

**ESTIMATED IMPACTS OF VAT RATE CHANGES ON REGIONAL BUDGETS**

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**Abstract**

The study estimates an impact of the changes of VAT rates, most importantly to 15 and 21 percent as currently proposed by the government, on the VAT revenues at a national level and on revenues and expenses of the Zlín Region. The estimates of revenues are obtained using two methods. Both of them take into consideration that with a tax rate hike budget revenues grow less than proportionally, because people reduce consumption; transfer to merchandise with lower rates, more often shop abroad or resort to tax evasions. First, the QUAIDS model operates with price and income elasticities of consumer demand for a wide range of merchandise. Second, we use the concept of elasticity of the tax base with regards to tax rate changes. The reform currently being proposed, i.e. 15 and 21 VAT rates, will increase the state budget revenue by roughly 10-15 billion CZK, depending on the method. For comparison, a purely proportional revenue growth without a demand adjustment would add up to 17.3 billion CZK. With current tax assignment parameters, it represents a revenue growth of CZK 43-65 million for the Zlín Region. Furthermore, the study presents two estimates of the impacts on expenditures of the Zlín Region. The first method is based on an accounting principle. The second method approaches the problem from a macro perspective using national input-output tables and coefficients of purchase share of sectors taxed by a reduced VAT rate. As a consequence of the 15 and 21 VAT rates reform, the expenditures of Zlínský region will grow by CZK 19 – 22 million, depending on the method.

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[Download](#) the complete study (in Czech only).

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<sup>1</sup> The study was prepared for the use of the Economic Committee of Association of Regions (ERAK).

