

CONSUMPTION TAX INCIDENCE:
EVIDENCE FROM NATURAL EXPERIMENT IN
THE CZECH REPUBLIC

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Nov 22, 2013

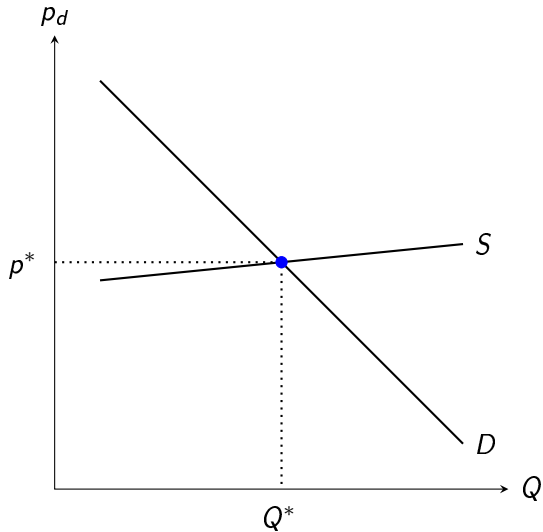
TAX INCIDENCE

Taxed side of the market **irrelevant** to economic impact of taxation

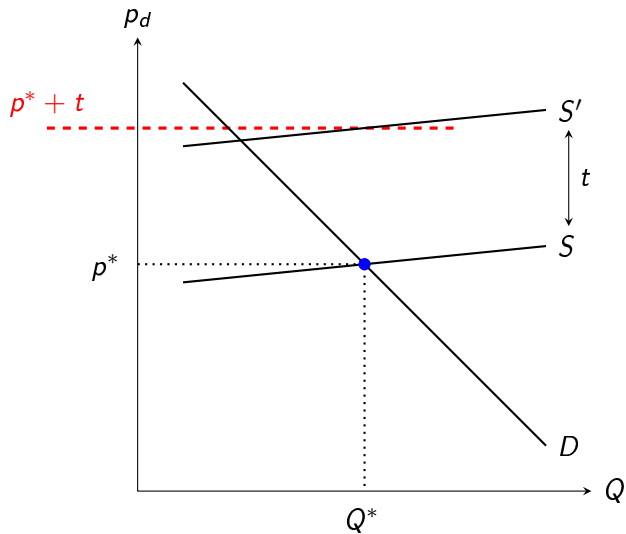
Over-shifting / Under-shifting theoretically possible

Market structure & elasticity matters

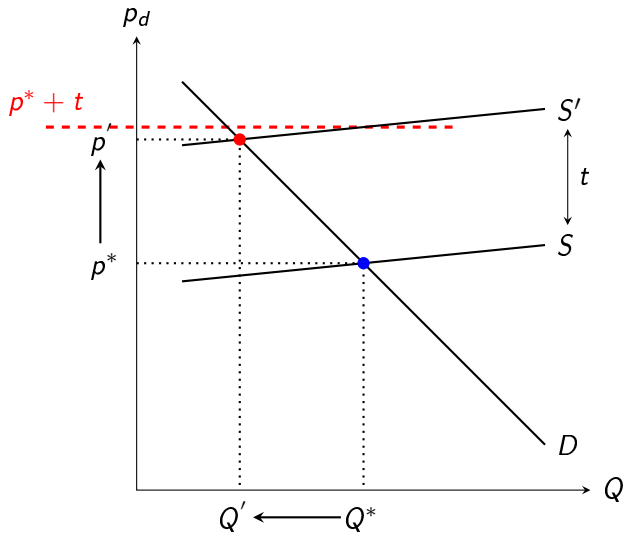
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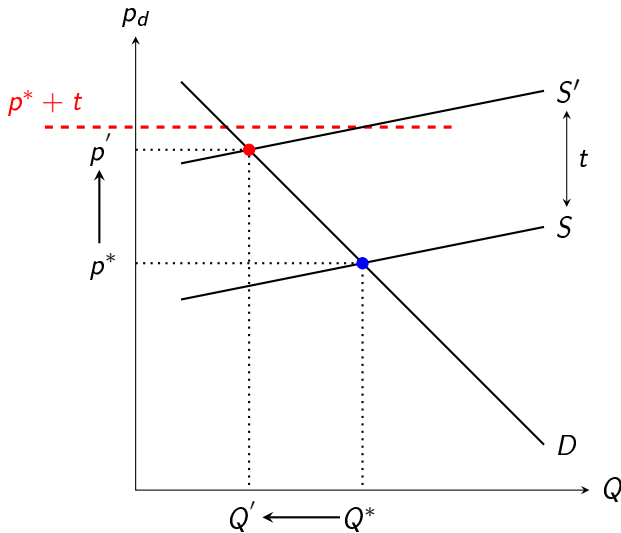
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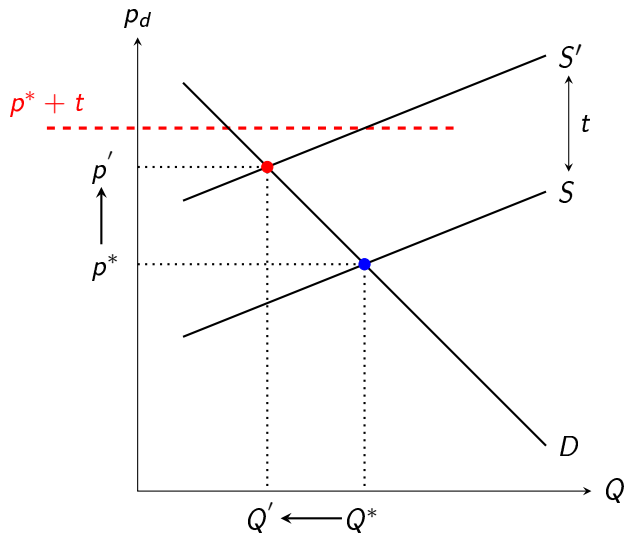
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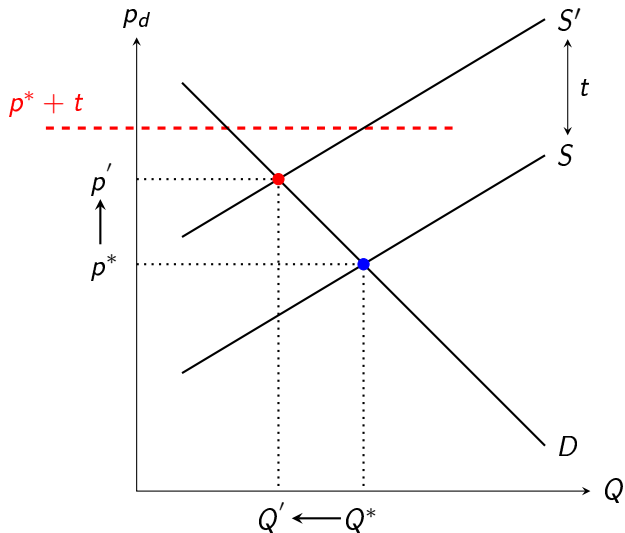
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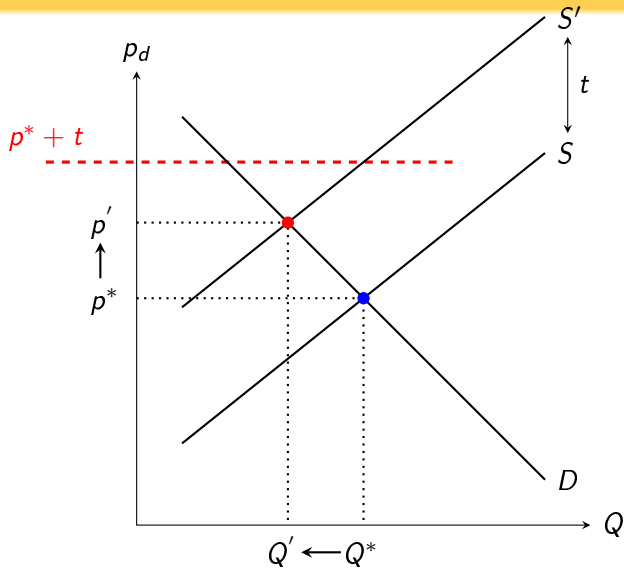
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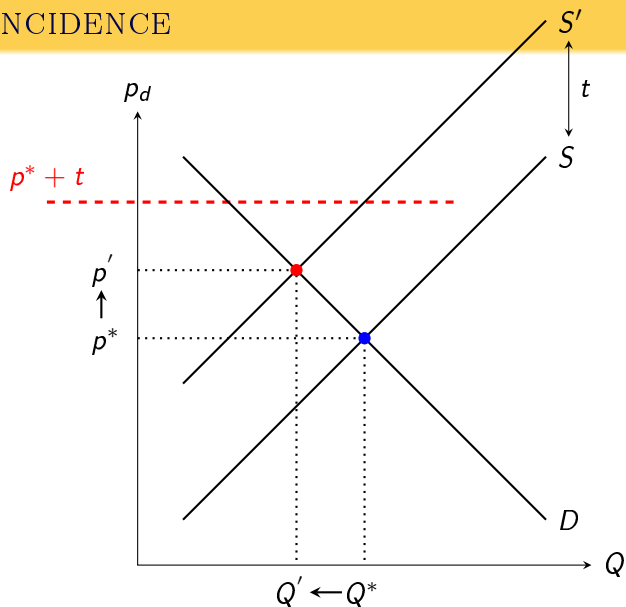
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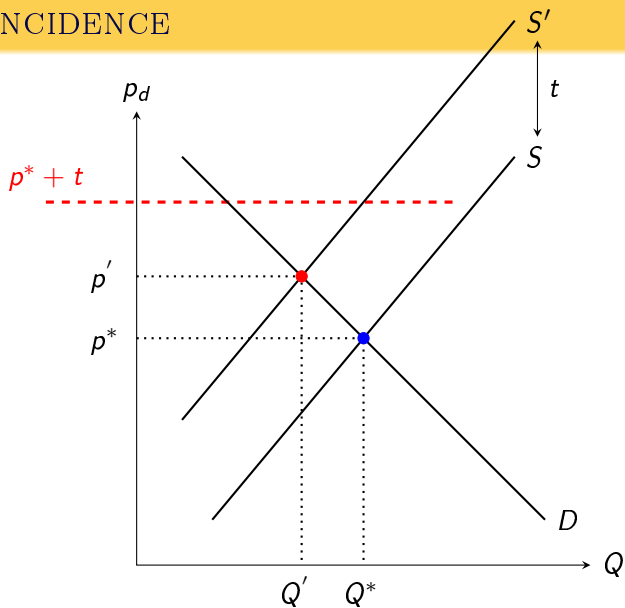
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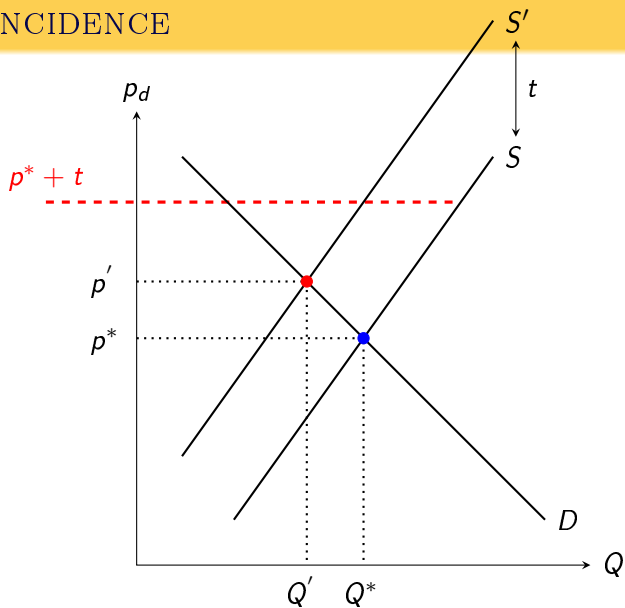
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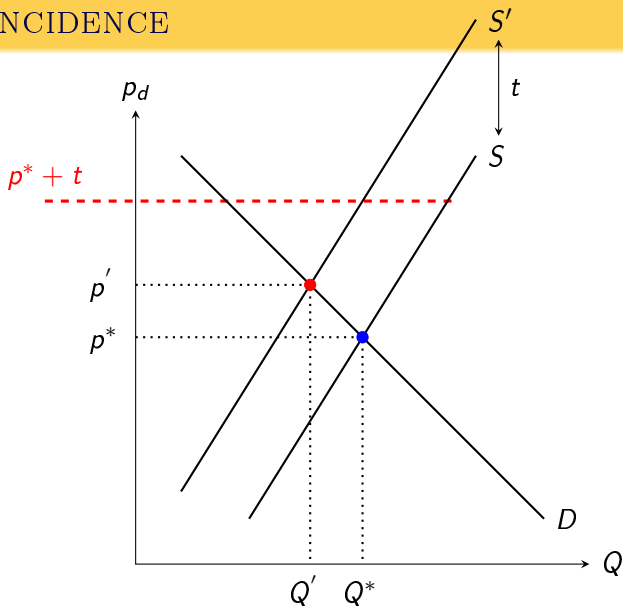
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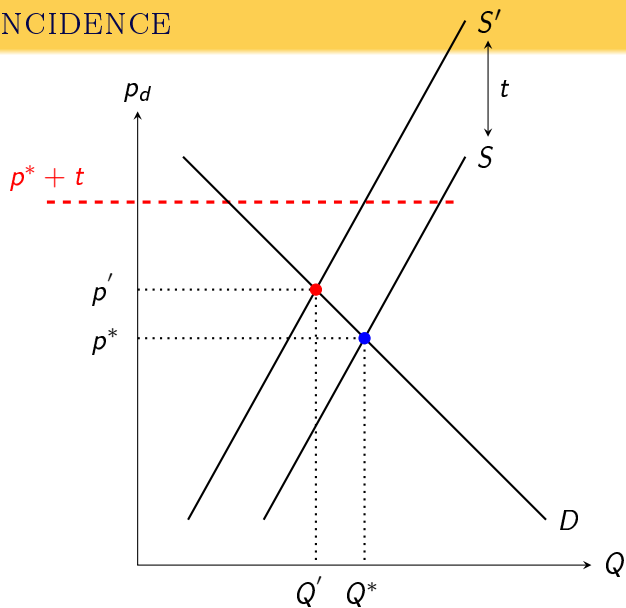
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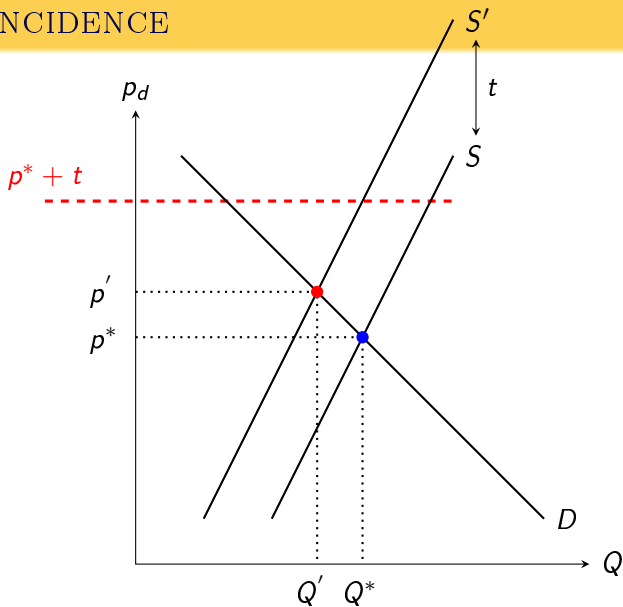
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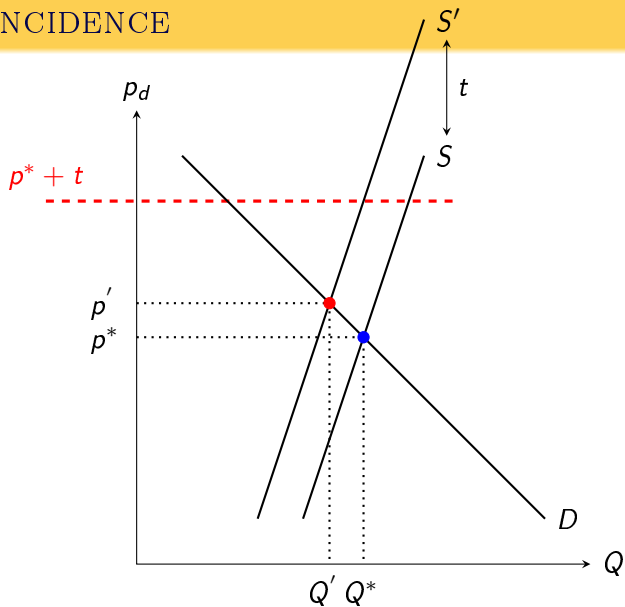
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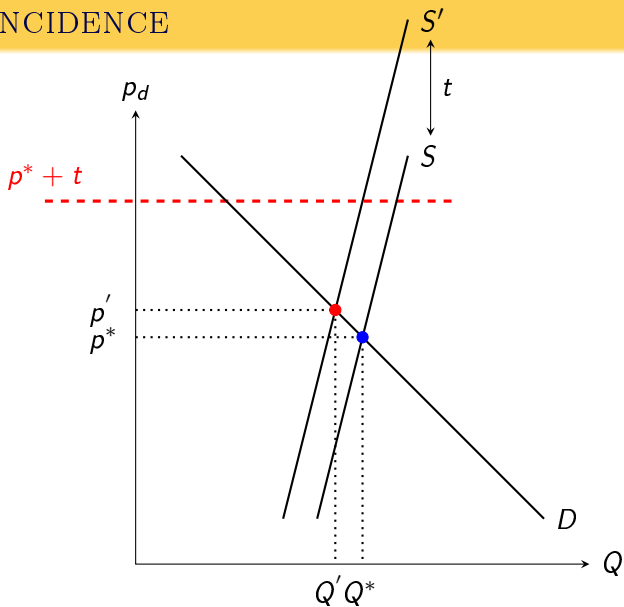
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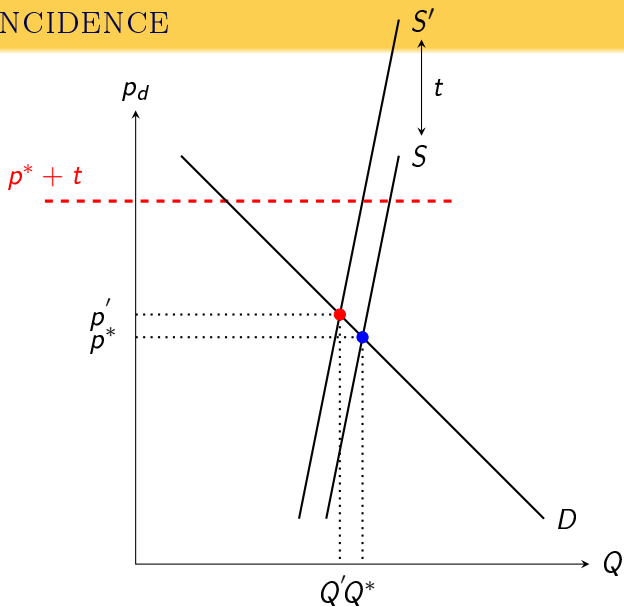
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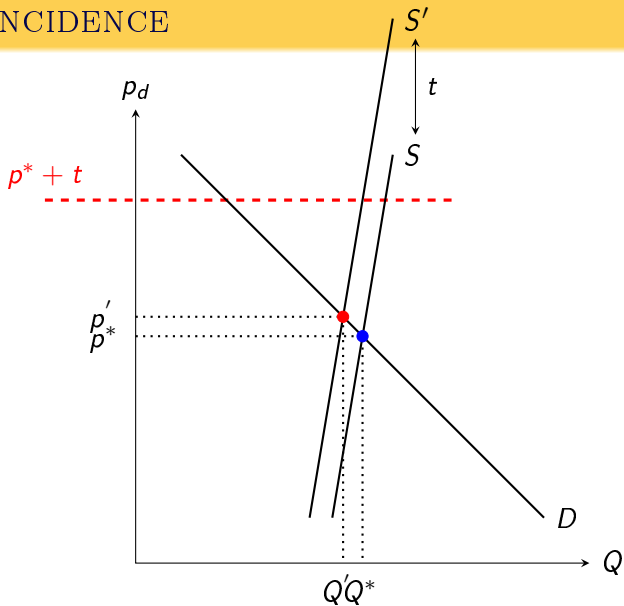
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MAY 2004 VAT REFORM

Reduced/standard rate: (5%, 22%) → (5%, 19%)

3 groups of commodities

C: 5% → 5%

T1: 22% → 19%

T2: 5% → 19%

Data:

- CZSO CPI monthly data, 790 commodities
- C (322), T1 (408), T2 (60)

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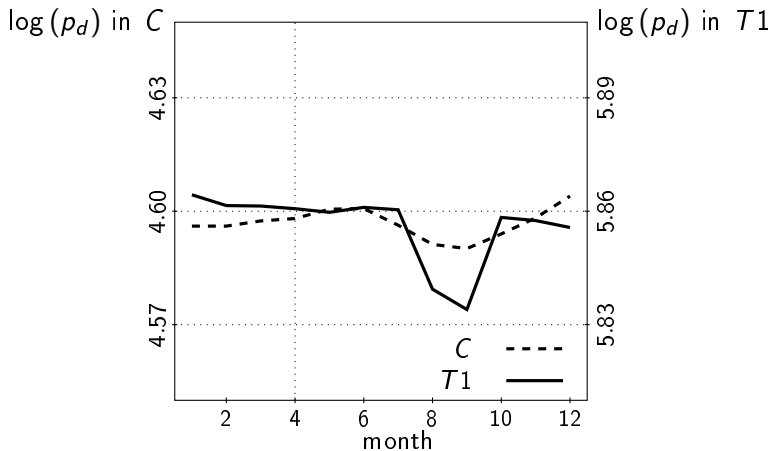
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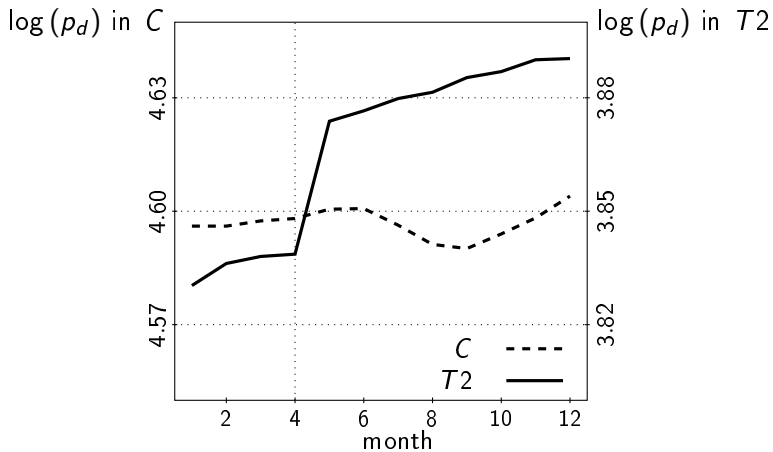
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T2: 5% \rightarrow 19%

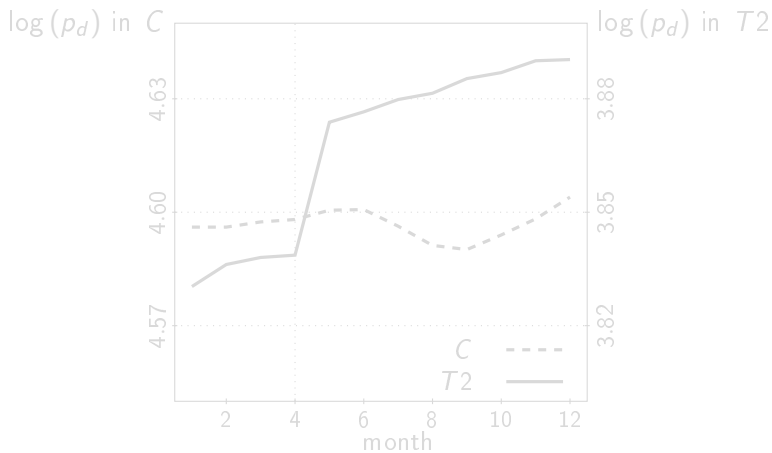
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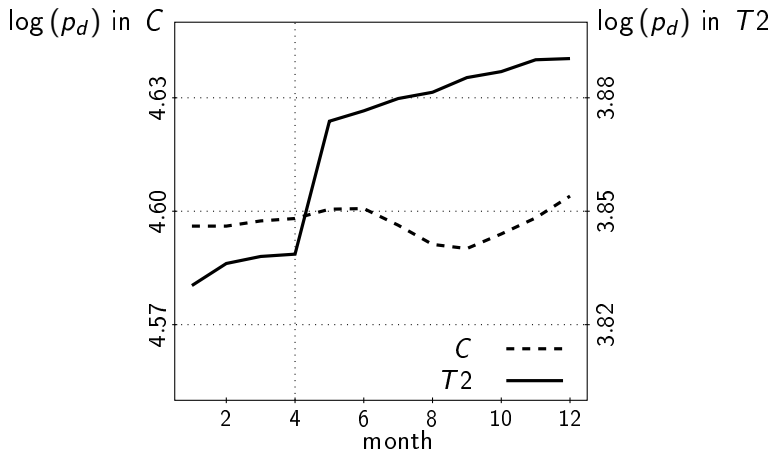
MEAN LOG-PRICE, $T1$ vs. C 

MEAN LOG-PRICE, $T2$ vs. C 

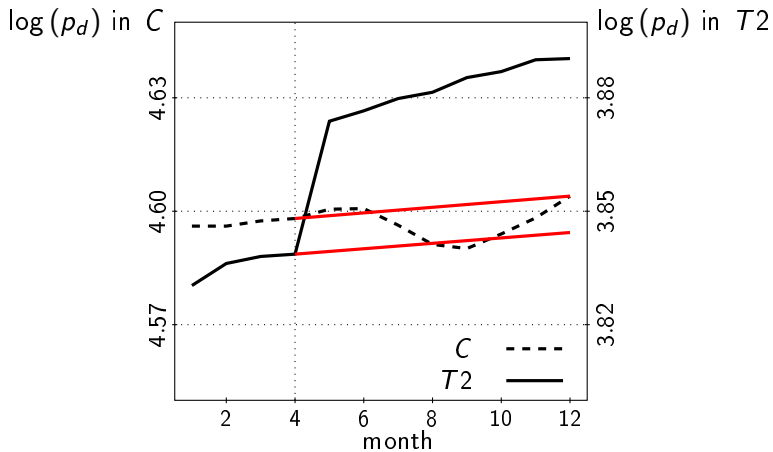
DIFFERENCE IN DIFFERENCE ESTIMATION



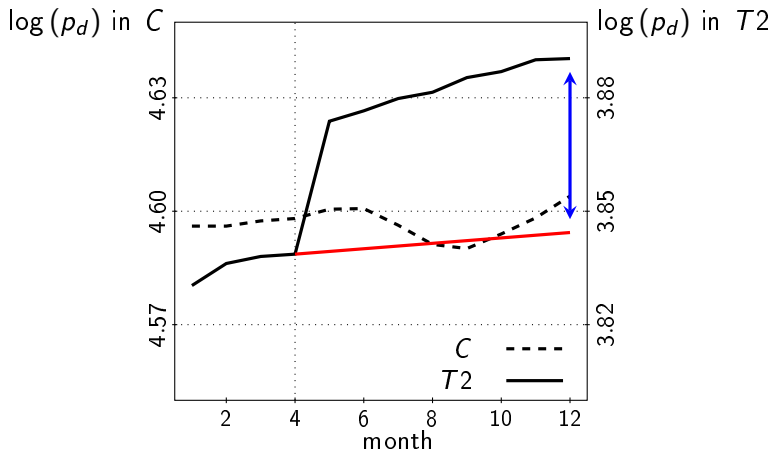
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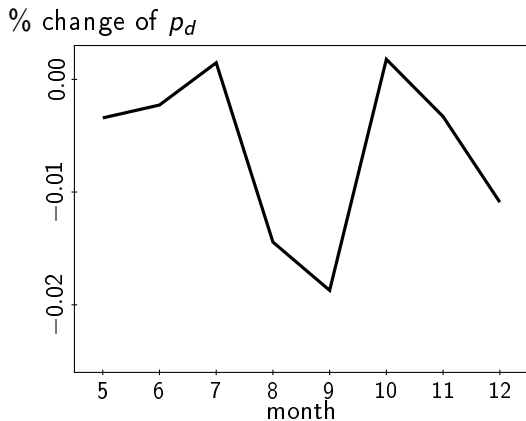


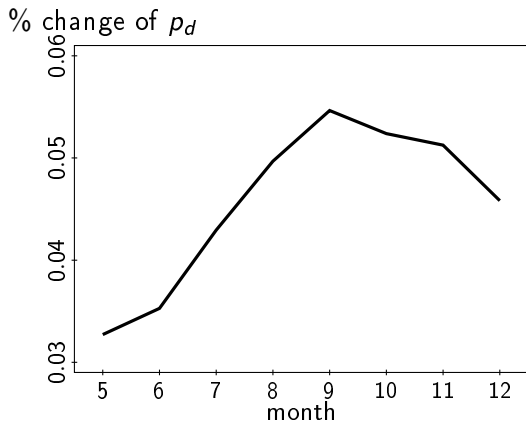
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ESTIMATES FOR T_1 

ESTIMATES FOR T_2 

CONCLUSION

3 p.p. decrease in VAT \rightarrow no change in prices

14 p.p. increase in VAT \rightarrow 3%-6% increase in prices