gross income, not the super-gross wage. The

maximal assessment base (ceiling) of health insurance contributions is cancelled and the ceiling for social security contributions is increased.

A significant change occurs at the taxation of the income from old age pensioners' gainful activities. Since 2013, the taxpayers receiving the old-age pension from pension insurance (or from international obligatory insurance of the old-age pensions of the same type) have no possibility to apply tax abatement in the amount of CZK 24 840 and thus the tax burden of this group of inhabitants considerably rises. In spite of the fact that this measure is proposed only for a limited period (that is for the taxation period from 2013 to 2015), pensioner's taxation brings us to the state applicable until 2007.

This measure shall have a financial impact on the fiscal situation of approx. 140 thousand working old age pensioners. The cancellation of the tax discount for old age pensioners predicates an increase in public budget income in the amount of approx. CZK 7.5 billion between years 2013–2016 (Parliamentary press 801/0, 2012).

Different approach and the position of the personal pension tax in the tax system of the Czech Republic is reflected in the dependant activity (in fact it is wage taxation), due to the fact that employees have the highest share in the personal income tax revenue and, at the present time, their share in the total personal income tax collection of private individuals accounts for over 90% (see part 3).

The following table shows how the tax burden of a working pensioner increased in comparison with 2012, particularly, in relation to the cancellation of the possibility to apply basic tax abatement. The calculations abstract away from a solidary tax increase.

Table 6. Model calculations of the pensioners' tax burden in 2012 and 2013 (in %)

Gross wage in CZK	Pensioner's tax burden in %	
	2012	2013
8 000	11.0	31.3
10 000	11.0	31.1
15 000	17.3	31.1
20 000	20.8	31.1
25 000	22.8	31.1
30 000	24.2	31.1
35 000	25.2	31.1
40 000	25.9	31.1
50 000	27.0	31.1
75 000	30.4	33.2
100 000	30.6	32.7
200 000	29.3	30.3

Source: own calculation.

The following graphs and table 7 summarize tax burden development of the selected taxpayers (as defined in section 3), which respond to the selected adjustments carried out in the area of wage taxation.

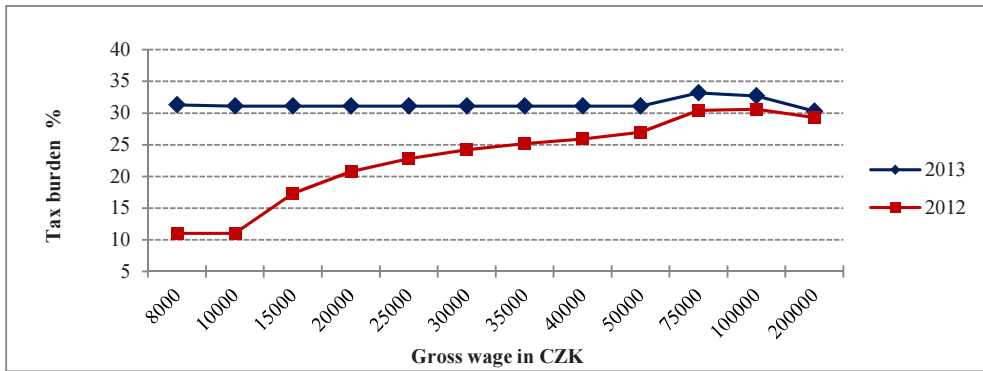


Fig. 2. Pensioner's tax burden during 2012 and 2013, own calculation

Table 7. Model calculations of the tax burden of the selected taxpayers in 2013 (in %)

Gross wage in CZK	Tax burden of the model groups of taxpayers in %				
	An individual without children	An individual with 1 child	An individual with 2 children	An individual with 2 children, his wife does not work	A pensioner
8 000	11.0	-3.0	-16.9	-16.9	31.3
10 000	11.0	-0.2	-11.3	-11.3	31.1
15 000	17.3	9.9	2.4	-3.9	31.1
20 000	20.8	1.2	9.6	1.8	31.1
25 000	22.8	18.4	13.9	13.0	31.1
30 000	24.2	20.5	16.8	9.9	31.1
35 000	25.2	22.0	18.8	1.9	31.1
40 000	25.9	23.1	20.3	15.2	31.1
50 000	27.0	24.7	22.5	18.4	31.1
75 000	28.3	26.9	25.4	22.6	33.2
100 000	29.0	27.9	26.8	24.7	32.7
200 000	26.5	27.9	27.4	26.3	30.3

Source: own calculations.

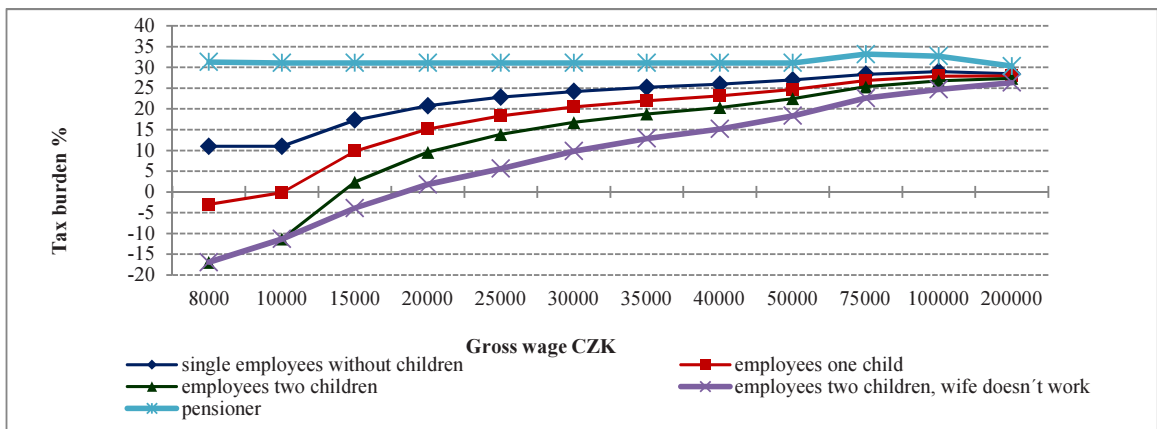


Fig. 3. The tax burden of the model groups of taxpayers in 2013, own calculation

8. Discussion

The above mentioned model calculations and graphs of tax burdens show that the adjustments of working pensioners had the highest negative impact in the area of labor taxation. Since 2013, their tax burden has recorded a dramatic increase of approx. 31.1%. At the present time, a number of pensioners are working, particularly, due to a low amount of their pension and the cancelation of tax abatement considerably decreases their work motivation, especially at lower income.

Tax burden has been rising in the group of pensioners with the income from the gainful activity over CZK 70 000, where we can observe the influence of the introduced adjustment since 2011. Where the income from the gainful activity exceeds the annual amount of CZK 840 000 (that is over 70 000 monthly), the whole amount of the old-age pension is subject to taxation in the amount of 15%. Simulation of the calculation is based on the average amount of the old-age pension in the Czech Republic, which amounted to CZK 10 740 at the end of the first quarter of 2012 (Czech Social Security Administration, 2012).

The group of inhabitants with the lowest income has the lowest tax burden. The introduction of a tax bonus for families with children affected the public budgets, which reflected in a decrease in tax revenues. However, it is the assistance to low-income families and, at the present time, via such tax abatement, the income is supported in such a way that some families receive more than they pay for tax, or, where appropriate, they do not pay any income tax and they are paid tax reliefs. Therefore, a certain form of negative tax is applied.

Degression caused by ceilings of social security and health insurance contributions (in 2008) was gradually reduced by an increase in these ceilings and, in 2013, the ceilings of health insurance contributions were cancelled. A decrease in total tax burden was caused by a fall in social security contributions in 2009 and a rise in tax abatement per child. Generally, in 2009, social insurance decreased by 2.5 percentage points. Regarding employees, social insurance dropped by 1.5% (in a part of pension insurance) and in terms of employers, there was a decrease of 1% of health insurance.

At the present time, a further cost-saving measure on the part of pensioners is also a slower pension valorisation. In relation to the cancelation of basic tax abatement from non-pension income, pensioners' living standard is decreasing. The question of justice is a very frequently discussed problem, but it will be probably hard to find justice in these measures.

Personal income tax is most often connected with justice and effectiveness of taxation, with a redistribution function and respecting a taxpayer's payment ability. The problem of justice of taxation and its effectiveness is not new and is mentioned in the work *An Inquiry into the Nature and Causes of the Wealth of Nations* by A. Smith. Similarly, Stiglitz in his work observes that the tax system must ensure economic effectiveness, administrative simplicity, flexibility, transparency and justice (Stiglitz, 1986).

Theoretical approaches to the construction of a personal income tax are different, including approaches to meet its redistribution function. The majority of countries have their personal income tax based on the progression principle, but in some countries, a so called flat tax (Rabushka & Hall, 2007) or a united linear tax rate have been introduced or in some countries a certain form of a negative tax (Friedman, 1962) occurs.

High tax burden of work, typical for the Czech Republic, is caused by a high amount of social and health insurance, particularly by a sum, which an employer is obliged to pay for his/her employees. Thus work costs increase, which simultaneously leads to the illegal forms of working relationships. We cannot omit the fact that pensioners keep participating in financing of health and social subsystem, if they continue in their active involvement in the working process, with a few exceptions mentioned at the beginning of this chapter (Tvrdoň, 2011).

It is obvious that tax burden is borne by the working force through the income tax and contributions to the social and health insurance system (labor supply) as well as a company in the form of contributions to this system (labor demand). High labor costs lead to its substitution for a capital or escape to the untraditional forms of working relations and they negatively influence labor market effectiveness and flexibility with a distinctive impact on the decrease in the economic growth's pace.

According to a new OECD report (Pensions Outlook, 2012), the governments shall gradually have to increase the retirement age to balance the rising length of life and thus ensure their national social systems to be financially

sustainable and adequate. In the long term, the retirement age will be 65 years in the half of the OECD countries and between 67–69 years in 14 countries.

9. Conclusion

The arguments above show that the problems of the economic activity of citizens until the advanced age are extensive and multi-dimensional. Former pension systems in most countries were based on wider social solidarity of a society. But a rising number of retired people along with a present decrease in a number of economically active people cause these system are insufficient a considerably burden government budgets. The attention is oriented on other forms of social security schemes, which connect voluntary and individual insurance. Thus gradual privatizations of the social security scheme occur, and that way dependence on a government social security scheme is decreased. Negatives constantly persist that are based on increasing of distortion in taxation and mainly via taxation of higher incomes that get into degressive taxation (the higher wage the lower tax burden and lower insurance). Thanks to stated fact here is a problematic state when medium-income class bears the burden of reform, mainly employees as it can be classified as retreat from system solution of reform of public budgets. A present legislative form cannot be considered the adequate seniors' social support because the highest negative impact in the area of labor taxation was in the adjustments of working pensioners, whose tax burden rose dramatically in 2013. As a matter of the fact, a counterproductive measure limits the main purpose of pensioners' working activities, who as a result of their low pension, need to earn extra money to cover the increased costs of living or the costs related to active ageing

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