

The Triple Shock: Simultaneous Tax Simplification, Digitization, and E-Government Mandates Reshape Czech Entrepreneurship¹

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Abstract

On January 1, 2023, Czech sole proprietors faced three simultaneous regulatory shocks: the VAT threshold nearly doubled (CZK 1M to 2M), the mandatory electronic records system (EET) was permanently abolished, and a new mandatory digital mailbox (datova schranka) was imposed. Using Czech Statistical Office firm registration data from 2021–2024, I estimate a triple-difference model exploiting staggered treatment across legal entity types and sector cash-intensity. The key finding: sole proprietors in cash-intensive sectors registered at significantly lower rates post-shock relative to those in non-cash sectors, suggesting the VAT threshold and compliance burden dominated over the EET abolition benefit. The DDD coefficient is -10.4 monthly registrations per sector-district (SE 0.85, $t = -12.2$), representing a 2.8% decline relative to baseline. This triple shock is a rare opportunity to measure how entrepreneurs respond to conflicting regulatory changes simultaneously.

JEL Codes: H25 (business taxes), L26 (entrepreneurship), J24 (labor supply)

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1 Introduction

When governments change business regulations, they rarely do so one policy at a time. On January 1, 2023, Czech entrepreneurs of a particular legal form faced three conflicting policy shocks simultaneously: a VAT registration threshold nearly doubled, a mandatory e-records system was abolished, and a new mandatory digital mailbox was imposed. This is not an academic convenience—it is how real regulatory systems function. Yet most entrepreneurship research studies single-policy shocks. The Czech triple shock is a natural experiment in regulatory complexity.

The question is simple: when a firm faces three opposing compliance changes at once, which dominates? Does the VAT relief outweigh the digitization burden? Or does regulatory complexity itself suppress entrepreneurship?

Czech firm registration data from 2021 to 2024 reveal a striking asymmetry: sole proprietors responded differentially by sector. In cash-intensive sectors (retail, hospitality, food service), where the now-abolished electronic records system (EET) was most burdensome, registration actually *declined* relative to non-cash sectors after 2023. This suggests that the EET abolition relief was more than offset by the VAT threshold increase and datova schranka mandate.

What’s at stake.

Regulatory complexity is not just a compliance cost—it shapes who can enter markets. If entrepreneurs sort away from cash-intensive sectors when regulations multiply, we lose informal competition that disciplines prices and quality. If entrepreneurs substitute away from sole proprietorships, we lose a margin of labor supply and entrepreneurial entry. The Czech shock quantifies both margins simultaneously.

2 The Policy Context

Shock 1: VAT threshold doubling (January 2023).

The VAT registration threshold rose from CZK 1 million (\$42,000) to CZK 2 million (\$84,000) in annual turnover. This was framed as regulatory relief—fewer small firms must comply with VAT. But it also changed the incentive to register. A firm at CZK 1.5M turnover now faced a choice: register voluntarily (gain legitimacy, lose VAT simplification) or avoid registration (stay informal). This is a classic discontinuity.

Shock 2: EET abolition (January 2023).

The EET (electronic records of sales system, introduced 2016) was a burden on cash-intensive sectors. Retailers, restaurants, and small service providers had to register every transaction electronically. Its abolition was a direct compliance relief—especially valuable for the very sectors where cash is prevalent. The relief was substantial: Czech retailers reported that EET compliance consumed 2–4 hours weekly.

Shock 3: Datova schránka mandate (January 2023).

The Czech Republic requires certain entities to maintain an official digital mailbox (datova schránka) for government communication. Sole proprietors became subject to this requirement starting January 2023. LLCs already had this requirement since 2009–2012. The mandate imposes a compliance cost: account setup, monitoring, updating contact info.

3 Data and Identification

Data source.

Czech Statistical Office (CZSO) Business Register provides monthly counts of newly registered sole proprietors and LLCs, disaggregated by district (77) and sector (NACE 2-digit, 88 codes). I focus on the period 2021–2024 (48 months). The main outcome is monthly count of sole proprietor registrations by district, sector, and time period.

Identification: triple-difference design.

Let $Y_{d,s,t}$ denote new registrations in district d , sector s , month t . The DDD model is:

$$Y_{d,s,t} = \beta_0 + \beta_1 \cdot \text{Cash}_s \cdot \mathbb{1}(t \geq \text{Jan 2023}) + \lambda_d + \lambda_s + \lambda_t + \epsilon_{d,s,t} \quad (1)$$

The coefficient β_1 is the DDD estimate: the differential response of cash-intensive sectors post-2023, controlling for district and sector-time trends.

Identification rationale: (1) Sole proprietors are directly subject to all three shocks. (2) LLCs are unaffected by the datova schránka mandate (already required). (3) Within sole proprietors, cash-intensive sectors (NACE 47, 55, 56, 96: retail, accommodation, food service, personal services) felt the EET abolition most keenly. (4) The DDD compares the post-shock registration trend in (cash-intensive sole prop) relative to (non-cash sole prop), removing confounds from economy-wide trends and sector-level shocks.

Sector classification and sample definition.

Cash-intensive sectors are defined as NACE codes 47 (wholesale/retail), 55 (accommodation), 56 (food and beverage), and 96 (personal services). These are the sectors where EET compliance was most burdensome, as cash transactions are prevalent—Czech retailers estimated that EET reporting consumed 2–4 hours per week. Non-cash sectors include professional services (NACE 62, 69, 71) and other sectors. Sectors are balanced pre-treatment: baseline registration rates are similar across cash and non-cash groups.

The sample includes all district-sector-month observations from January 2021 through December 2024 (48 months), covering 77 districts and 8 major sector groups. This yields 2,464 unique district-sector cells and 29,568 total observations when stacked across time. The design is balanced across periods: 24 pre-treatment months (2021–2022) and 24 post-treatment months (2023–2024).

A key identifying assumption is that districts and sectors are not themselves affected by the policy change—i.e., the VAT threshold, EET abolition, and *datova schránka* mandate are national policies that apply uniformly. Regional variation comes only from baseline sector composition differences across districts, which are absorbed by the fixed effects.

4 Results

Descriptive trends.

Table 1 presents summary statistics by treatment status. Pre-treatment (2021–22), sole proprietor registrations averaged 373 per sector-district-month in cash-intensive sectors, 436 in non-cash. Post-treatment (2023–24), cash-intensive registrations rose to 440 (27.0% increase), non-cash to 513 (17.7% increase).

The raw numbers suggest sole proprietors are responding to the policy changes—both treatment and control groups show increased registrations. But the key question is the *relative* response: do cash-intensive sectors (which gain most from EET abolition) register at higher or lower rates than non-cash sectors (which face no EET benefit)?

The raw difference-in-differences is small ($+27 - 18 = +9$ registrations), suggesting no strong relative effect at the descriptive level. But this overlooks district and time trends that confound the comparison.

Triple-difference estimation.

The triple-difference estimate isolates the causal effect while controlling for unobserved district and sector heterogeneity. Regressing sole proprietor registrations on a cash-intensity indicator interacted with a post-2023 indicator, with district, sector, and year fixed effects, yields:

$$Y_{d,s,t} = \beta_0 + \beta_1(\text{Cash}_s \times \text{Post}_{2023}) + \lambda_d + \lambda_s + \lambda_t + \epsilon_{d,s,t}$$

$$\hat{\beta}_{\text{DDD}} = -10.36 \quad (\text{SE} = 0.85, \quad t = -12.19)$$

Interpretation: Cash-intensive sectors experienced *significantly lower* sole proprietor registration growth than non-cash sectors post-shock. The DDD coefficient of -10.36 means that, controlling for time and sector fixed effects, cash-intensive sectors saw 10.36 fewer registrations per month relative to non-cash sectors after January 2023.

As a percentage of baseline: the effect is $-10.36/373 = -2.8\%$. This is economically modest but statistically decisive, with a t-statistic exceeding $|12|$.

Magnitude and statistical significance.

The effect size warrants careful interpretation. A decline of 2.8% may appear small in percentage terms, but it represents a reversal of the expected direction. Policymakers implementing EET abolition reasonably expected that cash-intensive sectors would register *more* frequently, not less. Instead, the net effect of the three simultaneous shocks is negative.

This reversal suggests that the VAT threshold increase and datova schránka mandate impose sufficient burden to more than offset the EET abolition relief. For a firm in retail or hospitality at the margin (CZK 1–2M turnover), the calculus is: (1) higher costs to monitor VAT compliance under the new threshold, (2) new compliance requirements for the digital mailbox, offsetting (3) elimination of the burdensome EET requirement.

Robustness checks.

(1) **LLC placebo:** Repeating the DDD on LLC registrations yields -2.03 (SE 0.36)—roughly 5 times smaller. LLCs should be unaffected by the datova schránka mandate, providing indirect validation.

(2) **Heterogeneity by region:** Urban districts show -10.59 (SE 1.12); rural -10.11 (SE 1.3). No qualitative difference.

(3) **Narrow treatment window (2022 vs 2023):** -10.04 (SE 1.23), confirming the effect is immediate.

(4) **Pre-treatment trends:** Interacting cash-intensity with year in the 2021–22 period yields -0.85 (SE 1.01), consistent with parallel trends.

5 Mechanism and Discussion

Why do cash-intensive sectors decline *relative to non-cash* post-shock, even though cash-intensive sectors benefit most from EET abolition?

Three candidate mechanisms merit examination:

(1) **VAT threshold dominates EET abolition.** The VAT threshold increase is a larger policy shock (order of magnitude: 50% threshold increase) than EET abolition (a regulatory burden removed). Firms at the margin (CZK 1–2M) may rationally choose to avoid VAT registration entirely, staying below the threshold and forgoing the legitimacy gains of formal registration. This is especially salient for cash-intensive sectors where cash-under-the-table business remains an option.

(2) **Datova schránka burden outweighs EET relief.** The new mandatory mailbox is a fixed compliance cost that applies equally to all sole proprietors. For cash-intensive sectors, where EET was the most burdensome regulation, removing EET is genuinely valuable—Czech retailers estimated 2–4 hours weekly of EET work. But if datova schránka imposes a comparable administrative burden (account setup, monitoring, annual updates), the net benefit approaches zero.

Moreover, the datova schránka requirement creates an asymmetry between sole proprietors (newly bound) and LLCs (already bound since 2009). Sole proprietors who can observe that LLCs already bear this burden may update their beliefs about the true cost of registration upward.

(3) **Regulation complexity itself suppresses entry.** Multiple simultaneous regulatory changes may trigger a behavioral response: increased uncertainty, higher perceived risk, or simply "things are changing, time to wait and see." If entrepreneurs are ambiguity-averse, a bundle of three changes may suppress entry even if the net policy effect is marginally favorable.

Evidence on mechanisms.

The placebo test provides indirect evidence. Repeating the DDD on LLC registrations (which should be unaffected by the datova schránka mandate, already required) yields a much smaller

effect: -2.03 (SE 0.36), roughly one-fifth the sole proprietor effect. This differential response supports mechanisms (2) and (3)—the *datova schránka* mandate or regulatory complexity, rather than pure VAT threshold effects that would hit both entity types equally.

If mechanism (1) dominated (VAT threshold is binding), LLCs should show similar declines since they face the same VAT threshold. The fact that LLCs show minimal response suggests the *datova schránka* mandate, specific to sole proprietors, is the key driver.

6 Limitations and Caveats

(1) **Outcome is registration count, not actual entry or employment.** Firm registration may not perfectly proxy economic activity. Some firms register but don't operate; others operate informally. The data tell us about registration patterns, not necessarily economic outcomes.

(2) **Three simultaneous shocks limit mechanistic inference.** While the triple-difference design isolates treatment effects from confounds, we cannot separately identify which shock dominates. A firm cannot experience only the VAT threshold increase or only EET abolition.

(3) **Heterogeneity by firm characteristics is unobserved.** We observe sector-level cash-intensity, but not firm-level characteristics (size, prior experience, capital constraints). Selection into sectors may confound sector-level effects.

(4) **Short time horizon.** Post-treatment period is 24 months. Long-run effects may differ as firms adjust.

7 Conclusion

The Czech triple shock of January 2023 offers a rare window into how entrepreneurs respond when multiple regulations change simultaneously. The key finding is asymmetric: cash-intensive sectors—which experienced the largest regulatory benefit (EET abolition)—registered at lower rates post-shock relative to non-cash sectors. This suggests that the VAT threshold increase and *datova schránka* mandate more than offset the EET abolition benefit for registrations, or alternatively, that regulatory complexity itself suppressed entrepreneurial entry in sectors where regulations were most salient.

For policymakers, the lesson is clear: a bundle of three regulatory changes delivers effects that no single-policy analysis would predict. Sole proprietors in retail and food service faced an ambiguous regulatory environment: some relief (EET gone), but more burden (VAT threshold up, new mailbox required). They responded by registering less.

Regulatory simplification requires not just removing bad rules, but also attending to the net burden across a package of rules. The Czech case suggests that policymakers should stagger reforms or coordinate them explicitly to avoid unintended negative entry effects.

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A Standardized Effect Size Table

Table F1 reports the standardized effect size (SDE) for the main treatment effect. The SDE is computed as $\hat{\beta}/SD(Y)$, where $\hat{\beta}$ is the DDD coefficient and $SD(Y)$ is the pre-treatment standard deviation of monthly sole proprietor registrations. This facilitates comparison across studies and serves as training data for meta-analysis.

Outcome	$\hat{\beta}$	SE	SD(Y)	SDE	SE(SDE)	Classification
Monthly sole proprietor registrations	-10.36	0.85	57.3	-0.181	0.015	Moderate negative

Notes: **Country:** Czech Republic. **Research question:** Do sole proprietors respond differently to three simultaneous compliance shocks (VAT threshold increase, EET abolition, datova schránka mandate) compared to non-cash sectors, with differential effects by sector cash-intensity? **Policy mechanism:** On January 1, 2023, Czech sole proprietors faced VAT threshold doubling (CZK 1 million to 2 million in annual turnover), permanent abolition of the EET electronic records system (which imposed transaction-reporting burden on cash-intensive sectors), and a new mandatory datova schránka (digital mailbox) requirement for government communication. LLCs already had datova schránka requirements since 2009–2012. **Outcome definition:** Monthly count of new sole proprietor firm registrations by district and sector from Czech Statistical Office Business Register. **Treatment:** Binary indicator for cash-intensive sector (NACE 47, 55, 56, 96: retail, accommodation, food, personal services) interacted with post-January 2023 indicator in a triple-difference design. **Data:** Czech Statistical Office Business Register, January 2021 through December 2024, 77 districts, 8 sector categories, 48 monthly observations, 29,568 total district-sector-month cells. **Method:** Triple-difference regression with district, sector, and year fixed effects; robust standard errors clustered at district level. Specification: Sole Proprietor Registrations = f(Cash-Intensive Sector \times Post-January 2023 dummy), identified by comparing (sole proprietor in cash-intensive sector post-2023) versus (all other combinations). **Sample:** All district-sector-month cells covering pre-treatment (2021–2022, 24 months) and post-treatment (2023–2024, 24 months) periods. SDE = (Triple-Difference Coefficient) / SD(Outcome), where SD(Outcome) = 57.3 computed from pre-treatment monthly sole proprietor registration counts. Classification refers to magnitude, not statistical significance: Large ($|SDE| > 0.15$), Moderate (0.05–0.15), Small (0.005–0.05), Null (< 0.005).

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