

ALTERNATIVE STATUS TO BEING SELF-EMPLOYED

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Abstract

The aim of the paper is to determine the level of income of self-employed persons at which such persons lose the motivation to conduct business activities. Motivation is measured in terms of the income received by self-employed persons or by the attainment of the transition between being self-employed, employed and unemployed. One of the prerequisites for determining the degree of motivation to remain self-employed is the conviction that individuals always decide for the status that provides him/her with the highest level of profit or income. In order to most accurately determine the intensity of motivation, model calculations were performed of alternative income, especially social benefits, for individuals living in selected cities in the Ústí nad Labem (Ústecký) and Vysočina regions; the selection of these regions was based on the unemployment rate and the number of self-employed persons respectively. It was determined that the intensity of motivation to pursue entrepreneurial activity is largely influenced by active employment policy and other fiscal policy measures that are not directly related to entrepreneurial activity.

Keywords

Social Benefits, Self-Employed, Unemployment, Motivation to do Business

I. Introduction

Compared to other EU member states, the Czech Republic is characterised, inter alia, by a large proportion of self-employed persons in the active population. While the share of self-employed persons in the economically active population of the EU-15 in the last six years has varied between 12.3% and 12.4%, the proportion in the Czech Republic has ranged from 18% to 19%², i.e. around one million self-employed persons, who occupy a specific position not only in society, but also in relation to the social system, etc. and who, in a similar way to other labour market actors, make decisions on the basis of a wide range of motivational factors.

One important aspect consists of the overall determination of the motivation to conduct and, particularly, to initiate and continue self-employed business activities. Both Czech and foreign authors often discuss the theme of motivation in terms of age, level of education, the occupations of parents, etc.³. However, motivation can also be defined by alternative sources of income to being self-employed, such as income provided by remaining in an employment position or being unemployed.

The aim of the paper is to determine the level of income of self-employed persons at which such persons lose the motivation to conduct business activities.

In this paper, the motivation to assume self-employed status is observed from the perspective of the amount of alternative income available to a given individual, or the income which a self-employed person loses or gains through the transition from being self-employed to being employed or unemployed, i.e. through a change in occupation status.

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² Czech Social Security Administration (2017a) and author's own calculations.

³ Yasuda, (2004).

The reason for selecting the above-mentioned measurement method consists of the strong connection between self-employed status and employee and unemployed status. Self-employed persons are not made up solely of ambitious individuals who wish to have their own business and have the appropriate skills to do so, but also individuals who are forced to set up a business due to their current situation. The reason for this may consist of redundancy due to the restructuring of the employer company and the resulting difficulty in finding another employment position⁴. This factor is further reinforced by current employment policy, namely Section 113 of the Employment Act, which authorises Labour Offices of the Czech Republic to provide financial subsidies for socially useful jobs created for the purpose of self-employment. This can be defined as a position created by a job seeker for the purpose of self-employment. For example, with respect to 2016, the maximum amount of the subsidy was CZK 151,074 for the first year of business. It is, clearly, debatable whether it is possible for unemployed persons to successfully transform themselves into the self-employed role, especially when such individuals start to do business in a new area of expertise following re-training and concerning which they have little or no experience.

One of the prerequisites for defining motivation for entrepreneurial activity consists of the conviction that if the alternative use of the work of an individual results in a higher income, then the individual will lose the motivation to do business. In the event that such an individual nevertheless decides to stay in business, he/she is not maximising his/her income.

The paper is divided into several logically sequential parts. The literary research is covered first in order to present a more global overview of the issue in question. This is followed by a definition of self-employed persons, including information on the current situation of the self-employed in the Czech Republic. Subsequently, the paper focuses on a description of the model employed in order to determine the amount of income at which self-employed persons lose the motivation to conduct business. This is followed by the determination of the amount of such income based on the model calculations.

II. Literature review

As stated in the introduction to this paper, the issue of entrepreneurship and, more exactly, the motivation to be an entrepreneur, has been widely addressed both in the European Union and worldwide contexts.

In general, the motivation to become an entrepreneur is considered to be the result of a psychological construction, and the main explanatory factor consists of an individual's ability to mobilise him/herself in the pursuit of his/her goals. The conceptual approach to entrepreneurial motivation has its origins in the discussion of motivational theory which, in turn, has its roots in psychological and management research⁵.

Of the member states of the European Union, Germany is the country in which the relationship between unemployment and entrepreneurial activity has been most discussed by the professional community. However, German authors have tended rather to analyse the differences in decisions concerning employment of workers employed by self-employed persons who themselves started their own businesses due to having been made unemployed⁶.

With regard to economic development and the economic crisis, pressure grew to form an understanding of the influence of rising unemployment rates on abandoning self-employed status and acquiring the status of employee. The relationship between rising unemployment rates and the

⁴ Veber et al. (2016).

⁵ Segal, Borgia, Schoenfeld (2005), Lee (2001), Kark and Van Dick (2007), McClelland, (1961).

⁶ Niefert (2010).

probability of abandoning self-employed status was demonstrated by the results of an analysis concerning Poland⁷.

A certain trend has also been identified concerning the appeal of women to become entrepreneurs and their motivation to do business⁸.

The literature search and the afore-mentioned results of this study, clearly indicate that the issue of the motivation, barriers and decision-making processes concerning entrepreneurial activity is influenced by a number of factors. Thus, the findings have increased the appeal to research this issue.

III. The situation and definition of the concept of self-employed person in the Czech Republic

The precise definition of entities designated as self-employed persons can be found in Act No. 155/1995 Coll., on Pension Insurance, as amended. This Act considers self-employed persons as those who:

- performs self-employment activities, or
- pursues self-employment in accordance with Act No. 586/1992 Coll., on Income Tax, as amended, where it is possible to divide the income gained from the performance of this activity and the expenses incurred in the achievement, securing and maintaining of the activity,
- has completed compulsory education and has reached at least 15 years of age.

Further, the current legal system in the Czech Republic allows for self-employment either as the main or secondary activity, or as the main and, at the same time, secondary activity. The performance of independent business activities is split in terms of the assessment base. If the same assessment base were applied to all self-employed persons, a number of deductions would be duplicated. Therefore, the system differentiates between persons for whom the self-employed business forms their main activity and those for whom the self-employed business forms their secondary activity.

The following categories of self-employed persons are important for the purposes of this paper:

- **Persons for whom a self-employed business forms their main activity**
The business of the self-employed person forms his/her main working activity; his/her responsibilities include participation in the health and social insurance systems. Participation in the sickness insurance scheme is voluntary.
- **Persons for whom a self-employed business forms their secondary activity**
Conducting a business in the form of a secondary activity is considered to be supplemental to earnings from employment. The profits gained by such persons are treated favourably from the point of view of deductions. Some of the advantages are logical, for example the contribution to the social insurance system is covered by the employment relationship; thus, it is not required that social insurance contributions be paid from the secondary activity up to a certain amount of the assessment base.

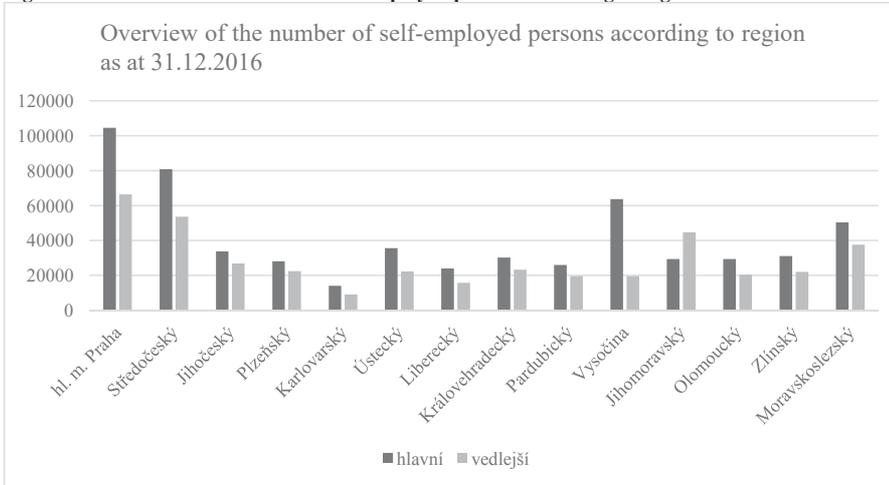
As shown in Figure 1, the largest number of persons for whom self-employment makes up their main activity is found in the capital city, Prague. The second region in terms of the number of self-employed people is the Středočeský (Central Bohemia) region. This is perhaps not surprising; Prague and Central Bohemia are very specific locations from the business point of view. Moreover,

⁷ Rokicka (2016).

⁸ Sharafizad and Coetzer (2016).

Prague is also the region with the largest population. The situation in the Vysočina (Central Highlands) region, however, is somewhat surprising; while it is the Czech Republic’s second smallest region in terms of number of inhabitants, it is in third position with respect to the number of self-employed persons. Therefore, the modelling situation with respect to motivation to do business will consider three cities selected from the Vysočina region, i.e. Jihlava, Třebíč and Havlíčkův Brod.

Figure 1 Overview of the number of self-employed persons according to region as at 31.12.2016

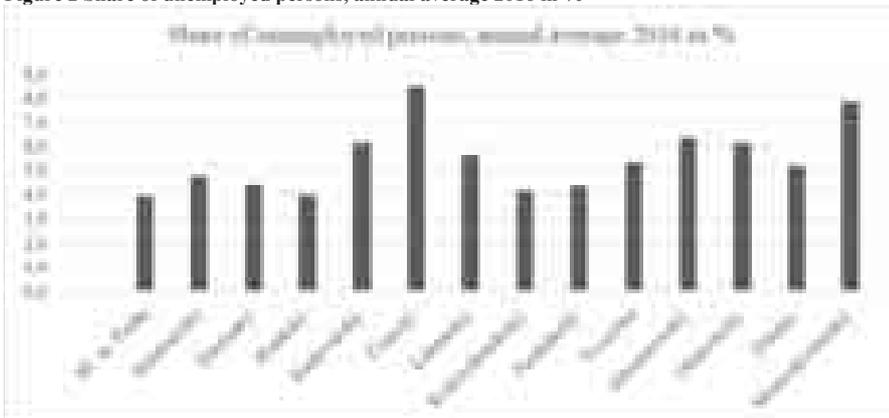


hlavní – main activity, vedlejší – secondary activity

Source: Taken from Czech Social Security Administration (2017b), graph compiled by the author

From the information on the proportion of unemployed persons in individual regions in 2016 shown in Figure 2 below, it is clear that the Ústí nad Labem region has the largest percentage of unemployed, followed by the Moravskoslezský and Jihomoravský regions. Therefore, the second region considered in the model calculations consists of the Ústí nad Labem region, with the research concentrating on the region’s three largest cities, namely Ústí nad Labem, Most and Teplice.

Figure 2 Share of unemployed persons, annual average 2016 in %



Source: Taken from: Integrated portal of the Ministry of Labour and Social Affairs of the Czech Republic (2017a).; graph compiled by the author

IV. Model situation and the determination of the influence of alternative income on the loss of self-employed status

In order to determine the motivation for conducting entrepreneurial activity from the perspective of alternative sources of income, it is necessary to determine a specific model situation. For the purposes of this paper, the model situation of an individual who has no dependent children, spouse or registered partner and lives alone in a rented apartment is considered with respect to determining the limit of motivation for self-employment. Alternative income calculations were compiled for the above-mentioned cities in the Ústí nad Labem and Vysočina regions.

The reason for choosing such criteria is that in such a case a given individual takes into account only his/her needs and not those of a partner or dependent children, i.e. other people who might distort the determination of risk and whose influence is difficult to measure.

Moreover, the more detailed description of an individual would create an obstacle to correctly determining the situation of self-employed status and employed and, especially, unemployed persons, i.e. with respect to the exact calculation of the amount of social benefits received.

Self-employed status

The core question was to define a successful self-employed person in terms of income or profit. Self-employed persons in the Czech Republic are subject to unified income tax; therefore, it is not possible to distinguish among self-employed persons according to the level of taxes.

Self-employed persons may or may not be value added tax (VAT) payers. VAT is payable by the entity in the case in which turnover in the twelve previous consecutive calendar months is higher than CZK 1,000,000.⁹ The relevant threshold for determining the success, and subsequently determining the risk of losing self-employed status, consists of comparing the income of the business with the average income in the economy. In the Czech Republic in 2016 the average gross income was CZK 27,000 (Czech Statistical Office (CZSO) – average wages), i.e. a net average monthly wage of CZK 20,670. However, it is not possible to use this national value for the modelling of an individual's motivation to do business. In order to minimise distortion, therefore, it is necessary to take into account the average level of the average monthly wage in individual regions. According Czech Statistical Office (2017b) In 2016, the average gross wage stood at CZK 25,258 in the Ústí nad Labem region and CZK 25,222 in the Vysočina region.

However, it follows that self-employed persons should receive an income from their business activities which is in excess of the average employee income. This is due not only to the additional costs related to running the business, which employees do not pay, but also to the higher overall psychological burden or risk of damage to prestige in the event of the business failing¹⁰. Additional costs include, for example, the additional bureaucratic burden placed on entrepreneurs, as highlighted by the Ministry of Industry and Trade of the Czech Republic¹¹.

For the above reasons, it is reasonable to define a successful self-employed person as an individual whose income from his/her business is at least twice the average income in the given economy.

Employed status

In addition to doing business, dependent activity, i.e. employment makes up the second option for an individual to use his human capital. The relationship and distinction between self-employment and employment have been discussed extensively in economic theory. From the theoretical economy, for example, both the theory of exploitation due to the private ownership of the means of production and the situation in which the ownership class forces the non-ownership class to work

⁹ Act No. 235/2004 Coll. on Value Added Tax

¹⁰ Veber, Srpová et al. (2012)

¹¹ Ministry of the Interior of the Czech Republic (2009)

for it, thereby exploiting it¹² are considered. However, for the purposes of this paper, only the choice between the status of self-employed person and that of employee is considered the key factor.

In the case of the choice between employment and self-employment, it is important for a given individual to consider the taxation of his/her work. A trend towards a differentiation in terms of the level of taxation of self-employed persons and employees has been evident in the Czech Republic since 1993, in which year the amount of employee income tax paid stood at CZK 24,781 million and that paid by self-employed persons was CZK 3,486 million. While the total amount of employee income tax received increased by more than six times between 1993 and 2016, the total amount of income tax paid by self-employed persons increased by less than two times in the same period¹³.

When calculating income tax, self-employed persons are entitled to choose between the options of 15% taxation on income following the deduction of business costs incurred, and the same rate of taxation following the application of a flat-rate cost deduction, which may be as high as 80% depending on the nature of the business performed. Employee income tax, however, is calculated from the rounded so-called super-gross wage that serves as the tax basis, followed by the determination of 15% of the tax basis, which provides the amount of the tax pre-payment (PAYE) prior to the deduction of tax allowances.

On the other hand, it is important to remember that, in comparison to self-employed persons, employees are not subject to the afore-mentioned additional expenses and, at the same time do not put up their property assets as loan collateral as do many self-employed persons.

Unemployed status

If an economically active individual is neither self-employed nor employed, he/she falls under the status of unemployed.

The total number of unemployed persons in the Czech Republic in 2016 stood at 192.5 thousand; a decrease of 44.4 thousand persons compared to the previous year¹⁴. The reduction in the number of unemployed was also reflected in overall State revenues in the form of increased income tax receipts.

In order to obtain the most realistic output from the model calculations of the amount of social benefits, unemployed persons who no longer receive unemployment benefits and are, therefore, in receipt of social benefits are considered. Revenue in the form of social benefits represents a significant alternative income, especially when one takes into account the fact that most entrepreneurs make a profit (net income) that corresponds to no more than the minimum wage¹⁵.

If the income of self-employed persons is below the level of social benefits, then it is logical that such individuals will abandon their business and adopt the status of unemployed. The question remains, however, as to what specific level of income is involved; the answer to this question is provided by the model calculations compiled in this paper.

The model situation takes into account entitlement to the housing allowance as well as the two material needs benefits, i.e. the subsistence allowance and the housing supplement. The housing allowance contributes towards the costs of housing for families and individuals on low incomes¹⁶. The subsistence allowance makes up the basic material needs assistance benefit, which aims to help individuals or families with insufficient income; the second material needs benefit (the housing

¹² Marx (1954)

¹³ Financial Administration (2017)

¹⁴ Czech Statistical Office (2017a)

¹⁵ Průša, Baštyř, Brachtl and Vlach (2008)

¹⁶ Integrated portal of the Ministry of Labour and Social Affairs of the Czech Republic (2017b)

supplement) addresses a lack of income to cover housing costs in cases where the income of individuals or families including the housing allowance from the State social support system is insufficient¹⁷.

For the sake of completeness, unemployed person status in this paper is taken to mean persons unemployed over the long term who are no longer entitled to claim the unemployment benefit.

Other options – a combination of employment, self-employment and the shadow economy

The current system allows individuals to assume other statuses than self-employed, employed or unemployed. It is possible to both choose between statuses and combine them. The current legal system of the Czech Republic allows for the combination of employment and entrepreneurship, i.e. a situation wherein the business activity is secondary to employment. Thus, in addition to regular employment, individuals conduct business activities. In this case, it is possible to assume the substitution of free time by business activities, i.e. increased income at the expense of more free time. A certain modification of this status consists of the so-called schwarz-system, i.e. a situation wherein self-employed persons work exclusively for one company using the tools of the company to perform the work. This form of activity is illegal due to the reduction in tax liability, etc.¹⁸

A further option consists of the moving of self-employment into the shadow economy, i.e. the conducting of unreported or unregistered business activities in order to avoid paying taxes. This activity may arise in the context of self-employment, employment and unemployment where the individual is claiming unemployment or social benefits. However, as with the schwarz-system this activity is illegal and punishable under the criminal code; therefore, these statuses are not included in the modelling.

V. Determining the amount of income at which self-employed persons lose the motivation to do business

In order to determine the amount of income at which self-employed persons lose the motivation to conduct business activities, an analysis was conducted of the income levels of the statuses that self-employed persons can acquire through conducting activities other than entrepreneurship.

From the point of view of income or profit, as mentioned previously, the most successful self-employed persons are those whose income from their business activities is more than twice the average net wage. Thus, if the income of self-employed persons is higher than twice the average net wage, the motivation to continue business activities is highest. Thus, for the Ústí nad Labem region the amount is CZK 38,782, and for the Vysočina region CZK 38,894.

If the income of self-employed persons oscillates between twice the average net wage and the average net wage, the motivation to work may decrease. In this case, the self-employed individual would have to consider the risks associated with doing business in comparison with the social certainty the/she would enjoy as an employee. It is important to note that the relative freedom and flexible working hours inherent in conducting one's own business play a further significant role in this context. Conversely, the self-employed individual could theoretically secure an employment position which ensures the same income and, at the same time, free him/herself from the time demands associated with running the business.

The amount of the income threshold at which the motivation to be self-employed becomes highly questionable from the point of view of alternative income consists of the average net wage and the highest achievable level of social benefits, i.e. a threshold of CZK 19,670 for the Vysočina region

¹⁷ Ministry of Labour and Social Affairs of the Czech Republic (2017a)

¹⁸ Veber, Srpová et al (2012)

and CZK 19,391 for the Ústí nad Labem region in the case of employment and CZK 11,014 in the case of unemployment and claiming social benefits.

If a self-employed person achieves a monthly income in the amount of the average net wage in the Czech Republic or less, it is irrational to continue to conduct business activities since the alternative income from employment may be the same or even higher, depending on the sector in which the self-employed person chooses to work. The rational reason for remaining self-employed in this case consists of time flexibility and a certain level of independence stemming from the nature of running the business.

It is interesting to note here that a modelled individual living in the cities of Třebíč or Havlíčkův Brod is entitled to claim the housing allowance if his/her monthly income is equal to or below CZK 16,263 or when his/her income is below 60% of the average gross income in the Vysočina region. A similar situation was also identified with respect to the Ústí nad Labem region, namely in the cities of Ústí nad Labem and Most, where a modelled individual acquires a claim to the housing allowance if he/she has a monthly income of CZK 19,114 or less, as presented in Tables 1 and 2 below and graphically presented in Figures 3 to 6. The difference in the amount of the housing allowance is determined by the method used for calculating this benefit. The key criterion concerning the calculation consists of the normative housing costs associated with rented properties, which are determined by law according to the number of inhabitants, regardless of the geographical location of the city and other factors.

Given that 70% of employees receive remuneration below the average income, it is clear that a substantial proportion of the Czech population is entitled to the housing allowance.

Table 1 Amount of entitlement to social benefits for a modelled individual in selected cities of the Vysočina region

income	Jihlava				Třebíč and Havlíčkův Brod			
	Entitlement to the housing allowance	Entitlement to the subsistence allowance	Entitlement to the housing supplement	total	Entitlement to the housing allowance	Entitlement to the subsistence allowance	Entitlement to the housing supplement	total
0	4835	3410	2769	11014	3973	3410	3631	11014
504	4835	3164	2512	10511	3973	3163	3374	10510
1008	4835	2917	2255	10007	3973	2916	3117	10006
1347	4835	2671	2082	9588	3973	2750	2944	9667
1686	4835	2424	1909	9168	3973	2584	2771	9328
...								
3720	4349	945	965	6259	3880	1587	1827	7294
4059	4198	699	894	5791	3778	1421	1756	6955
4398	4047	452	822	5321	3677	1255	1684	6616
4737	3896	206	751	4853	3575	1089	1613	6277
5076	3745	0	680	4425	3473	923	1542	5938
...								
6771	2991	0	324	3315	2965	92	1186	4243
7110	2840	0	179	3019	2863	0	1041	3904
...								
8466	2236	0	0	2236	2456	0	92	2548
8805	2086	0	0	2086	2355	0	0	2355
...								
13212	124	0	0	124	1032	0	0	1032
13551	0	0	0	0	931	0	0	931
...								
16263	0	0	0	0	117	0	0	117
16602	0	0	0	0	0	0	0	0

Source: Author's own calculations

In the case in which the monthly income of a self-employed person is the same or lower than the amount of social benefits available, then, clearly, the alternative income to being self-employed is higher than income from business activities. If such self-employed persons decided to continue in this role, it would no longer be possible to talk about rational choice. The motivation for entrepreneurial activity, therefore, completely evaporates once this income threshold is reached. The key amount in this respect consists of the amount of social benefits available, i.e. CZK 11,014.

The calculation of social benefits in the case of not conducting business activities, i.e. in the case of assuming unemployed status, further indicates that the social benefits available are higher than the minimum wage by a total of CZK 1,114. Thus, the amount of social benefits payable represents a strongly demotivating factor in the case of both entrepreneurship and employment with remuneration at the level of the minimum wage.

The amount of the minimum wage, as with the amount of social benefits available, therefore provides an important milestone in terms of the decision to start a business not only in the Czech Republic but also in other countries of the European Union. It is necessary to point out that not all European Union countries have a statutory minimum wage in place. Moreover, individual countries apply differing income tax models both for the self-employed and employees. In addition, there is significant diversity with concern to social benefits systems. This diversity renders it impossible to define motivation for doing business according to the amount of alternative income via the application of the model used herein for other EU member states and countries worldwide.

Table 2 Amount of entitlement to social benefits for a modelled individual in selected cities of the Ústí nad Labem region

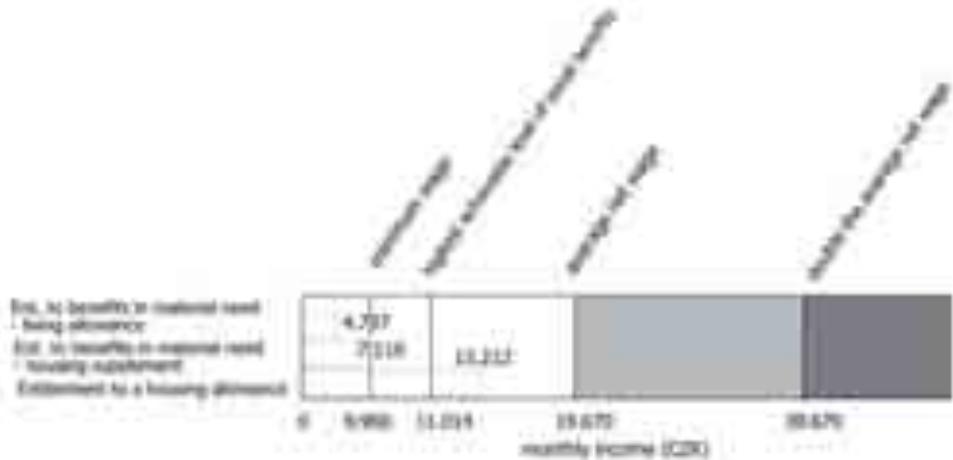
income	Ústí nad Labem and Most					Teplice			
	Entitlement to the housing allowance	Entitlement to the subsistence allowance	Entitlement to the housing supplement	total		Entitlement to the housing allowance	Entitlement to the subsistence allowance	Entitlement to the housing supplement	total
0	4835	3410	2769	11014		3973	3410	3631	11014
503	4835	3164	2512	10511		3973	3164	3374	10511
1006	4835	2917	2256	10008		3973	2917	3118	10008
1509	4835	2671	1999	9505		3973	2671	2861	9505
...									
5533	4198	699	584	5481		3336	699	1446	5481
6036	4047	452	479	4978		3185	452	1341	4978
6539	3896	206	376	4478		3034	206	1235	4475
7042	3745	0	226	3971		2883	0	1088	3971
7545	3585	0	0	3585		2733	0	736	3469
8048	3444	0	0	3444		2582	0	384	2966
8551	3293	0	0	3293		2431	0	0	2431
...									
15090	1331	0	0	1331		469	0	0	469
15593	1180	0	0	1180		318	0	0	318
16096	1029	0	0	1029		167	0	0	167
16599	878	0	0	878		0	0	0	0
17102	727	0	0	727		0	0	0	0
...									
19114	124	0	0	124		0	0	0	0
19617	0	0	0	0		0	0	0	0

Source: Author's own calculations

The decision-making process concerning the option to assume the status of self-employed on the basis of alternative income or income from social benefits is particularly relevant for those self-employed who have been forced into doing business by the asymmetry of supply and demand in the labour market or due to their particular family situation, etc. It can be assumed that such individuals find it difficult to find work as employees. The situation in this respect is reinforced by current active employment policy, for example with concern to Section 113 of the Employment Act, which allows Labour Offices of the Czech Republic to financially subsidise socially useful job positions

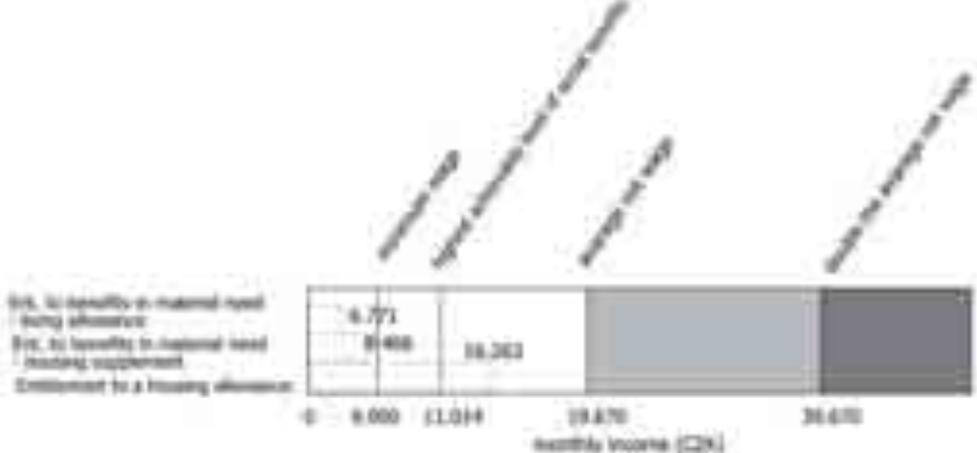
created for the purpose of self-employment. This can be defined as a work position created by a job seeker for the purpose of self-employment. For example, in 2016, the maximum amount of the subsidy was CZK 151,074 for the first year in business. It is, however, debatable whether it is possible for unemployed persons to successfully adapt to self-employment, especially in cases in which such individuals start to do business in a new area following a re-training programme and have no practical experience of such work.

Figure 3 Alternative Income to Self-Employment, Jihlava 2016



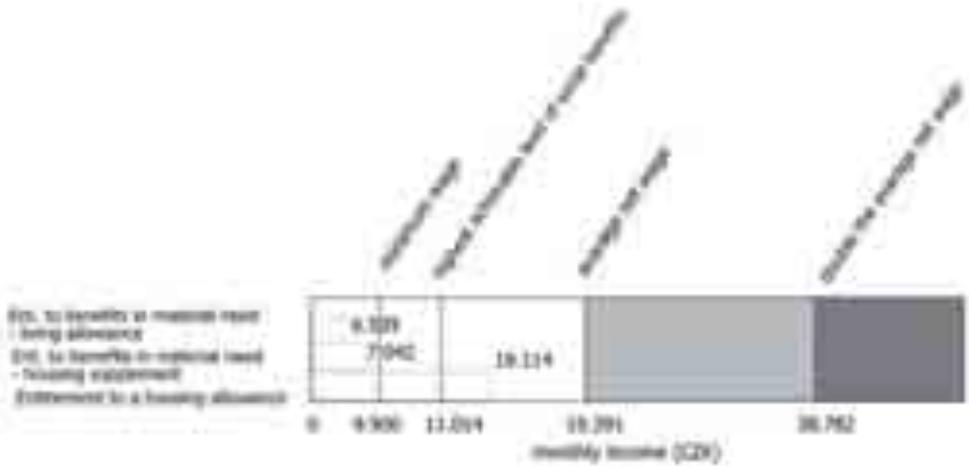
Source: Author's own calculations

Figure 4 Alternative Income to Self-Employment, Třebíč and Havlíčkův Brod 2016



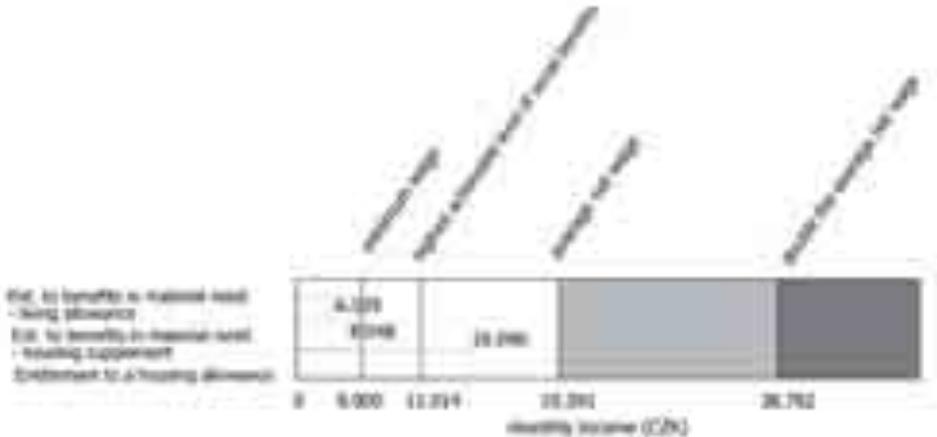
Source: Author's own calculations

Figure 5 Alternative Income to Self-Employment, Ústí nad Labem and Most 2016



Source: Author's own calculations

Figure 6 Alternative Income to Self-Employment, Teplice 2016



Source: Author's own calculations

Table 3 illustrates the total number of financially-supported socially useful self-employed job positions. In the cities monitored in the Ústí nad Labem region, 891 positions were supported under the active employment policy programme in 2016; in the Vysočina region, the number of such positions was nearly double, i.e. 1680. When one takes into account the unemployment rates in these two regions, it is perhaps surprising that such a low number of such positions was supported by the Labour Office of the Czech Republic in the largest cities monitored in the Ústí nad Labem region, compared to the number of supported positions in the Vysočina region.

Table 3 Socially useful employment – self-employment; the placing of applicants in 2016 (registered at the end of individual months)

	Number of supported self-employed in 2016
Ústí nad Labem region	
Most	305
Teplice	223
Ústí nad Labem	363
total	891
Vysočina region	
Havlíčkův Brod	568
Třebíč	745
Jihlava	367
total	1680

Source: Ministry of Labour and Social Affairs of the Czech Republic (2017b).

This form of business support can positively influence the rate of unemployment in a given area, but only over the short term. It is highly debatable whether such individuals are able to continue doing business once the financial support is no longer provided. If they really do have the skills to successfully do business, it can reasonably be assumed that they would have started their own businesses earlier than at the time they acquired the status of unemployed person, which entitles them to claim the benefit once the various conditions have been fulfilled.

IV. Conclusion

This paper focused on defining the motivation to become self-employed with respect to alternative sources of income. An alternative source of income was defined as income resulting from assuming a status other than that of self-employed. The alternatives considered were employee, unemployed person and unemployed person working illegally. Alternative income is therefore defined in terms of a change in the status of a monitored individual.

The important prerequisite for determining the degree of motivation to remain self-employed consists of the assumption that an individual will always decide on the status that provides him/her with the highest profit or income.

In order to determine this motivation to retain self-employed status, it was necessary to identify a specific model situation; thus, the paper considers the model situation of an individual who has no dependent children, spouse or registered partner and who lives alone in a rented apartment in selected cities of the Ústí nad Labem and Vysočina regions. The reason for choosing such criteria was that in such a case the individual takes into account only his/her individual needs and not those of a partner or children, i.e. other persons who might distort the determination of the degree of risk and whose impact would be difficult to measure. The selections of the two said regions was not random; the Vysočina region was chosen mainly as a result of the number of self-employed persons in the region compared to other regions and, while the Vysočina region is the second smallest region in the Czech Republic in terms of population, it is in third position with respect to the total number of persons for whom their self-employment makes up the main work activity. The model situation, therefore, considered selected cities in the Vysočina region, i.e. Jihlava, Třebíč and Havlíčkův Brod from the point of view of motivation to do business. The Ústí nad Labem region was selected due to its having the highest proportion of unemployed persons in the monitored year 2016. In this case the model calculations considered the three largest cities in the region, i.e. Ústí nad Labem, Most and Teplice. The criterion of selecting a region based on the unemployment rate

is closely related to the logic of defining the motivation to conduct business activities by means of the alternative statuses that self-employed persons might assume, i.e. those of employed or unemployed.

Such a detailed definition of modelled individuals was, at the same time, crucial in terms of the accurate determination of the situation of individuals with self-employed status, employees and, especially, the consideration of the status of unemployed, i.e. concerning the precise calculation of the amount of social benefits.

In terms of income or profit, the most successful and most motivated self-employed persons were defined as those whose income from their business was more than twice the average net wage, i.e. CZK 38,782 for the Ústí nad Labem region and CZK 38,894 for the Vysočina region.

Should the income of self-employed persons oscillate between twice the average net wage and the average net wage, the motivation to retain self-employed status may decline. In this case, self-employed individuals would have to consider the risks associated with doing business as compared with the social certainty they would gain as employees. It is, however, important to take into consideration here the significant role played by the freedom and flexible working hours associated with running one's own business. The level of the income threshold at which the motivation to be self-employed is questionable from the point of view of alternative income consists of the average net wage and the highest achievable amount of social benefits claimable, i.e. net wage levels of CZK 19,670 for the Vysočina region and CZK 19,391 for the Ústí nad Labem region and CZK 11,014 with respect to the right to entitlement to social benefits.

If a self-employed person receives a monthly income in the amount of the average net wage or less in the Czech Republic, it is no longer rational to continue in business since the alternative income from employment is the same or even higher than being self-employed, depending on the sector in which the entrepreneur works. Conversely, rational reasons for remaining self-employed include independence stemming from the nature of the business activity, savings with respect to tax and other deductions, etc.

It is interesting to note that a modelled individual who lives in Třebíč or Havlíčkův Brod is entitled to claim the housing allowance if his/her monthly income is CZK 16,263 or less, or if his/her income is 60% or less of the average gross income in the Vysočina region. The situation was found to be similar in the Ústí nad Labem region, namely in the cities of Ústí nad Labem and Most, with respect to which a modelled individual is entitled to claim the housing allowance at a level of monthly income of CZK 19,114 or less. Given that 70% of employees in the Czech Republic earn less than the average income, a surprisingly substantial proportion of the population of the Czech Republic is entitled to claim the housing allowance.

In the case where the monthly income of self-employed persons is the same or lower than the amount of social benefits claimable, then the alternative income to self-employed status is higher than that achievable through running a business. In this case, if a self-employed person retained this status, it would no longer be possible to talk about making a rational choice. Motivation to be self-employed is, therefore, completely lost once this income threshold is reached, i.e. the amount of social benefits available – CZK 11,014.

The calculation of social benefits in the case of not being self-employed, i.e. in the case of assuming unemployed status, further shows that the social benefits available exceed the minimum wage by a total of CZK 1,114. Thus, the amount of social benefits attainable represents a considerable demotivating factor with respect to both doing business and being employed and receiving remuneration in the amount of the minimum wage.

Therefore, the amount of the minimum wage, as well as the amount of social benefits claimable, represent important milestones in terms of deciding whether or not to continue doing business.

The modelling conducted focusing on the motivation to be self-employed in the context of alternative income points to the possible impacts of fiscal policy decisions, especially that of active employment policy which, while it may not be directly related to entrepreneurship, does exert a considerable influence on the self-employed business environment.

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