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HOW FAR ARE THE CZECH REPUBLIC AND SLOVAKIA FROM OPTIMAL TAXATION? QUANTITATIVE ANALYSIS BASED ON THE LAFFER CURVE

A QUE DISTÂNCIA ESTÃO A REPÚBLICA CHECA E A ESLOVÁQUIA DE UMA TRIBUTAÇÃO ÓTIMA? ANÁLISE QUANTITATIVA BASEADA NA CURVA DE LAFFER

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Abstract
The aim of this article is to analyze the relationship between the corporate income tax rate and net tax revenues in Slovakia and the Czech Republic using the Laffer curve concept. Based on data on actual tax revenues and their discounting to net present value, a quadratic regression analysis was created that takes into account the assumed parabolic relationship between the tax rate and tax revenues. The optimal tax rate was identified as approximately 17.64% for Slovakia and 26.12% for the Czech Republic. The results confirm the nonlinear nature of the relationship and suggest that excessive tax increases can reduce business motivation, encourage tax optimization, and threaten the competitiveness of the economy. The analysis emphasizes the importance of optimizing tax policy not only to maximize government revenues, but also to support investment and long-term sustainable economic growth.

Keywords: Laffer Curve. Corporate Income Tax. Optimal Tax Rate. Tax Revenues. Slovak Republic. Czech Republic. Quadratic Regression.

Resumo
O objetivo deste artigo é analisar a relação entre a alíquota do imposto de renda corporativo e as receitas fiscais líquidas na Eslováquia e na República Tcheca, utilizando o conceito da curva de Laffer. Com base nos dados sobre as receitas fiscais reais e seu desconto para o valor presente líquido, foi criada uma análise de regressão quadrática que leva em consideração a relação parabólica assumida entre a alíquota do imposto e as receitas fiscais. A alíquota tributária ideal foi identificada como aproximadamente 17,64% para a Eslováquia e 26,12% para a República Tcheca. Os resultados confirmam a natureza não linear da relação e sugerem que aumentos excessivos de impostos podem reduzir a motivação empresarial, incentivar a otimização tributária e ameaçar a competitividade da economia. A análise enfatiza a importância de otimizar a política tributária não apenas para maximizar as receitas do governo, mas também para apoiar o investimento e o crescimento econômico sustentável a longo prazo.

Palavras-chave: *Curva de Laffer. Imposto de renda corporativo. Taxa de imposto ideal. Receitas fiscais. República Eslovaca. República Tcheca. Regressão quadrática.*

1 INTRODUCTION

Taxation of legal entities is one of the most important areas of economic policy, as it affects not only public finances but also companies' decisions on investment, employment, and capital allocation. Corporate income taxes are an important source of fiscal revenue for governments, but they also have a direct impact on the business environment, innovation, and the overall competitiveness of the economy (Gomez *et al*., 2024; Pahala *et al*., 2025). In a globalized economy, the dual nature of corporate income tax is becoming increasingly apparent, as an essential source of fiscal stability on the one hand and as a potential barrier to business activity on the other (Song & Yuan, 2024).

In Central European countries, particularly Slovakia and the Czech Republic, the issue of effective corporate taxation is coming to the fore in connection with the need to consolidate public finances after the pandemic and the growing demands for competitiveness in the domestic business sector. The different tax policies of the two countries, although based on a similar historical foundation, have led to different dynamics in tax revenues, the structure of the business sector, and the degree of tax compliance. An analysis of the functioning of corporate income tax therefore allows us not only to understand the mechanisms of state revenue generation, but also to assess the overall tax efficiency and economic behavior of companies within national economies (Zamaslo, 2017).

There has been a long-standing debate in the literature about the optimal tax rate that would maximize tax revenues without negatively impacting economic activity. This relationship is captured by the Laffer curve, which expresses the nonlinear relationship between the tax rate and tax revenues. If the rate is too low, the state loses potential revenue; if it is too high, there is a decline in economic activity, tax evasion, or the transfer of profits to more favorable jurisdictions (Beer *et al*., 2020). The tax elasticity of the tax base relative to the net rate is one of the key indicators that allows us to quantify the sensitivity of businesses to tax changes and determine the optimal point of taxation (Gomez *et al*., 2024).

The experience of countries with lower levels of economic development shows that corporate income taxes often play a more significant role than personal income taxes, as businesses are the dominant source of capital accumulation (Baker, 2018). In the context of Slovakia and the Czech Republic, where corporate taxes contribute

significantly to budget revenues, the issue of tax efficiency and sustainability is particularly relevant. Extensive empirical analyses show that most changes in the effective taxation of legal entities are caused by changes in the statutory rate, with an increase in the statutory rate having an almost proportional impact on the effective tax rate (Zamaslo, 2017).

On the other hand, declining corporate income tax rates may have an ambivalent effect on innovation performance. Empirical evidence suggests that both excessively low and excessively high rates can constrain innovation, making the relationship between tax policy and innovation activity appear nonlinear and U-shaped (Hoa & Tuan, 2025; Zhu, 2022). These results correspond with Schumpeter's theory, according to which corporate income taxes reduce rewards for innovation, but empirical observations confirm that the optimal tax rate may be higher than classical theory would suggest (Suzuki, 2022).

In Europe, it is also necessary to take into account the phenomenon of tax competition, which arises as a result of different approaches to corporate taxation among member states. Some countries prefer low rates in order to attract foreign investors, while others prefer higher taxation as a means of financing public services (Banociova & Tahlova, 2019). This competition results in the transfer of tax bases and profits between countries, causing a so-called tax gap – the difference between expected and actual tax revenues. In the Czech Republic, this gap has been quantified at between CZK 9 and 12 billion, indicating a significant loss of revenue due to profit shifting (Moravec *et al*., 2019).

The issue of profit shifting is closely linked to international tax optimization practices, including so-called tax inversions, where multinational companies move their headquarters to countries with lower taxation (Yang *et al*., 2019). Such practices weaken the tax bases of advanced economies and highlight the need for coordinated policy within the EU and the OECD.

In view of these circumstances, the question of how far Slovakia and the Czech Republic are from optimal taxation is not only a theoretical but also a political and economic challenge. A quantitative analysis based on the Laffer curve makes it possible to empirically measure the elasticity of the tax base to changes in tax rates, identify the optimal point of taxation, and compare the effectiveness of the tax systems of both countries. This approach also provides a framework for assessing the impact of tax reforms on business behavior, capital flows, and overall fiscal balance. The aim of this

article is therefore to quantify the position of Slovakia and the Czech Republic on the Laffer curve, assess their distance from the optimal point of taxation, and highlight the determinants that influence the effectiveness of corporate income tax collection. The results have the potential to contribute to the discussion on the future shape of tax policy in both countries, particularly in the context of tax competition, the sustainability of public finances, and long-term economic prosperity.

2 METHODOLOGY AND DATA

Wanniski (1978) states that the Laffer curve illustrates the nonlinear relationship between tax rates and tax revenues. This relationship is usually modeled as a concave quadratic function. In empirical studies of the Laffer curve, the tax rate is usually used as the explanatory variable, while tax revenues are the dependent variable, as shown in equation (1) below:

$$y = ax^2 + bx + c \qquad (1)$$

where:

y – tax revenue;
x – tax rate;
a, b, c – coefficients.

The existence of the Laffer curve assumes a negative and statistically significant value of coefficient "a" and a positive value of coefficient "b." If these conditions are met, we can speak of the presence of the Laffer curve and subsequently calculate the optimal tax rate at which the state achieves the maximum possible tax revenue. This optimal rate is determined by maximizing equation (2), where tax revenues (y) depend on the tax rate (x), and its resulting form is expressed by the following equation:

$$x = -\frac{b}{2a} \qquad (2)$$

where:

x – optimal tax rate according to equation (1)

By substituting the optimal tax rate (x) into equation (3), we obtain the optimal tax revenue, as can be seen in equation (3):

$$y^* = a + bx^* + cx^{*2} \qquad (3)$$

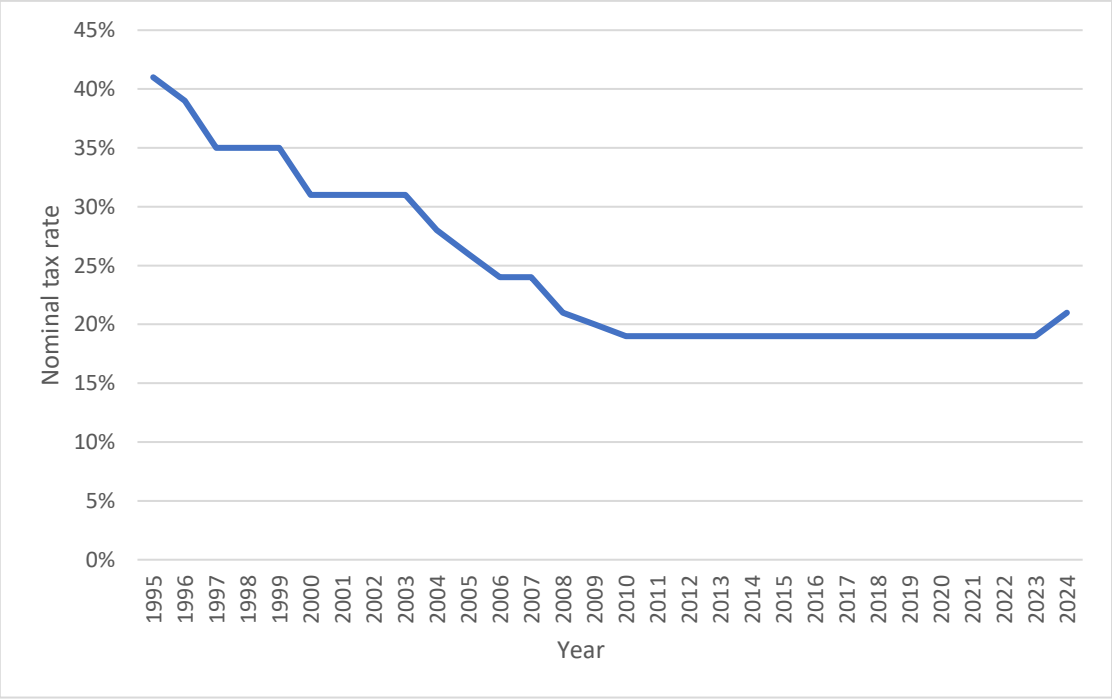
where:

y^*represents optimal tax revenues.

Corporate income tax is one of the key instruments of fiscal policy in the Czech Republic and contributes significantly to the formation of the state budget. The historical development of this tax rate reflects the economic and political situation of the country, as well as the government's efforts to increase the competitiveness of the business environment. An overview of the development of the basic corporate income tax rate in the Czech Republic over the last 29 years is shown in Figure 1.

Figure 1

Development of basic corporate income tax



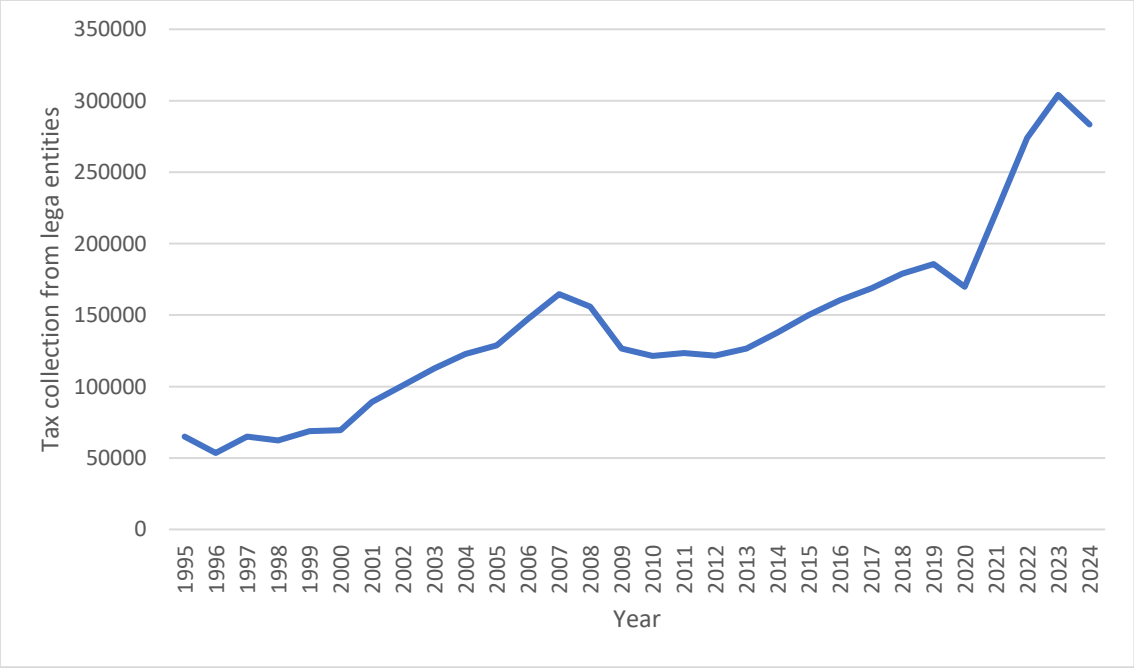
Source: Proceedings of the author.

In the period following the transformation of the Czech economy in the early 1990s, the corporate income tax rate was relatively high, typically around 40%, reflecting the state's efforts to maximize tax collection in the emerging market economy. Gradually, with economic growth and the need to stimulate investment, the rate was gradually reduced. For example, in 2008–2010, the rate was set at 19%, which is one of the lowest among the V4 countries, reflecting the trend towards a direct reduction in the tax burden on businesses. Changes in rates were often accompanied by changes in tax legislation, such as the introduction of tax relief for small and medium-sized enterprises, incentives for investment in research and development, or differentiated rates for specific sectors. These measures were aimed not only at improving tax collection but also at supporting economic growth and the country's competitiveness.

Annual corporate income tax collection is a key indicator of the effectiveness of tax policy and allows the impact of legislative changes and economic trends on state fiscal revenues to be monitored. Data on tax collection for the Czech Republic are available for the period 1995–2024, with the amount of these revenues shown in Figure 2.

Figure 2

Development of corporate income tax revenue collection in the Czech Republic



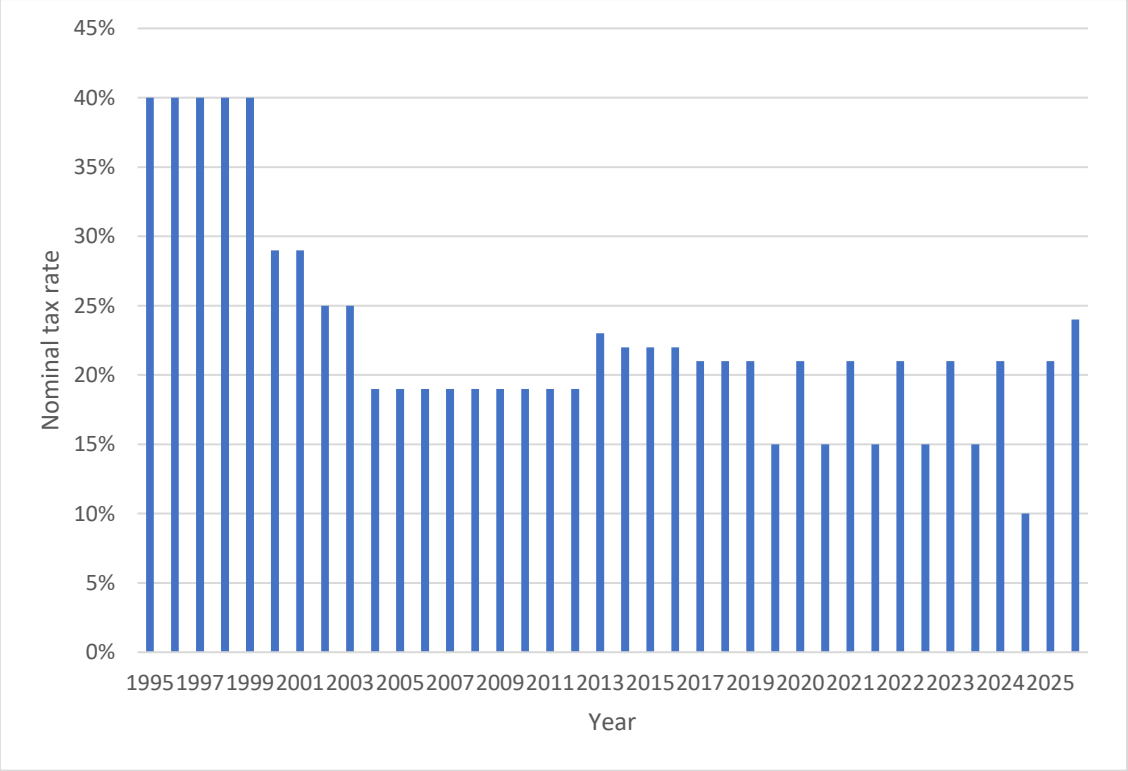
Source: Proceedings of the author.

As can be seen, tax collection shows an upward trend, with certain fluctuations depending on the economic situation and legislative changes. In the early years after 1995, tax revenues ranged from approximately CZK 53,000 to 69,000 million. In the period 2002–2008, there was a significant increase in tax collection, which correlated with a decrease in the basic tax rate and, at the same time, with economic growth. During the financial crisis around 2009–2010, tax collection stagnated and declined slightly, reflecting the economic slowdown. Subsequently, from 2011 onwards, tax collection again shows stable growth, peaking in 2023 at CZK 304,087 million. This is followed by a slight decline to CZK 283,291 million in 2024.

The development of the personal income tax rate for Slovakia can be seen in the following figure 3.

Figure 3

Development of corporate income tax rates in the Slovak Republic



Source: Proceedings of the author.

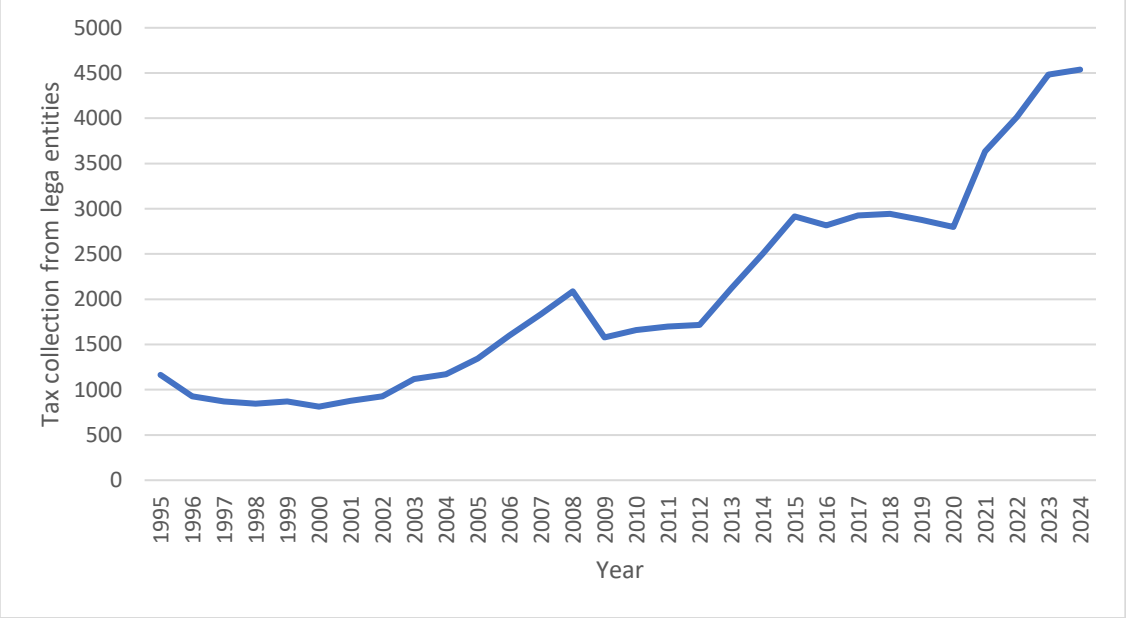
Since the early 1990s, the corporate income tax rate in Slovakia has changed significantly, from the original 40% in the period 1995–1999 to gradually lower rates, which was reflected in several tax reforms throughout the period. The first major turning

point came in 2004 with the implementation of a flat tax of 19% for income tax (both personal and corporate) and VAT. This step marked a significant trend towards simplification in the Slovak tax system, which was presented as a measure to increase the country's investment attractiveness (at that time nicknamed the "Tatra Tiger"). Between 2005 and 2012, corporate income tax remained at 19%, but at the same time there was talk of high levies and the introduction of a bank tax, which existed between 2012 and 2020. Subsequently, the standard rate rose to 21%, with 2013–2016 even seeing a temporary peak of 23% as part of fiscal consolidation measures. Since 2021, CIT has been differentiated according to income level, micro-enterprises with taxable income of up to €60,000 (later €100,000) pay a reduced rate of 15%, while the standard corporate income tax rate remains at 21%. From January 1, 2025, three bands will be introduced into the system 10% for companies with annual taxable income up to €100,000, 21% for income from €100,000 to €5,000,000, and 24% for income above €5,000,000.

The development of corporate income tax (CIT) revenues in Slovakia between 1995 and 2023 shows significant dynamics, influenced by both the economic cycle and legislative changes and the state's tax policy (Figure 4). In the first phase, from the mid-1990s to around 2003, revenue from this tax was relatively low and fluctuated steadily between EUR 800 million and EUR 1 billion (in prices for the period), which can be attributed to the transition period and lower performance of the business sector. Since 2004, there has been a gradual increase in corporate income tax revenues, which correlates with the introduction of a flat tax and favorable economic growth following Slovakia's accession to the European Union. Growth continued until 2008, when revenues peaked. However, 2009 saw a sharp decline caused by the global financial and economic crisis, which had a negative impact on corporate profitability.

Figure 4

Development of government revenue collection for corporate income taxes in Slovakia



Source: Proceedings of the author.

Between 2010 and 2012, corporate income revenues stabilized, but without significant growth. Another growth impulse occurred after 2013, when the state introduced a higher tax rate (23%) and improved tax collection. The peak in this period was recorded around 2015, when revenue exceeded EUR 2,900 million. Subsequently, revenues fluctuate slightly but remain at a relatively high level until 2020. In 2020 and 2021, there is a temporary decline in revenues due to the COVID-19 pandemic and its impact on economic activity. However, this decline is only temporary, with corporate income revenue rising sharply from 2022 onwards, reaching a historic high in 2023, with revenues of almost €4,500 million, and increasing to €4,537.78 million in 2024. This increase may be due to the post-pandemic recovery, higher inflation, growth in corporate profits, and more efficient tax collection.

3 RESULTS

In the Laffer curve concept, it is necessary to take into account the time value of money in order to compare tax revenues in different years in real terms. For this purpose, inflation is used as a proxy for the "interest rate," which allows nominal tax revenues to be discounted to a specific reference year. This approach ensures that tax collection values

are comparable, eliminates the impact of price increases, and provides a more realistic picture of the actual development of tax revenues. For the Czech Republic, annual inflation indices published by the Czech Statistical Office (2.8%) were used. Nominal tax collection values for the years 1995–2024 were converted to real values for the reference year 2024 using the following formula:

$$V_{real} = \frac{V_{nom}}{(1+i)^n} \qquad (4)$$

where:

V_{real} – real discounted income,
V_{nom} – nominal income,
i – annual inflation rate,
n – year.

Subsequently, a second-degree regression equation was created, which takes into account the assumed parabolic relationship between the tax rate and net tax revenue. A quadratic function was chosen for processing due to the theoretical framework of the Laffer curve, which typically has a concave shape. We created the model using IBM SPSS software, entering discounted real income as the dependent variable and the nominal income tax rate as the independent variable. The following is a summary of the model, for which we set hypotheses and a significance level:

H0: the model is statistically insignificant
H1: the model is statistically significant
α=0,05

Table 1

Model summary and estimation of regression equation parameters for the Czech Republic

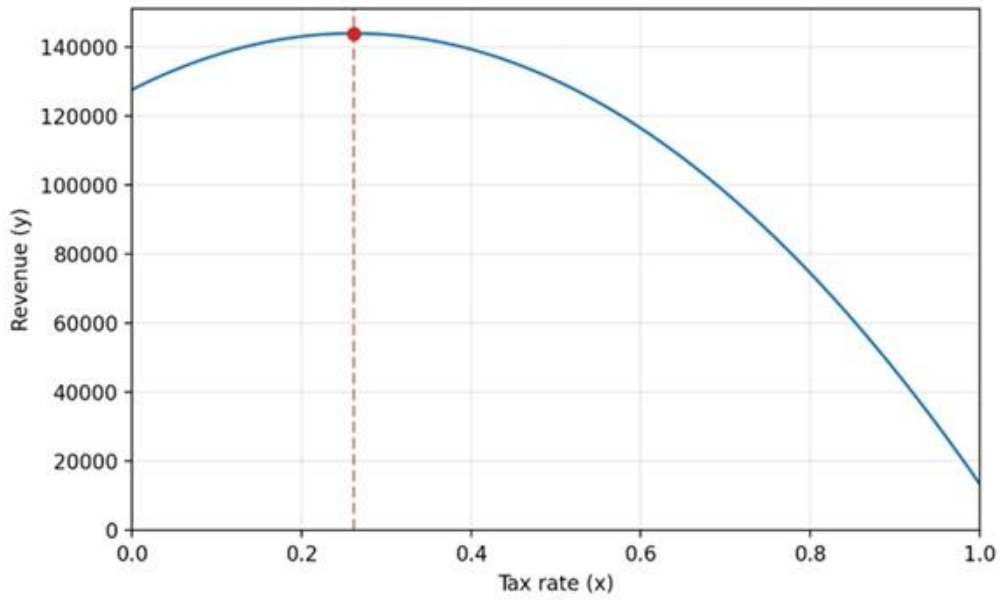
Dependent variable: discounted real income								
	Summarization of the model					**Parameter estimation**		
Equation	R^2	F	df	df	p-value	constant	a	b
Quadratic	0.2788	3.338	2	30	0.011	127690	-239038	124830

Source: Proceedings of the author.

Based on the results of the regression analysis, the p-value of the statistical test was 0.011, which is lower than the specified level of statistical significance α = 0.05. We therefore reject the null hypothesis and accept the alternative hypothesis, meaning that the model is statistically significant. Figure 5. shows the shape of the Laffer curve.

Figure 5

Laffer curve for Czech Republic



Source: Proceedings of the author.

The resulting regression equation, which expresses the relationship between the effective corporate income tax rate (x) and the net present value of tax revenues (y), took the following form:

$$y = -239038x^2 + 124830x + 127690.36 \qquad (5)$$

The shape of the function confirms the expected concave nature of the Laffer curve. The equation shows that increasing the tax rate has a positive effect on revenue only to a certain extent; subsequently, revenue begins to decline as a result of a decrease in the motivation of companies to do business, an increase in tax evasion, or the transfer of profits outside the Czech Republic. To determine the maximum point of this function (the Laffer point), we derived the function and determined its extreme:

$$x = -\frac{-124830}{2 \cdot (239038)} = 0.2612 = 26.12\% \qquad (6)$$

This implies that the optimal tax rate at which the Czech Republic achieves maximum tax revenue from corporate income is approximately 26.12%, which means that the Czech Republic is not yet achieving the maximum possible tax revenue. The coefficient of determination R^2 = 0.2788 indicates that approximately 27.88% of the variability in tax revenues can be explained by changes in the tax rate. Although the value is not high, it is acceptable given that tax revenue is also influenced by other factors such as the economic cycle, employment rate, tax discipline, and legislative changes.

We took a similar approach for the Slovak Republic. To ensure the comparability of tax revenues over time, all data on actual tax revenues were discounted to net present value (NPV) using the average annual discount rate, which in our case was the annual inflation rate of 2.80%. This step reflects the declining value of money over time and allows for a more objective comparison of revenues between individual years. Subsequently, a second-degree regression equation was created, which takes into account the assumed parabolic relationship between the tax rate and net tax revenues. A quadratic function was chosen for processing due to the theoretical framework of the Laffer curve, which typically has a concave shape. We created the model using IBM SPSS software, entering discounted real income as the dependent variable and the nominal income tax rate as the independent variable. The following is a summary of the model, for which we set hypotheses and a significance level:

H0: the model is statistically insignificant

H1: the model is statistically significant

α=0.5

Figure 6

Model summary and estimation of regression equation parameters for the Slovak Republic

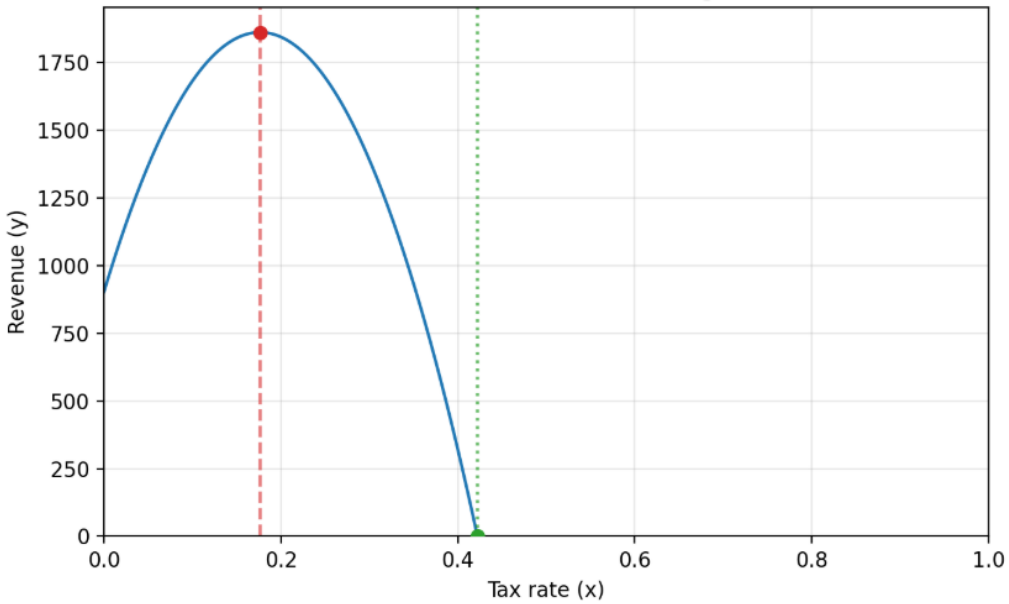
Dependent variable: discounted real income								
	Summarization of the model					**Parameter estimation**		
Equation	R^2	F	df	df	p-value	constant	a	b
Quadratic	0.23	5.27	2	30	0.029	902.87	-30800	10864

Source: Proceedings of the author.

We observe the p-value of the test, which in our case reached a value of 0.029. Comparing it with the significance level α, we see that it is lower, so we reject the null hypothesis and accept the alternative hypothesis, meaning that the model is statistically significant. Figure 6. shows the Laffer curve for Slovakia.

Figure 7

Laffer curve for Slovak Republic



Source: Proceedings of the author.

The resulting regression equation, which expresses the relationship between the effective corporate income tax rate (x) and the net present value of tax revenues (y), took the following form:

$$y = -30\,800x^2 + 10\,864x + 902.87 \qquad (7)$$

The shape of the function confirms the expected concave nature of the Laffer curve. The equation shows that increasing the tax rate has a positive effect on revenue only to a certain extent; subsequently, revenue begins to decline as a result of a decrease in the motivation of companies to do business, an increase in tax evasion, or the transfer of profits outside the territory of the Slovak Republic. To determine the maximum point of this function (the Laffer point), we derived the function and determined its extreme:

$$x = -\frac{10\,864}{2\cdot(-30\,800)} = 0.1764 = 17.64\% \qquad (8)$$

This implies that the optimal tax rate at which the Slovak Republic achieves maximum tax revenue from corporate income is approximately 17.64%. The coefficient of determination R^2 = 0.23 indicates that approximately 23% of the variability in tax revenues can be explained by changes in the tax rate. Although the value is not high, it is acceptable given that tax revenue is also influenced by other factors such as the economic cycle, employment rate, tax discipline, and legislative changes.

4 DISCUSSION

The results of the regression analysis for the Slovak Republic confirm the existence of the Laffer curve with an estimated optimal corporate income tax rate of approximately 17.64%. This estimate is consistent with previous studies and provides an interesting context for international comparison. For example, Sen & Bulut-Cevik (2021) identified an optimal rate for Turkey of 23.5%, while Baranova & Janickova (2013) confirmed the existence of the Laffer curve for the Czech Republic, but only at effective rates. The differences between countries can be explained by the specifics of the economic structure, the degree of tax discipline, as well as different possibilities for tax competition and profit transfer. Based on the model for the Czech Republic, the optimal rate is approximately 26.12%, which indicates that the country is still not achieving the maximum possible tax revenues. The coefficient of determination for the Czech Republic (R^2 = 0.2788) and Slovakia (R^2 = 0.23) shows that changes in tax rates explain only part of the variability in tax revenues, with other factors such as the economic cycle, employment, legislative changes, and tax compliance, play a significant role.

Our results also confirm a strong correlation between tax revenues and economic performance, which corresponds with the work of Chen *et al*. (2024), who showed that corporate income tax reform contributes to a more efficient allocation of resources and thus to productivity growth. This result suggests that fiscal policy should not be seen only as a source of government revenue, but also as a tool for shaping the business environment and stimulating economic activity.

Similarly, Gomez *et al*. (2024) emphasize the importance of tax base flexibility, which reflects firms' response to changes in tax policy and suggests the existence of potential losses due to tax optimization and evasion. This aspect is also relevant in the Slovak context, where aggressive tax planning and effective rate reductions weaken fiscal

capacity. Our results also point to the limits of tax policy, especially in the case of excessive rate increases. The experience of Greece, cited by Varotsis & Katerelos (2020), shows that ineffective adjustments to the tax mix lead to a deepening of the black economy and a weakening of fiscal stability. Similarly, Odintsov *et al*. (2023) emphasize that optimizing the tax burden is key to ensuring long-term sustainability, for example in the agricultural sector in Ukraine. For Slovakia, this means that the search for the optimal tax rate should be part of a broader tax reform framework that takes into account the structure of the economy and sectoral specifics.

The discussion on optimal tax policy in the V4 is particularly important given the high role of foreign investment. Prochazka & Cerna (2022) point to the importance of reinvesting FDI profits, which is closely related to effective tax rates and the quality of the business environment. If Slovakia maintains rates above the optimal level in the long term, there is a risk that foreign investors will shift their activities to other countries. Conversely, a favorable tax environment can support reinvestment and long-term growth, as confirmed by the findings of Fazaalloh (2024) and Arif-Ur-Rahman & Inaba (2021), who showed that foreign investment significantly stimulates economic growth and the productivity of domestic firms.

The discussed link between tax policy and corporate behavior is also evident in accordance with the study by Song & Yuan (2024), which showed that increasing tax rates leads companies to hold more cash. This phenomenon reflects the precautionary behavior of companies towards tax exposure, which can negatively affect investment activity. In the Slovak environment, this means that excessively high rates can lead to delayed investment and lower dynamic growth.

Despite certain limitations of our models, such as relatively low tax rate variability or a short time period, the results support the theoretical and empirical literature on the nonlinear relationship between taxation and economic growth (Hajek *et al*., 2021; Neog & Gaur, 2020). Identifying the optimal point on the Laffer curve in the context of the Slovak Republic and comparing it with the Czech Republic thus provides an important contribution to the discussion on tax policy and highlights the need for a balance between maximizing fiscal revenues and supporting the long-term competitiveness of the economy.

5 CONCLUSION

The analysis of corporate income tax revenues in Slovakia and the Czech Republic confirms the presence of a Laffer curve, demonstrating a non-linear relationship between tax rates and net tax revenues. For Slovakia, the optimal corporate tax rate is estimated at approximately 17.64%, while for the Czech Republic it is around 26.12%. These results indicate that both countries are operating below or near the maximum revenue point, highlighting potential room for adjustment in fiscal policy.

The findings underline the importance of balancing tax rates to maximize revenues without undermining business activity or encouraging tax avoidance. The moderate coefficients of determination ($R^2 = 0.23$ for Slovakia and $R^2 = 0.2788$ for the Czech Republic) suggest that while tax rates significantly influence revenues, other factors such as economic cycles, employment, legislative changes, and tax discipline also play a substantial role.

From a policy perspective, the study emphasizes that corporate taxation should not only serve as a source of state revenue but also as a tool to shape the business environment, stimulate investment, and promote sustainable economic growth. Excessively high tax rates may discourage investment, encourage profit shifting, and reduce the competitiveness of the economy, while optimal rates can support long-term fiscal stability and attract foreign direct investment.

Overall, the identification of the Laffer point in both countries contributes to the ongoing debate on optimal tax policy, providing empirical evidence for policymakers to design balanced and efficient corporate taxation frameworks that promote economic growth, competitiveness, and fiscal sustainability.

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Authors' Contribution

All authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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