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Agric. Econ. – Czech

Syrovátka P.

Effects of changes in the tax environment or the consumer demand for food

Agric. Econ. – Czech, 57 (2011): 350-355

The article describes in detail and applies the methodological approach to the conditions of the Czech markets; such an approach may be used in quantifying changes in the volume of consumer demand for food if the VAT rate or the physical persons' income tax rate are

changed. To define the percentage change in the consumer demand for food caused by changes in the VAT rate or in the physical persons' income tax rate, the differential-logarithmic model of the Marshallian demand function was applied: $dQ/Q \times 100 = \varepsilon \times [\ln(1 + v_1) - \ln(1 + v_0)] \times 100 + \eta \times [\ln(1 - \mu_1) - \ln(1 - \mu_0)] \times 100$. The general form of the dynamic demand model was adjusted to the conditions of the Czech final food market through the respective coefficient of the price elasticity (ε) and the income elasticity (η) as follows: $dQ/Q \times 100 = -0.514 \times [\ln(1 + v_1) - \ln(1 + v_0)] \times 100 + 0.583 \times [\ln(1 - \mu_1) - \ln(1 - \mu_0)] \times 100$. On the basis of the derived differential model, it may be stated that an increase in the VAT rate by 1 percentage point from the original rate (10%) would cause a decrease in the demand for food of an average Czech household by 0.4652%. In the case of an increase in the physical person's income tax by 1 percentage point from the original rate (15%), the demand for food of an average Czech household would decrease by 0.6899%. The achieved results show that the demand of Czech households for food responds more sensitively to changes in

the income tax. Quantification of the relative change in the consumer demand for food caused by the tax rate changes, especially the VAT tax rate change, is also useful for making estimates of the relative changes in demand functions within the respective agriculture and food