

Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis

**Tax evasion and its prevention in the field of VAT and
Income Tax in the Czech Republic**

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DIPLOMA THESIS ASSIGNMENT

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Thesis title

Tax evasion and its prevention in the field of VAT and Income Tax in the Czech Republic

Objectives of thesis

The diploma thesis deals with the issue of tax evasion in the field of Value Added Tax and Income tax in the Czech Republic. The aim of the diploma thesis is to determine the types of tax evasion and to propose such measures that will lead to the elimination of tax evasion for Value Added Tax and personal and corporate Income tax. It examines cooperation and communication between the financial administration, other authorities and state bodies of the Czech Republic.

Methodology

The diploma thesis is divided into two parts. The theoretical part describes Value Added Tax and Income tax. It classifies and explains the types of possible tax evasion for both taxes and tools to prevent the tax evasion. The practical part is focused on demonstrative calculations on tax subjects according to practical examples about Value Added Tax and Income taxes and based on the calculated examples the creation of an analysis of the possibilities eliminating the tax evasion. The diploma thesis works with the data of the Financial Administration of the Czech Republic and the Police of the Czech Republic for the calendar years 2015 to 2019.

The proposed extent of the thesis

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Keywords

VAT, Income tax, criminal proceedings, tax evasion, tax fraud, Electronic Registration of Sales, control statement

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PEKOVÁ, Jitka. Veřejné finance: úvod do problematiky. 4., aktualiz. a rozš. vyd. Praha: ASPI, 2008. ISBN
978-80-7357-358-4.

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Declaration

I declare that I have worked on my diploma thesis titled "Tax evasion and its prevention in the field of VAT and Income Tax in the Czech Republic" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break any copyrights.

In Prague on 24th March 2021

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Tax evasion and its prevention in the field of VAT and Income Tax in the Czech Republic

Abstract

The diploma thesis examines and evaluates the issue of tax evasion and its prevention in the field of VAT and income tax in the Czech Republic. Tax evasion encroaches on two different disciplines, economics and law. The main aim of the diploma thesis is to determine the types of tax evasion from the tax and criminal point of view, and to clearly show the different approach to the method of calculating damage and subsequent imposition of sanctions. Emphasis is also placed on observing communication and cooperation between the Police of the Czech Republic and the Financial Administration of the Czech Republic, who are actively involved in the fight against tax evasion. Tax evasion continues to increase, although there are many tools to prevent and detect tax evasion by the Financial Administration, the Police and other state institutions.

Demonstrative calculations of the amount of damage from practical examples of VAT and income taxes (natural and legal persons) are used in determining the issue, and analysis of individual cases is made on the basis of valid laws. Furthermore, a time series analysis with a linear trend and subsequent prediction of the number of detected tax evasion for the period from 2010 to 2021 is created. Finally, a proposal is submitted to improve the prevention and elimination of tax evasion in the Czech Republic.

Keywords: VAT, Income tax, Czech Republic, criminal proceedings, tax evasion, tax fraud, Electronic Registration of Sales, control statement

Daňové úniky a jejich zamezování v oblasti DPH a daní z příjmů v České republice

Abstrakt

Diplomová práce zkoumá a vyhodnocuje problematiku daňových úniků a jejich zamezování v oblasti DPH a daně z příjmů v České republice. Daňové úniky zasahují do dvou různých oborů, a to ekonomie a práva. Hlavním cílem diplomové práce je určit druhy daňových úniků z pohledu daňového a trestního, dále názorně ukázat rozdílný přístup ke způsobu výpočtu škody a následné uvalení sankcí. Kladen důraz je také na pozorování komunikace a spolupráce mezi Policií České republiky a Finanční správou České republiky, kteří jsou do boje proti daňovým únikům aktivně zapojeni. Daňových úniků stále přibývá, přestože existuje mnoho nástrojů zamezujících a odhalujících daňové úniky, putujících ze strany jak finanční správy, tak i policie a dalších státních orgánů.

Při určování problematiky je využito demonstrativních výpočtů výše škody z praktických příkladů na DPH a daních z příjmů (fyzických i právnických osob) a na základě platných zákonů je vytvořena analýza jednotlivých případů. Dále je vytvořena analýza časových řad s lineárním trendem a následnou predikcí počtu zjištěných daňových úniků za období od roku 2010 do 2021. Nakonec je předložen návrh na zlepšení prevence a eliminace daňových úniků v České republice.

Klíčová slova: DPH, daň z příjmů, Česká republika, trestní řízení, daňové úniky, daňové podvody, elektronická evidence tržeb, kontrolní prohlášení

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List of abbreviations

Coll.	Collection
CZK	Czech Koruna (<i>Currency Unit</i>)
EU	European Union
NACE	Nomenclature statistique des activités économiques dans la Communauté européenne (<i>Statistical Classification of Economic Activities in the European Community</i>)
No.	Number
ÚOKFK	Útvar odhalování korupce a finanční criminality (<i>Unit for Combating Corruption and Financial Crimes</i>)
VAT	Value Added Tax

1 Introduction

The diploma thesis Tax evasion and its prevention in the field of VAT and Income Tax in the Czech Republic deals with and combines two seemingly different disciplines: law and economics. However, in area of tax evasion, the connection of these two disciplines is necessary. The issue of tax evasion in the Czech Republic requires communication especially between the Police of the Czech Republic and the Financial Administration of the Czech Republic. Cooperation between the Police and the Financial Administration is an effective model of legitimate cooperation. Like any cooperation, it requires the innovation and the necessary development for success and the establishment of a relationship with each other.

The number of tax evasion in the Czech Republic in the field of VAT (fictitious invoices or participation in carousel fraud) is declining from year to year. The Czech Republic has narrowed the scope for tax evasion. The Czech Republic has one of the most complex tax systems in the European Union. Tax collection is improving in the Czech Republic. For example, Tax Cobra composed of representatives of the Police of the Czech Republic, the Financial Administration of the Czech Republic and the Customs Administration of the Czech Republic, also more effective control activities of the Financial Administration using tools such as control statement and electronic registration of sales or increased tax audits by tax authorities, are used to better collect taxes and at the same time prevent tax evasion. More effective measures of Financial administration contribute to a higher collection of taxes to the state budget. At the same time in the Czech Republic there is a gradual reduction in the administration associated with the payment of taxes. Reducing administration and facilitating communication with the Financial Administration is ensured by the new function of the Financial Administration - an online tax office called Moje Daně (My Taxes).

The state loses several billion CZK a year due to tax evasion. This reduces the public budget intended to education, health, defence and other public services provided to citizens. Tax evasion is committed by both natural and legal persons by failing to pay some amount of tax by providing false information and data or not paying the tax at all, depositing money in foreign banks without the tax entity paying the tax and other methods used for incorrect fulfilment of tax liability. The fight against tax evasion exists at the domestic level, European in the framework of membership of the European Union, but also at the global level.

The diploma thesis deals mainly with tax evasion at the domestic level, namely in the Czech Republic. In the practical part of the diploma thesis, tax evasion is viewed from the perspective of Financial Administration and the Police of the Czech Republic in terms of its criminality. At the same time, the cooperation of the Police of the Czech Republic with the Financial Administration of the Czech Republic, differences in case management and proposals for innovations in the field of communication and information sharing are described.

2 Objectives

The diploma thesis deals with the issue of tax evasion in the field of Value Added Tax (VAT) and Income tax in the Czech Republic. The main aim of the diploma thesis is to determine the types of tax evasion from the tax and criminal point of view, and to clearly show the different approach to the method of calculating damage and subsequent sanctions in both areas. By setting the main aim of the diploma thesis, secondary objectives are set, which help to broaden and better understand the issue of tax evasion. The secondary objectives are stated as follows:

- Time series analysis on how the number of tax evasion changes each year, as well as the determination of a linear trend function with a forecast for the following years,
- finding alternatives of elimination of tax evasion,
- proposal of such measures that will lead to the elimination of tax evasion for Value Added Tax (VAT) and Income tax (Personal and Corporate).

The Diploma thesis also observes and examines the cooperation and communication between the financial administration, other authorities and state bodies of the Czech Republic. The observation of cooperation is mainly focused on whether the data and information, especially of the Financial Administration of the Czech Republic and the Police of the Czech Republic, are interconnect, or not. Last but not least, the diploma thesis explains the fundamental differences between tax and criminal proceedings.

Research hypothesis

“The complete elimination of tax evasion cannot be ensured by improved legislation but by a conscious approach of tax entities.”

3 Literature Review

3.1 Tax

*“The term taxes is confined to compulsory, unrequited payments to general government. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments.”*¹ Taxes are therefore mandatory and irreversible payments by taxpayers (private individuals, institutions or groups) to the government (state budget).

In return, the government has the task of providing welfare to citizens and a good socio-economic background from the state budget. Taxes are the instruments of fiscal policy of the country and, also sources of the government revenue. Basic macroeconomic indicators are regulated through fiscal policy. These macroeconomic indicators are: price stability, distribution of wealth and income, unemployment, balance of payment etc.²

Taxes have different characteristics that determine its character. The tax represents a payment:

- Mandatory
- Non-purpose
- Inequivalent
- Regular
- Irreversible³

¹ OECD, Negotiating Group on the Multilateral Agreement on Investment (MAI). *Definition of taxes: General Criteria* [online]. 1996, page 3 [cit. 2020-03-09]. Available at: <https://www.oecd.org/daf/mai/pdf/eg2/eg2963e.pdf>

² OGUNGBAMIGBE, Taiwo. Tax and Tax Reforms. *Academia* [online]. [cit. 2020-10-25]. Available at: https://www.academia.edu/32380640/TAX_AND_TAX_REFORMS

³ PAVEL, Jan. *Daňový systém ČR*. Vyd. 2., (přepřac. a upr.). Pardubice: Univerzita Pardubice, 2005. [cit. 2020-09-09]. ISBN 80-7194-787-3.

The fact that tax is a mandatory payment and at the same time involuntary means that all those listed in the law as taxpayers are forced to pay certain taxes. If taxpayer does not pay the tax, the taxable person can be punished in the form of imprisonment and a fine. The non-purpose characteristics expresses that the taxpayer does not know where the amount that the taxpayer has paid into the state budget will go to and what it will be used for. The inequivalence of a tax is a relationship between the funds expended and the benefits that cannot be identified. The taxpayer cannot therefore expect to be entitled to the consumption of goods and services coming from the state budget. Payment of tax regularly refers to a time period, either the expiration of a time period or in the case of a predefined event (inheritance). The tax is not refunded to the taxpayer. ⁴

Tax is calculated from the tax base. The tax base is the subject of the tax to which the tax applies. The subject of the tax is regulated by law, including the units of measure according to which the tax is assessed. Units of measure are either money or things and their quantity (e.g. area of land, quantity of litres of alcohol). Tax bases and their calculation may vary from country to country. ^{5 6}

3.2 Tax system of the Czech Republic

The tax system plays a key role for countries. It is important for the country because of the impact on several factors. These factors are, for example: the impact on the country's rate of economic growth, the level of taxes, the quality of tax administration, tax rules and laws, compliance with tax regulations and more. ⁷

⁴ PAVEL, Jan. *Daňový systém ČR*. Vyd. 2., (přepřac. a upr.). Pardubice: Univerzita Pardubice, 2005. [cit. 2020-09-03]. ISBN 80-7194-787-3.

⁵ THE ECONOMIST. *Economics A-Z terms beginning with T* [online]. The Economist Group, 2020 [cit. 2020-12-20]. Available at: <https://www.economist.com/economics-a-to-z/t>

⁶ PAVEL, Jan. *Daňový systém ČR*. Vyd. 2., (přepřac. a upr.). Pardubice: Univerzita Pardubice, 2005. [cit. 2020-09-03]. ISBN 80-7194-787-3.

⁷ OECD. *Tax Policy Reform and Economic Growth: OECD Tax Policy Studies* [online]. No. 20. OECD Publishing, 2010 [cit. 2021-01-11]. ISBN ISBN 978-92-64-09108-5. Available at: <http://dx.doi.org/10.1787/9789264091085-en>

It is necessary to take into an account that the tax system of the Czech Republic consists not only of mandatory payments of tax subjects, but also mandatory payments with the economic nature of the tax. These mandatory payments with the economic nature of the tax are the so-called statutory insurance premiums, local charges (dog fee or spa stay) and highway signs. Statutory premiums include, for example, social security premiums or general health insurance premiums.⁸

The tax system is the sum of all taxes collected in the territory of a given state. In the case of the Tax System of the Czech Republic, these are taxes collected on the territory of the Czech Republic. The tax system is divided into direct and indirect taxes. Tax revenues from indirect and direct taxes occupy almost the same part. The current complex tax system of the Czech Republic has entered into force on 1st January 1993.^{9 10}

To direct taxes belong:

- *Income tax*

- *Real Estate Tax*: Land and buildings are subject to real estate taxes. For land, the tax base is the acreage or price of the land. The rate depends on the quality, use of the land and its location. The tax base for buildings is the built-up area. For buildings, the type and use of the building determines the tax rate.

- *Road Tax*: The subject of the road tax are all motor vehicles used for business. The payer of this tax is the operator of the vehicle, who is registered in the technical license. The tax does not apply to vehicles that are used exclusively for personal use. The rate of road tax is set in the form of a fixed annual amount.¹¹

⁸ PAVEL, Jan. *Daňový systém ČR*. Vyd. 2., (přepřac. a upr.). Pardubice: Univerzita Pardubice, 2005. [cit. 2020-10-09]. ISBN 80-7194-787-3.

⁹ MINISTERSTVO FINANCÍ, Č.j. 25/34 022/2008. *Reforma daňového systému 2010: Teze pro veřejnou diskusi* [online]. 2010 [cit. 2020-10-09]. Available at: https://www.mfcr.cz/assets/cs/media/TZ_2008_Uvod.doc

¹⁰ PAVEL, Jan. *Daňový systém ČR*. Vyd. 2., (přepřac. a upr.). Pardubice: Univerzita Pardubice, 2005. [cit. 2020-10-09]. ISBN 80-7194-787-3.

¹¹ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Popis systému: Přímé daně* [online]. 2013 [cit. 2020-10-09]. Available at: <https://www.financnisprava.cz/cs/dane/danovy-system-cr/popis-systemu>

Indirect taxes include:

- *Value Added Tax (VAT)*

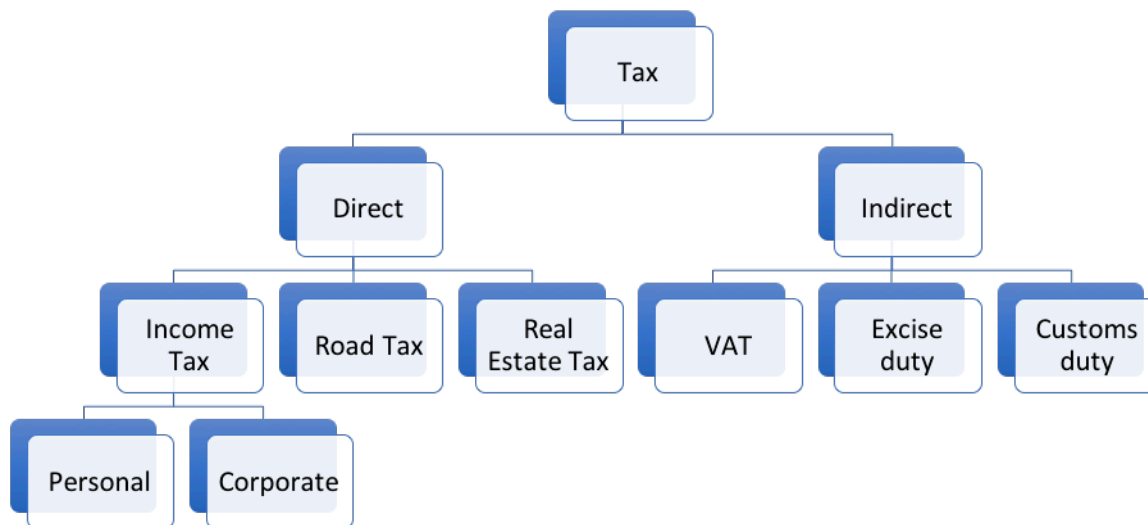
- *Excise duty*: Excise duty applies to so-called selected products, which means alcohol, beer, intermediate products, mineral oils and tobacco products. Excise duty is set at fixed rates. Exceptions are cigarettes, where it includes a flat rate and a percentage of the retail price and is paid for through tobacco stickers.¹²

- *Customs duty*: The tax levied when crossing the customs border. It is used by a state or a group of states to protect the internal market from goods from other states, as well as means of economic form of political struggle and as a source of money. For the calculation of the customs debt, the basic data is the customs value when using ad valorem or combined customs duties.¹³

¹² FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Popis systému: Nepřímé daně* [online]. 2013 [cit. 2020-10-09]. Available at: <https://www.financnisprava.cz/cs/dane/danovy-system-cr/popis-systemu>

¹³ CUSTOMS ADMINISTRATION OF THE CZECH REPUBLIC. *Customs Duty: Customs* [online]. [cit. 2020-10-09]. Available at: <https://www.celnisprava.cz/en/clo/Pages/default.aspx>

Picture 1: Tax system of the Czech Republic



Source: Author's processing

3.2.1 Tax administration in the Czech Republic

Tax administration in the Czech Republic is structured by five organizations that deal with the administration of mandatory payments of tax entities, but also mandatory payments with the economic nature of the tax. The following table divides the mandatory payments of tax entities and mandatory payments with the economic nature of the tax to individual organizations.¹⁴

¹⁴ PAVEL, Jan. *Daňový systém ČR*. Vyd. 2., (přepřac. a upr.). Pardubice: Univerzita Pardubice, 2005. [cit. 2020-10-09]. ISBN 80-7194-787-3.

Table 1: Tax administration in the Czech Republic

Financial Administration	Czech Social Security Administration	Health Insurance	Customs Administration	Municipality
Income taxes (Corporate and Personal)	Pension insurance	General health insurance premiums	Customs Duty	Local charges
VAT	Sickness insurance		Excise duty	
Property tax	Contribution to the state employment policy		Road tax of foreign carriers	
Road tax of domestic carriers				

Source: Author's processing (Data source: PAVEL, Jan. *Daňový systém ČR*. Vyd. 2., (přepřac. a upr.). Pardubice: Univerzita Pardubice, 2005. ISBN 80-7194-787-3.)

3.3 Value Added Tax

Value added tax is an indirect tax. The VAT is the general tax on consumption. Value added tax is harmonized within the Member States of the European Union. The European Union has relevant VAT rules for its members, mainly because of the common open market within the EU Member States. The basic VAT rate of EU countries must be at least 15% and the reduced VAT rate must not exceed the lower limit of 5%.¹⁵ The VAT rate varies from country to country. VAT is not a tax of the European Union, but a domestic tax of each member state. Various fiscal laws continue to exist in each member state of the European Union.¹⁶

¹⁵ YOUR EUROPE, European Union. *VAT rules and rates: VAT rates applied in EU countries* [online]. 2020 [cit. 2021-01-03]. Available at: https://europa.eu/youreurope/business/taxation/vat/vat-rules-rates/index_en.htm

¹⁶ KPE, Lasok QC. *EU Value Added Tax Law: Elgar Tax Law and Practice series* [online]. London, UK: Edward Elgar Publishing, 2020 [cit. 2021-01-02]. ISBN 978 1 78471 801 5. Available at: <https://books.google.cz/books?id=-732DwAAQBAJ&printsec=frontcover#v=onepage&q&f=false>

Table 2: VAT rates applied in EU member countries

Member State	Standard rate	Reduced rate
Austria	20	10 and 13
Belgium	21	6 and 12
Bulgaria	20	9
Cyprus	19	5 and 9
Czech Republic	21	10 and 15
Germany	16	5
Denmark	25	-
Estonia	20	9
Greece	24	6 and 13
Spain	21	10
Finland	24	10 and 14
France	20	5.5 and 10
Croatia	25	5 and 13
Hungary	27	5 and 18
Ireland	23	9 and 13.5
Italy	22	5 and 10
Lithuania	21	5 and 9
Luxembourg	17	8
Latvia	21	12 and 5
Malta	18	5 and 7
Netherlands	21	9
Poland	23	5 and 8
Portugal	23	6 and 13
Romania	19	5 and 9
Sweden	25	6 and 12
Slovenia	22	9.5
Slovakia	20	10

Source: Author's processing (Data source: YOUR EUROPE, European Union. *VAT rules and rates: VAT rates applied in EU countries* [online]. 2020 [cit. 2021-01-03]. Available at: https://europa.eu/youreurope/business/taxation/vat/vat-rules-rates/index_en.htm)

Value added tax is governed by Act No. 235/2004 Coll., On value added tax, as amended. In the Czech Republic, provision of goods and services with a place of performance in the Czech Republic, as well as provision of goods and services from imports with a place of performance in the Czech Republic, are subject to value added tax. Value added tax is paid only by the final consumer. For the Czech Republic, VAT is one of the largest revenue to the state budget. Value added tax has three tax rates, basic, reduced and the second reduced.

- The basic tax rate of 21% covers most goods and services.
- Food, certain medicines, printed matter, public transport, funeral services, water and waste of households, heat supply, culture, accommodation services, construction work are subject to a reduced VAT rate of 15%.
- Baby food, medicine, music and books are subject to the second reduced VAT rate of 10%.^{17 18}

The exempt from VAT according to Section 51 - Section 62 of Act No. 235/2004, are basic postal services, radio and television services, financial, pension and insurance activities, rental and supply of selected real estate, education, health services, social assistance, operation lotteries, other exempt transactions without the right to deduct the tax and supplies of goods which have been used for exempt transactions without the right to deduct the tax, and goods for which the taxable person is not entitled to deduct the tax.¹⁹

¹⁷ Zákon č. 235/2004 Sb., o dani z přidané hodnoty, as amended (Act No. 235/2004 Coll., Value Added Tax) Daň z přidané hodnoty: zákon o DPH: směrnice Rady EU o společném systému DPH, informace a sdělení Generálního finančního ředitelství: redakční uzávěrka. Ostrava: Sagit, [2020]-. ÚZ. ISBN 978-80-7488-273-9.

¹⁸ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Popis systému: Nepřímé daně* [online]. 2013 [cit. 2020-11-03]. Available at: <https://www.financnisprava.cz/cs/dane/danovy-system-cr/popis-systemu>

¹⁹ Zákon č. 235/2004 Sb., o dani z přidané hodnoty, as amended (Act No. 235/2004 Coll., Value Added Tax) Daň z přidané hodnoty: zákon o DPH: směrnice Rady EU o společném systému DPH, informace a sdělení Generálního finančního ředitelství: redakční uzávěrka. Ostrava: Sagit, [2020]-. ÚZ. ISBN 978-80-7488-273-9.

VAT rates in the Czech Republic have remained at this level since 2013.²⁰

VAT payers are all natural and legal persons, their annual turnover (for 12 consecutive calendar months) from economic activities has exceeded 1 million CZK. A natural or legal person can also become a VAT payer by voluntary registration. Furthermore, the VAT taxpayer is a person who continues in economic activity after the deceased VAT payer, membership in an association where one of the members is a VAT payer and other cases which are mentioned in Act No. 235/2004, on value added tax. Depending on the amount of turnover from economic activity, VAT is paid every month or every quarter. Currently, the tax administrator registers the taxpayer only as monthly payers.²¹

3.4 Income Tax

Income tax is a direct tax, the subject of which is all income (cash and in kind), which relates to the economically active population. Everything that increases the taxpayer's assets (salary, business, rents etc.) is taken as an income. However, there are exceptions that are exempt from income tax, such as income from inheritance, gifts, loans, state social support benefits, scholarships, pensions or damages. Income tax is regulated by Act 586/1992 Coll., On income taxes, as amended.²²

²⁰ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Popis systému: Nepřímé daně* [online]. 2013 [cit. 2020-11-03]. Available at: <https://www.financnisprava.cz/cs/dane/danovy-system-cr/popis-systemu>

²¹ Zákon č. 235/2004 Sb., o dani z přidané hodnoty, as amended (Act No. 235/2004 Coll., Value Added Tax) Daň z přidané hodnoty: zákon o DPH: směrnice Rady EU o společném systému DPH, informace a sdělení Generálního finančního ředitelství: redakční uzávěrka. Ostrava: Sagit, [2020]-. ÚZ. ISBN 978-80-7488-273-9.

²² Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GR: přehled smluv o zamezení dvojího zdanění; Evidence tržeb: zákon o EET ve znění nálezu Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-. ÚZ. ISBN 978-80-7488-272-2.

Income tax is filed by natural and legal persons performing economic activity each year for the previous tax period within three months from the end of the tax period. Income tax return is filed:

- in person at the territorial department of the relevant tax office
- by post
- data box
- the tax portal of the financial administration

The calculated tax from the tax base entered in the tax return must be paid in cash by postal order, in cash at the territorial department of the relevant tax office or by internet cashless payment by the same due date as the tax return must be filed.²³

The level of income tax rate and at the same time the information needed for taxpayers differ for natural and legal persons.

3.4.1 Personal Income Tax

Personal income tax applies to persons whose annual income is higher than 15,000 CZK and which income are subject to the tax. If the annual income did not exceed 15,000 CZK, but the tax person reports a tax loss, the personal income tax applies to the tax person.²⁴

²³ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Daň z příjmů: Daň z příjmů fyzických osob, obecné informace* [online]. 2020 [cit. 2020-11-10]. Available at: <https://www.financnisprava.cz/cs/dane/dane/dan-z-prijmu/fyzicke-osoby-poplatnik/obecne-informace#2podavani>

²⁴ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Daň z příjmů: Daň z příjmů fyzických osob, obecné informace* [online]. 2020 [cit. 2020-11-10]. Available at: <https://www.financnisprava.cz/cs/dane/dane/dan-z-prijmu/fyzicke-osoby-poplatnik/obecne-informace#2podavani>

Personal income tax applies to tax residents of the Czech Republic whose income comes from sources in the Czech Republic, but also from foreign sources. A tax resident of the Czech Republic is a natural person with permanent residence in the Czech Republic or staying in the Czech Republic for a long time (at least 183 days for 12 consecutive months). The tax liability also applies to non-residents of the Czech Republic in the form of income tax, which comes only from sources in the Czech Republic. Non-residents of the Czech Republic are natural persons who are not tax residents of the Czech Republic.²⁵

Personal income tax applies to income:

- from dependent activity and functional perquisites,
- from self-employment and entrepreneurship,
- from capital assets,
- from rent,
- others.

Income can be in cash or in kind, as well as income from barter. Personal income tax does not apply to the already mentioned income from inheritance, donations, then insurance benefits, social income etc.²⁶

²⁵ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Daň z příjmů: Daň z příjmů fyzických osob, obecné informace* [online]. 2020 [cit. 2020-11-10]. Available at: <https://www.financnisprava.cz/cs/dane/dane/dan-z-prijmu/fyzicke-osoby-poplatnik/obecne-informace#2podavani>

²⁶ Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GR: přehled smluv o zamezení dvojího zdanění; Evidence tržeb: zákon o EET ve znění nálezů Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-. [cit. 2020-11-10]. ÚZ. ISBN 978-80-7488-272-2.

Personal income tax is 15% of the tax base, which has been reduced by the non-taxable part of the tax base (gifts, private life insurance premiums, pension contributions etc.) and tax rebates (basic rebate, spouse rebate, rebate on a dependent child, rebate on a disability, rebate on a student etc.). Applying the rebate is possible only in compliance with the conditions set by law. Failure to comply with the conditions for the entire tax period means for the taxpayer to offset one twelfth of the rebate one month after meeting all the conditions set by law. In the case of a rebate on a dependent child, there is an exception to the application in the given month of compliance with the conditions.^{27 28}

3.4.2 Corporate Income Tax

Corporate income tax applies to legal entities that are, for example, companies, non-profit organizations, associations, cooperatives, as well as universities, municipalities, regions and others. The corporate income tax rate is 19%, with exception of investment companies and funds and pension funds, where the tax rate is only 5%.

Income that is subject to corporate income tax is all income from economic activities and property management, unless otherwise provided by Act 586/1992 Coll., On income taxes, as amended. Income of both natural and monetary nature is included. The tax base can be reduced by items reducing the tax base pursuant to Section 34, items deductible from the tax base and the tax rebate. Items deductible from the tax base are tax losses from previous tax periods that were assessed or part of the tax period (maximum previous 5 tax periods), or a deduction to support research and development provided by law. The tax rebate is applied for each employee with a disability (in 2 degrees).²⁹

²⁷ Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GŘ: přehled smluv o zamezení dvojího zdanění; Evidence tržeb: zákon o EET ve znění nálezů Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-. [cit. 2029-11-10]. ÚZ. ISBN 978-80-7488-272-2.

²⁸ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Daň z příjmů: Daň z příjmů fyzických osob, obecné informace* [online]. 2020 [cit. 2020-11-10]. Available at: <https://www.financnisprava.cz/cs/dane/dane/dan-z-prijmu/fyzicke-osoby-poplatnik/obecne-informace#2podavani>

²⁹ Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GŘ: přehled smluv o zamezení dvojího zdanění; Evidence tržeb: zákon o EET ve znění nálezů Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-. [cit. 2029-11-10]. ÚZ. ISBN 978-80-7488-272-2.

Corporate income tax payers are residents of the Czech Republic, which means persons who have their registered office or place of management from which the legal entity is controlled in the Czech Republic. The tax liability of residents of the Czech Republic, in the case of corporate income tax, includes income from domestic and foreign sources. In the case of non-residents of the Czech Republic, which are legal entities that do not have a registered office in the Czech Republic or are designated as a non-resident of the Czech Republic by an international agreement, income from the territory of the Czech Republic is subject to tax. Non-residents of the Czech Republic who have an establishment in the Czech Republic are obliged to register on the financial administration within 15 days of its establishment and perform activities that are a source of income from the Czech Republic.³⁰

3.5 Tax evasion and Tax avoidance

The fundamental difference between tax avoidance and tax evasion is mainly in the legality of the act, where tax avoidance is a legal activity and tax evasion is illegal. In general, in both cases, it is a matter of reducing the taxpayer's tax liability as much as possible. It is very difficult to find a limit where the reduction in tax liability is still within the legality and what is no longer. A reduction in the tax base can be legally achieved through tax rebates or through deductions and deductible items. As the legal form of tax reduction is time consuming, the legal limit of tax avoidance for tax evasion is often exceeded.

³⁰ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Daň z příjmů: Daň z příjmů právnických osob, obecné informace* [online]. 2020 [cit. 2020-11-10]. Available at: <https://www.financnisprava.cz/cs/dane/dane/dan-z-prijmu/pravnicke-osoby/obecne-informace>

Table 3: Classification of minimization of tax payment

Tax minimization			
Legal	Illegal		
<p>Effective tax optimization, i.e. use of all available legal provisions to minimize the paying taxes</p> <ul style="list-style-type: none"> • The direct intention of the legislator • Exploitation of shortcomings in the laws 	unintentional	intentional smaller scale	intentional larger scale
			<ul style="list-style-type: none"> • Damage over 100,000 CZK (a crime)
		<ul style="list-style-type: none"> • Demonstrable • Less demonstrable 	

Source: Author's processing (Data source: TICHÁ, Ing. Michaela. *Daňové úniky, institucionální aspekty* [online]. 2007 [cit. 2020-08-25]. Available at: <https://docplayer.cz/2866137-Danove-uniky-institucionalni-aspekty-michaela-ticha-1.html>)

It must be emphasized that until 30th September 2020, the damage limit was 50,000 CZK. As of the 1st October 2020, this damage limit has been increased to 100,000 CZK.³¹

3.5.1 Tax Avoidance

“Tax Avoidance is lawful as opposed to criminal conduct, because it is carried out in the genuine belief that the tax advantage in question can be obtained within the rules, for example by exploiting a loophole or other defect in the legislation.”³²

³¹ MINISTERSTVO VNITRA ČESKÉ REPUBLIKY, (Ministry of the Interior of the Czech Republic). *Nové hranice výše škod podle trestního zákoníku: Znění účinné od 1. října 2020* [online]. [cit. 2020-12-28]. Available at: <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiF4MSr-IzvAhVn-SoKHRHqCloQFjAEegQIBhAD&url=https%3A%2F%2Fwww.mvcr.cz%2Fsoubor%2Fnove-hranice-vyse-skod-podle-trestniho-zakoniku.aspx&usg=AOvVaw1F6zdZEymeXxVyrq9eAjx->

Tax avoidance means that a tax entity can reduce its tax liability through tax optimization, i.e. through available legal conditions, including tax relief. Tax planning is included in the business activities of a tax entity. It is a situation in which a taxable person exploits the ambiguity, incomprehensibility or imperfection of tax laws in favour of the taxable person. It is right to use a strategy to minimize the payment of taxes, legal tricks and tax gaps if these activities are in accordance with the law.

In the case of a tax audit, the tax entity must prove to the tax administrator that the facts stated in the tax return (statement, report) are in accordance with tax regulations. If the tax entity does not provide appropriate evidence, i.e. it does not substantiate the alleged facts from the tax return and the tax administrator does not accept the evidence, the tax audit develops in the finding that the tax was not declared in full, so the tax administrator assesses the tax and sets appropriate penalties for the assessed tax. This is a simplified tax procedure.^{33 34}

3.5.2 Tax evasion

“Tax evasion is using illegal means to avoid paying taxes. Typically, tax evasion schemes involve an individual or corporation misrepresenting their income to the Internal Revenue Service. Misrepresentation may take the form either of underreporting income, inflating deductions, or hiding money and its interest altogether in offshore accounts.”³⁵

Tax evasion means the unlawful conduct of a tax entity in the form of an unjustified tax (tax liability) reduction that has to be paid to the state from the income/revenues. Tax evasion is either unintentional or intentional. Tax evasion can be unintentional, when the actions of the tax entity are caused by ignorance or negligence towards tax obligations.

³² PROSSER, Kevin a Rebecca MURRAY. *Tax Avoidance*. London, UK: Sweet & Maxwell, 2012. Section 1-001, ISBN 978-1847037749.

³³ CULLIS, John a Philip JONES. *Public Finance and Public Choice: Analytical Perspectives*. Third Edition. Oxford: Oxford University Press, 2009. ISBN 978-01-9923-478-3.

³⁴ TICHÁ, Ing. Michaela. *Daňové úniky, institucionální aspekty* [online]. 2007 [cit. 2020-08-25]. Available at: <https://docplayer.cz/2866137-Danove-uniky-institucionalni-aspekty-michaela-ticha-1.html>

³⁵ LEGAL INFORMATION INSTITUTE, Cornell Law School. *Tax evasion* [online]. New York, US: Cornell Law School [cit. 2020-08-23]. Available at: https://www.law.cornell.edu/wex/tax_evasion

Otherwise, it is an intentional infringement, where the tax entity intentionally reduces taxes regardless of the amount of damage (social danger).^{36 37}

There are various forms of tax evasion that a taxpayer can commit. Even if the methods differ from each other, the result is still the same, it is an illegal activity that is punishable. One of them is, for example, to state distorted or incomplete information in the tax return or to declare only a part of the income in the tax return and to conceal the rest (not to report cash payments, to conceal foreign income, false reporting of income on behalf of someone else who has a tax rebate etc.). Another example is the reporting of higher tax deductions (business expenses, charitable contributions etc.) or the transfer of income to foreign bank accounts or foreign accounts (underground economy).³⁸

Tax offenses in the Criminal Code:

- Section 240 Evasion of Taxes, Fees and Similar Compulsory Payments
- Section 241 Evasion of Tax, Social Security Insurance Fee and Similar Compulsory Payment
- Section 254 Distortion of Data on Status of Management and Assets³⁹

³⁶ TICHÁ, Ing. Michaela. *Daňové úniky, institucionální aspekty* [online]. 2007 [cit. 2020-08-25]. Available at: <https://docplayer.cz/2866137-Danove-uniky-institucionalni-aspekty-michaela-ticha-1.html>

³⁷ CULLIS, John a Philip JONES. *Public Finance and Public Choice: Analytical Perspectives*. Third Edition. Oxford: Oxford University Press, 2009. ISBN 978-01-9923-478-3.

³⁸ OFFSHORE PROTECTION. *What are the Differences Between Tax Evasion, Tax Avoidance and Tax Planning?: What is Tax Evasion?* [online]. 2020 [cit. 2020-10-19]. Available at: <https://www.offshore-protection.com/differences-between-tax-avoidance-tax-evasion>

³⁹ Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code, as amended [online]. [cit. 2021-01-20]. Available at: <http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

Section 240 Evasion of Taxes, Fees and Similar Compulsory Payments

Evasion of Taxes, Fees and Similar Compulsory Payments is any action as result of which a lower tax is imposed on a taxable person in violation of the law. This is a special case of fraud, which, contrary to the law, affects the tax liability of a certain taxable entity in such a way that it contradicts the lower scope of this obligation or pretends that it has no such obligation at all (tax assessment documents are falsified, intentionally distorted or not kept etc.)⁴⁰

Attracting an advantage to a certain obligatory payment means pretending a circumstance that obliges the state to provide performance to an entity which is not in fact entitled to such performance under the law or which is not a taxpayer of such compulsory payment at all. An example is excessive VAT deduction or income tax bonus. The criminal offense of evasion of taxes, fees and similar compulsory payments may also be committed by intentionally failing to file a tax return for the relevant tax while concealing the taxable performance from which the tax liability arose. The extent of the evasion must, in aggregate, correspond to damage of at least a larger extent, with the amount of damage being added up for the purposes of assessing criminality for several tax periods or taxes, provided that the conditions for continuing the offense are met.⁴¹

⁴⁰ Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code, as amended [online]. [cit. 2021-01-20]. Available at:

<http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

⁴¹ Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code, as amended [online]. [cit. 2021-01-20]. Available at:

<http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

Section 241 Evasion of Tax, Social Security Insurance Fee and Similar Compulsory Payment

The object of the evasion of tax, social security insurance fee and similar compulsory payment is the protection of the state's interest in the proper fulfilment of the employer's or payer's obligation to make mandatory legal payments. The extent of the evasion of tax must, in aggregate, correspond to damage of at least a larger extent. Criminal liability for the criminal offense of the evasion of tax, social security insurance fee and similar compulsory payment ceases if the offender subsequently fulfilled his obligation before the court of first instance began to give judgment. The aim is to motivate offenders to further eliminate the harmful consequence.⁴²

Section 254 Distortion of Data on Status of Management and Assets

This criminal offense may be committed by a natural or legal person who does not keep proper accounting books, records or other documents used to inspect the status of management and property, or to control them, even if it is required by law, and endanger the property rights of another or timely and proper tax assessment. Only a person who is stipulated by law may be criminally liable.⁴³

The form of criminal proceedings may consist of one or more of the following options:

- Failure to keep accounting books, records or other documents used for an overview of the state of management or to control them (the person is criminally responsible, even if procures or prepares, but insufficiently fills them in) do not have specified content requirements. Criminal liability is not prevented by the fact that the entrepreneur is inexperienced and does not understand accounting or does not have the resources or employees to fulfil the legally imposed obligation.

⁴² Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code, as amended [online]. [cit. 2021-01-20]. Available at:

<http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

⁴³ Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code, as amended [online]. [cit. 2021-01-20]. Available at:

<http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

- Provision of false or grossly distorted information in the accounting books, records or other documents - falseness may be only partial, if important parts of the ledger are false. A grossly misleading information is information that erroneously or incompletely informs about the essential circumstances used for the overview of the state of management. These may be invoices or other accounting documents which are intended to justify a fictitious accounting case or, conversely, the non-inclusion of the relevant accounting document confirming the acquisition of a certain taxable income.
- Change, destruction, damage, concealment of accounting books or documents or make them unusable - this is the physical liquidation of the holders of accounting records, even by omission, due to which the accounting books, records or other documents will be destroyed. Damage is a reduction in the informational value of the books, either temporary or permanent. Concealment of books is a situation where a person does not submit a book at the request of the audit authority (usually to the tax authorities in a tax audit), even though they exist. Similarly, it should be classified as concealment of accounting if the person purposefully falsely claims that the accounting is with an accountant or a tax advisor.

This offense is in fact a preparatory offense for the offense of tax evasion, the essence of which is a failure (not a threat). The harmful consequence does not have to occur, i.e. the state or public budgets do not have to be harmed, even if the tax administrator assessed the tax to the tax subject.⁴⁴

3.6 Tools for elimination of tax evasion

The following chapter deals with the current general tools in the fight against all tax evasion in the field of value added tax and income tax in the Czech Republic.

⁴⁴ Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code, as amended [online]. [cit. 2021-01-20]. Available at: <http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

According to the General Finance Directorate, the tools to combat tax evasion are search activities, on-site inspection, tax audit and subsequent securing and enforcement activities. The detection of risks, their evaluation and monitoring of individual companies belong to the function of financial administration employees who deal with tax evasion and its detection.⁴⁵

Furthermore, the basic tools of financial administration include Control Statement and Electronic Registration of Sales. Other tools in the fight against tax evasion is the Tax Cobra, which consists not only of the Financial Administration of the Czech Republic, but also the Customs Administration of the Czech Republic and the Police of the Czech Republic.⁴⁶

3.6.1 Search Activity

The search activity is performed on persons (tax entities) for whom it is necessary to provide evidence and information necessary for the fulfilment of its tax obligations. Search activity is necessary and effective. It can be carried out even if the tax entity is not present. The task of the search activity is to search for a tax entity and check its registration as a taxpayer, to provide documents for financial administration on the fulfilment of tax obligations (income, property relations etc.), data collection and processing, use of information systems to the extent necessary for search activity and state the procedures and reasons for initiating a tax audit or on-site investigation, where it is determined whether the tax entity fulfils its tax obligations in accordance with the substantive law or not. It also provides the evidence. The tax administrator carries out the search activity on the basis of the facts deciding on the tax liability of the tax entity and at the same time the relations to

⁴⁵ JEŽKOVÁ, Mgr. Jitka. *Mezinárodní spolupráce na odhalování daňových úniků vyústila dražbou téměř 160 tisíc litrů pohonných látek* [online]. Finanční správa České republiky, 2013 [cit. 2020-08-20]. Available at: <https://www.financnisprava.cz/cs/financni-sprava/media-a-verejnost/tiskove-zpravy/2013/mezinarodni-spoluprace-na-odhalovani-danovych-uniku-vyustila-drazbou-4374>

⁴⁶ FINANCIAL ADMINISTRATION OF THE CZECH REPUBLIC, Tax Cobra. *About Tax Cobra* [online]. Financial Administration of the Czech Republic [cit. 2020-08-20]. Available at: <https://www.danovakobra.cz/en>

the investigation. The tax administrator does not have to have local jurisdiction over the search activity and does not have to apply for it.⁴⁷

Secrecy

In any activity, the tax administration is bound by the Confidentiality Act. The conditions set out in the Confidentiality Act apply to all information that the persons involved in the tax administration have gathered. It can be stated that the tax entity itself deems it appropriate to whom it will inform about its belongings and data. If the tax entity finds out information about the relationship of other persons in the performance of tax administration, he is bound by the law on confidentiality, regardless of the procedural status. The tax administrator actively ensures the preconditions for the origin and duration of obligations of persons involved in the tax administration. The processing of data by the tax administrator, both personal and otherwise, takes place only to the extent necessary to achieve the objective of tax administration.⁴⁸

3.6.2 On-site investigation

An on-site investigation is a search tool used by the tax administrator to take information and to gather the evidence. The financial administration may invite a person to the on-site investigation who depending on the nature of the matter, may be necessary and helpful in arranging the necessary information. The on-site investigation of tax entities and other stakeholders takes place in the places that are most suitable for the purposes of the on-site investigation. These are usually places that the tax entity, and other stakeholders, use for business activities and other places related to business. During the on-site investigation, the tax administrator has access to land, operating buildings, rooms, means of transport, official records and other information, even on technical data carriers. Tax entities and persons participating in the on-site investigation are obliged to lend the necessary documents, other necessary things and premises to the tax administrator conducting the on-site investigation. Upon prior notification to the tax entity and other interested persons, the

⁴⁷ Zákon č. 280/2009 Sb., daňový řád, as amended (Act No. 235/2004 Coll., Tax Code) Daňový řád, Finanční správa ČR: redakční uzávěrka. Ostrava: Sagit, [2020]-. § 78. ÚZ. ISBN 978-80-7488-418-4

⁴⁸ Zákon č. 280/2009 Sb., daňový řád, as amended (Act No. 235/2004 Coll., Tax Code) Daňový řád, Finanční správa ČR: redakční uzávěrka. Ostrava: Sagit, [2020]-. § 9. ÚZ. ISBN 978-80-7488-418-4

tax administrator may take video and audio recordings of the process of the on-site investigation. An official record or report is drawn up by the tax administrator about the process of the on-site investigation.⁴⁹

3.6.3 Tax audit

Tax audit is a procedure in which the tax administrator examines the tax obligations and claims of a tax entity that lead to the determination of tax relating to one tax entity. To perform a tax audit, the law requires the cooperation of the tax entity with the tax administrator. The tax administrator let the tax entity know in advance about the commencement or termination of the tax audit by telephone or in writing form (by post, data box etc.). The tax audit itself can be conducted in the same way. In the same way as with the on-site investigation, the tax entity is obliged to provide the tax administrator the requested documents, information on the organizational structure, the workload of individual departments and employees of the organization and other things necessary for the tax audit. The tax entity must ensure the tax administrator communication with employees if the tax administrator requests it. Concealing evidence is prohibited.⁵⁰

Tax audit is interested in documents such as:

- Issued invoices with relevant contractual documents
- Received invoices with relevant contractual documents
- Accounting records (general ledger, analytical accounting, cash balances, turnover, stock records etc.)
- Inventory of assets and liabilities
- Bank statements
- Tax records for tax entities that do not keep accounts
- Records for VAT purposes

⁴⁹ Zákon č. 280/2009 Sb., daňový řád, as amended (Act No. 235/2004 Coll., Tax Code) Daňový řád, Finanční správa ČR: redakční uzávěrka. Ostrava: Sagit, [2020]-. § 80-84. ÚZ. ISBN 978-80-7488-418-4

⁵⁰ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Daňová kontrola* [online]. 2005 [cit. 2021-01-15]. Available at: <https://www.financnisprava.cz/cs/dane/danovy-system-cr/postup-v-danovem-rizeni/danova-kontrola>

- Payroll
- Other documents related to business activities ⁵¹

In the case of new facts or the acquisition of new evidence which has been obtained after the end of the tax audit, the tax administrator may resume the tax audit. The duration of the tax audit is not limited by the Tax Code, its duration can be extended or shortened. ⁵²

3.6.4 Tax Cobra

“Tax Cobra is a joint team comprising of the Unit for Combating Corruption and Financial Crimes (ÚOKFK), the General Financial Directorate and the General Directorate of Customs.” ⁵³

Tax Cobra team operate together to detect tax evasion and tax crime. These are mainly illegal activities in the field of VAT and Excise Tax. Exchange of the information is done operationally between members of the Tax Cobra. Based on this information, they determine tax evasion and coordinate individual proceedings. The Tax Cobra cooperation allows the quick identification and detection of tax evasion. The main task of the Tax Cobra is to ensure the proper collection of taxes, punish the perpetrator and return the funds obtained from illegal activities that were in the form of tax evasion. ⁵⁴

⁵¹ HÁJKOVÁ, Gabriela. *Jak probíhá daňová kontrola z finančního úřadu?* [online]. Měšec.cz, 2020 [cit. 2021-01-15]. Available at: <https://www.mesec.cz/clanky/jak-probiha-danova-kontrola-z-financniho-uradu/>

⁵² FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Daňová kontrola* [online]. 2005 [cit. 2021-01-15]. Available at: <https://www.financnisprava.cz/cs/dane/danovy-system-cr/postup-v-danovem-rizeni/danova-kontrola>

⁵³ FINANCIAL ADMINISTRATION OF THE CZECH REPUBLIC, Tax Cobra. *About Tax Cobra* [online]. Financial Administration of the Czech Republic [cit. 2020-08-20]. Available at: <https://www.danovakobra.cz/en>

⁵⁴ FINANCIAL ADMINISTRATION OF THE CZECH REPUBLIC, Tax Cobra. *About Tax Cobra* [online]. Financial Administration of the Czech Republic [cit. 2020-08-20]. Available at: <https://www.danovakobra.cz/en>

Picture 2: Tax Cobra



Source: MINISTERSTVO FINANCÍ ČESKÉ REPUBLIKY. *Daňová Kobra* [online]. Ministerstvo financí České republiky, 2019 [cit. 2020-08-25]. Available at: <https://images.app.goo.gl/gSWJZogBYgBotjaj8>

The Tax Cobra includes:

- Police of the Czech Republic
- Customs
- Financial Administration of the Czech Republic⁵⁵

Since its existence, the tax cobra has returned around 11.7 billion CZK to the state budget.

As part of the criminal proceedings within the so-called Tax Cobra there exist a close cooperation with the General Finance Directorate and the Financial Analytical Office.⁵⁶

⁵⁵ FINANCIAL ADMINISTRATION OF THE CZECH REPUBLIC, Tax Cobra. *About Tax Cobra* [online]. Financial Administration of the Czech Republic [cit. 2020-08-20]. Available at: <https://www.danovakobra.cz/en>

⁵⁶ ŽUROVEC, Ing. Michal. *Daňová Kobra zachránila státu už téměř 11,7 miliardy* [online]. Ministerstvo financí České republiky, 2019 [cit. 2021-08-20]. Available at: <https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2019/danova-kobra-zachranila-statu-uz-temer-1-34898>

3.6.5 Control Statement

The Control Statement is an effective means of the Financial Administration used to detect tax evasion. The issue of control statement is stated in Act No. 235/2004 Coll., On value added tax, more precisely in a Section 101c-101i. According to the mentioned law, the obligation to submit the control statement has been from 1st January 2016. Countries that use the control statement: Slovakia, Bulgaria, Latvia, Romania, Spain, Estonia, Poland.

The Control Statement does not function as a substitute for the tax return, as it is not a tax assertions as such. It provides the tax administrator the specific data from received and issued tax invoices and documents on the provision of goods or services. The information provided in the control statement is more detailed than in the tax return. Based on this data, it allows the tax administrator to identify risk groups (such as chains or carousels) that divert funds from the state budget through illegal activities. Subsequently, the financial administration starts control activities to prevent further leaks. The control statement is submitted only in electronic form via the tax portal or data box.^{57 58}

The Control Statement must be submitted by the taxpayer (natural or legal person in business) who made a taxable supply with a place of supply in the country or accepted payment before the date of such supply, as well as a taxpayer who received a taxable supply with a place of supply in the country or provided payment before on the day of the performance, or the payer in the special regime for investment gold.⁵⁹

⁵⁷ FINANCIAL ADMINISTRATION OF THE CZECH REPUBLIC. *VAT Control Statement* [online]. 2016 [cit. 2020-09-24]. Available at: <https://www.financnisprava.cz/en/taxes/VAT-Control-Statement>

⁵⁸ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Nová povinnost pro plátce DPH od roku 2016!* [online]. 2015 [cit. 2020-09-24]. Available at: https://www.financnisprava.cz/assets/cs/prilohy/d-placeni-dani/2015_KH_letak.pdf

⁵⁹ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Kdo podává kontrolní hlášení?* [online]. 2015 [cit. 2020-09-24]. Available at: <https://www.financnisprava.cz/cs/dane/dane/dan-z-pridane-hodnoty/kontrolni-hlaseni-DPH/kdo-podava-kontrolni-hlaseni>

The Control Statement is not filed if the taxpayer has not made or received no performance for the relevant period, has not claim a tax deduction even from previously received transactions, or is obliged to declare within the VAT tax return only those transactions that are filled in to VAT tax return items, which is not included in the control statement (exempt transactions without the right to deduct tax, such as health services, social services).

The case for submitting the so-called "zero" variant of the control statement is only possible in response to a call from the tax administrator.⁶⁰

The business transaction is stated by both the customer and the supplier. Both the customer's and the supplier's transactions must match in the control statement. The control statement contains basic data from invoices (VAT number of the supplier, registration number of the invoice, date of tax performance, receipt of payment, tax base and tax). It is filed in the same way as a tax return for each calendar month or quarter (according to the taxpayer's registration). The control statement shall be submitted no later than 25 days after the end of the month or quarter. In case of discrepancies in the control statement, a call is sent to stakeholders by the financial administration to remove the discrepancies.

If the taxpayer does not submit the control statement within the set time limit, the taxpayer is obliged to pay a fine.^{61 62}

⁶⁰ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Kdo podává kontrolní hlášení?* [online]. 2015 [cit. 2020-09-24]. Available at: <https://www.financnisprava.cz/cs/dane/dane/dan-z-pridane-hodnoty/kontrolni-hlaseni-DPH/kdo-podava-kontrolni-hlaseni>

⁶¹ Zákon č. 235/2004 Sb., o dani z přidané hodnoty, as amended (Act No. 235/2004 Coll., Value Added Tax) Daň z přidané hodnoty: zákon o DPH: směrnice Rady EU o společném systému DPH, informace a sdělení Generálního finančního ředitelství: redakční uzávěrka. Ostrava: Sagit, [2020]-. [cit. 2029-11-03]. §101d. ÚZ. ISBN 978-80-7488-273-9.

⁶² FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Nová povinnost pro plátce DPH od roku 2016!* [online]. 2015 [cit. 2020-09-24]. Available at: https://www.financnisprava.cz/assets/cs/prilohy/d-placeni-dani/2015_KH_letak.pdf

3.6.6 Electronic Registration of Sales

Electronic registration of sales is similar to sales registration systems operating in 17 states of the European Union. European countries that register sales are, for example, Belgium, Italy, Slovenia, Austria, Croatia, Hungary, Slovakia. The systems differ from each other (offline registration of sales, the customer must accept the receipt, limited only to certain goods and services, the amount of turnover of the entrepreneur etc.).⁶³

Electronic registration of sales is a system of Financial Administration, which is governed by Act 112/2016 Coll., On registration of sales, as amended. It is a system that keeps records of each cash payment for goods and services that has been made in the Czech Republic. The electronic registration of sales aims to improve and increase revenues to the state budget of the Czech Republic and at the same time to check and find out information whether the taxpayer correctly registers cash sales. This system is another tool of the Financial Administration, which is intended to prevent the occurrence of tax evasion in the field of VAT and personal and corporate income tax. The system was launched in December 2016.^{64 65}

Income tax payers must register cash sales, i.e. natural persons engaged in business and legal persons with business activity in the Czech Republic. Registered are revenues, which are paid by cash payment, bill of exchange, check, meal voucher, vouchers, electronic wallet and are also the subject of business activities. In the case of transfer via internet banking or via payment card, the payment is not registered.

⁶³ HAJDUŠEK, Tomáš a Milan VODIČKA. *První zkušenosti s EET - elektronickou evidencí tržeb*. Praha: Wolters Kluwer, 2017. ISBN 978-80-7552-589-5.

⁶⁴ GENERÁLNÍ FINANČNÍ ŘEDITELSTVÍ. *Evidence tržeb: Metodický pokyn k aplikaci zákona o evidenci tržeb* [online]. Praha: Generální finanční ředitelství. [cit. 2021-01-12]. Available at: http://www.etrzby.cz/assets/cs/prilohy/Methodika-k-evidenci-trzeb_v1.0.pdf

⁶⁵ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Proč evidence tržeb?: Hlavní důvody pro zavedení evidence tržeb*. [online]. 2016 [cit. 2021-01-13]. Available at: <https://www.etrzby.cz/cs/proc-e-trzby>

Electronic registration of sales works as follow. From a device that has an internet connection, the entrepreneur sends a transaction report to the Financial Administration system, which in turn sends back a confirmation of receipt of the transaction report together with the fiscal identification code of the transaction. The customer then receives a receipt, which contains, among other things, the fiscal identification code that the entrepreneur received from the Financial Administration.

In case of technical problems, it is possible to issue a receipt offline, followed by sending the details of the transaction within 48 hours of the sale.

Electronic registration of sales is divided into 4 phases, which are based on the classification under CZ-NACE economic activities, according to which entrepreneurs participated in electronic registration of sales.

- **1st phase - Food and accommodation services** (1st December 2016)
- **2nd phase - Retail trade and wholesale** (1st March 2017)
- **3rd phase - All other NACE not listed in other 1st, 2nd or 4th phase** (taxi services, Freelance professions (doctors, lawyers, veterinarians), Railway passenger interurban transport, Road freight transport, Entrepreneurs in production (bakers, confectioners, butchers etc.) (Has not already started.)
- **4th phase - Selected craft and production activities** (Has not already started.)⁶⁶

Currently, the electronic registration of sales is suspended from 27th March 2020 and taxpayers are not obliged to register cash sales until 31st December 2022.⁶⁷

⁶⁶ FINANCIAL ADMINISTRATION OF THE CZECH REPUBLIC. *Information about registration of sales: Who, what and when?* [online]. 2016 [cit. 2021-01-11]. Available at: <https://www.etrzby.cz/cs/english-version-609>

⁶⁷ FINANČNÍ SPRÁVA ČESKÉ REPUBLIKY. *Uplatnění slevy na evidenci tržeb v době pozastavení evidence tržeb* [online]. 2021 [cit. 2021-01-30]. Available at: https://www.etrzby.cz/cs/novinky_1550

3.7 Basic differences between tax and criminal proceedings

Tax and criminal proceedings are by their nature completely different types of proceedings, between which there is no procedural connection. The lawfulness of the course of tax proceedings is one thing and finding out the facts from which the intention of fault can be deduced is another matter. The offender may commit the crime of tax evasion even if the tax administrator detect/find a tax evasion or not, but the decision will be revoked due to procedural defects or the deadline for tax assessment has expired. Another difference is that in practice the taxable person evase the tax, but does not commit the crime of evading the tax.

In criminal proceedings, the burden of proof is fully on the Police of the Czech Republic, i.e. the police must prove guilt, while in tax proceedings the burden of proof lies with the tax entity, i.e. the tax entity must prove what it claims in the tax return before the evidence from the side of the Financial Administration begins.

In criminal proceedings, the act for which the criminal proceedings are taking place is proved, in connection with the circumstances decisive for the fulfilment of the factual substance of the criminal offense.

The subject of evidence in tax proceedings is the fulfilment of the conditions given by the substantive tax law (e.g. the legitimacy of the application of costs, the legitimacy of input tax etc.)

The adjournment of criminal proceedings has no impact on the tax entity in tax proceedings. The police shall proceed in such a way as to establish the facts of the case, on which there is no reasonable doubt, to the extent necessary for their decision, while the guilt of the accused must also be proved.^{68 69}

⁶⁸ *Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code*, as amended [online]. [cit. 2021-01-20]. Available at:

<http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

⁶⁹ Zákon č. 280/2009 Sb., daňový řád, as amended (Act No. 235/2004 Coll., Tax Code) Daňový řád, Finanční správa ČR: redakční uzávěrka. Ostrava: Sagit, [2020]-. ÚZ. ISBN 978-80-7488-418-4

In tax proceedings, the tax administrator ensures that the facts decisive for the correct assessment of the tax are as fully as possible. Evidence found in criminal proceedings does not serve directly as evidence in tax proceedings, and conversely, evidence found in tax proceedings does not serve directly as evidence in criminal proceedings and its relevance can be rebutted. Evidence is independent of the person in both proceedings.^{70 71}

⁷⁰ *Criminal Code of the Czech Republic: Act no. 40/2009 Sb., Criminal Code*, as amended [online]. [cit. 2021-01-20]. Available at:

<http://www.ejtn.eu/PageFiles/6533/Criminal%20Code%20of%20the%20Czech%20Republic.pdf>

⁷¹ Zákon č. 280/2009 Sb., daňový řád, as amended (Act No. 235/2004 Coll., Tax Code) Daňový řád, Finanční správa ČR: redakční uzávěrka. Ostrava: Sagit, [2020]-. ÚZ. ISBN 978-80-7488-418-4

4 Methodology

The diploma thesis “Tax evasion and its prevention in the field of VAT and Income Tax in the Czech Republic” explains the issue of tax evasion, its types from the tax and criminal point of view and suggests ways to prevent the tax evasion. In order to understand and examine the diploma thesis, the descriptive method in the theoretical part of the thesis is used, followed by the method of analysis together with the occasional comparative method. Methods used for the practical part are comparison, time series analysis mainly usage of linear trend function and based on this is calculated the forecast for the years 2020 and 2021. Then practical part of the diploma thesis is focused on demonstrative calculations of tax evasion on Value Added Tax (VAT) and Income tax (Personal and Corporate) according to practical examples. Based on the calculated examples and according to valid laws, an analysis of individual cases of tax evasion is created. According to the analyses, the possibilities of eliminating tax evasion in the given case are proposed. The diploma thesis works with the data that are collected from documents and statistical records of the Financial Administration of the Czech Republic and the Police of the Czech Republic for the calendar years 2010 to 2019 provided through their official websites. The diploma thesis draws on the knowledge and information obtained from laws, professional literature, scientific articles and internet resources.

4.1 Data Collection

For the Diploma thesis research are used the secondary data in the period of time from 2010 to 2019. Sources used are bibliographical and also factual data which means that the thesis uses the statistical factual data and also quotations from books. Main data sources are Tax Laws, Criminal code of the Czech Republic, books about taxes and tax system of the Czech Republic, then scientific articles and internet resources mainly official websites of the Financial Administration of the Czech Republic and the Police of the Czech Republic.

4.2 Analysis

Analysis is a process that aims to break down the complex issues of a whole into several elementary simpler parts, which are then examined individually. For individual elementary parts of the whole, the essential relationships, properties (phenomena, processes etc.) and factors, nature and regularities are examined. Based on the analysis, it is then easier to classify which relationships, properties and factors are essential and which, on the contrary, insignificant or permanent, random etc.

Analysis is used in all possible specializations. In economics, the most well-known analyses include: SWOT analysis, PESTLE analysis, cost-benefit analysis, time series analysis and more.⁷²

4.3 Time series analysis

Investigation of a chronologically arranged sequence of values of a certain statistical indicator in order to understand the mechanism of a given time series and at the same time to understand the conditions, properties and relationships affecting the origin of the values of a certain statistical indicator. The time series are statistical series whose development and behaviour cannot be easily described and there is always a certain degree of uncertainty. For this reason, they are called stochastic series. Time series mean the total number of observations of a particular subject. Based on the time series analysis, it is possible to simulate the behaviour of a certain model or also to create a prediction of a time series for the following time period.^{73 74}

⁷² MANAGEMENTMANIA.COM. *Analysis* [online]. Wilmington, Delaware, US, 2013 [cit. 2021-02-01]. Available at: <https://managementmania.com/en/analysis>

⁷³ COHEN, Imit. *Time series-Introduction: Introduction* [online]. Canada: Towards Data Science, 2019 [cit. 2021-02-02]. Available at: <https://towardsdatascience.com/time-series-introduction-7484bc25739a>

⁷⁴ MADSEN, Henrik. *Time Series Analysis*. Lyngby, Denmark: Chapman & Hall, 2008. ISBN 978-1420059670 0.

Time series decomposition in additive form looks like:

$$y'_t = T_t + P_t + \varepsilon_t \quad (1)$$

Time series decomposition in multiplicative form looks like:

$$y'_t = T_t * P_t * \varepsilon_t \quad (2)$$

- y'_t is theoretical dependent variable
- T_t is trend
- P_t is periodicity (cyclic, seasonal, short-term)
- ε_t is an error term ⁷⁵

Time series analysis is used in all possible sectors from meteorology and daily temperature records, population changes in demographics or price developments in the economy and more.

4.4 Trend function

The trend function represents the tendency of long-term development of the examined values in the period of time. The trend function is the result of permanent and long-term processes.

The trend may be:

- Rising
- Falling
- No trend

The most frequently used trend functions are considered to be: linear trend, polynomial trend, exponential trend, modified exponential trend, logistic trend, Gompertz curve. ⁷⁶

⁷⁵ HINDLS, Richard, Ilja NOVÁK a Jara KAŇOKOVÁ. *Metody statistické analýzy pro ekonomy*. Praha: Management Press, 1997. ISBN 80-859-4344-1.

4.4.1 Linear trend function

The most common trend function can be considered a linear trend function. The linear trend function is used to determine at least an approximate determination of the direction of development of the time series and also as an approximation of trend functions only with a time variable and at the same time without knowledge of parameters. This approximation can be only made for a limited period of time.

The mathematical model for a linear trend function has the form:

$$T_t = a + b \cdot t \quad (3)$$

- **Tt** represents the dependent variable
- **a** is a parameter of dependent variable that is given when time (t) = 0
- **b** is a parameter of an independent variable that changes according to time (t) and based on b parameter the dependent variable changes
- **t** is time variable ⁷⁷

Unknown parameters a and b and also time variable t are components of the linear trend function. Estimation of unknown parameters is calculated through the function in terms of parameters, e.g. the least square method.

$$\Sigma y_i = n \cdot a + b \cdot \Sigma t \quad (4)$$

$$\Sigma y_i t_i = a \cdot \Sigma t + b \cdot \Sigma t^2 \quad (5)$$

- **n** is the last number of time series ⁷⁸

⁷⁶ VŠB-TUO OSTRAVA. *ČASOVÉ ŘADY: Analýza trendu a sezónní složky* [online]. Ostrava: VŠB-TUO Ostrava, 2015 [cit. 2021-02-02]. Available at: <https://homel.vsb.cz/~oti73/cdpast1/KAP10/KAP10.HTM>

⁷⁷ FORTHOFFER Ronald N., Eun Sul LEE a Mike HERNANDEZ. *Biostatistics: A Guide to Design, Analysis and Discovery*. Second Edition. US: Academic Press, 2007. ISBN 978-0123694928.

⁷⁸ HINDLS, Richard, Ilja NOVÁK a Jara KAŇOKOVÁ. *Metody statistické analýzy pro ekonomy*. Praha: Management Press, 1997. ISBN 80-859-4344-1.

4.5 VAT calculation procedures

VAT is a general consumption tax. VAT is paid by the final consumer (citizen, state, organization etc.) by whom the economic activity is carried out and which is subject to the tax. It is necessary to know several aspects for calculating VAT. First of all, it is necessary to make sure what the tax rate is.

As we already know from the previous part of the diploma thesis, in the Czech Republic there are three rates of value added tax:

- 10% **Second reduced tax rate** (Baby food, medicine, music, books)
- 15% **Reduced tax rate** (food, certain medicines, printed matter, public transport, funeral services, water and household waste, heat supply, culture, accommodation services, construction work etc.)
- 21% **Basic tax rate** (most goods and services)

It is also necessary to find out whether the price includes tax or it is a price without tax.

- If the price includes VAT, the amount of tax is calculated via a coefficient. The tax base is multiplied by the calculated coefficient. This calculation gives the amount of VAT. After deducting the result from the tax base, we get the price without tax.⁷⁹

$$\text{coefficient of VAT} = \text{tax rate} / (100 + \text{tax rate}) \quad (6)$$

$$\text{the amount of VAT} = \text{coefficient of VAT} * \text{tax base} \quad (7)$$

$$\text{price without VAT} = \text{tax base} - \text{the amount of VAT} \quad (8)$$

⁷⁹ GALOČÍK, Svatopluk, Zdeněk KUNEŠ and Oto PAIKERT. *DPH: výklad s příklady. (VAT: interpretation with examples)* Praha: Grada, [2005]-. Účetnictví a daně (Grada). ISBN 978-80-271-1031-5.

- If the price without VAT is known, the calculation is as follows. The price without VAT is multiplied by the VAT rate and then divided by 100. This gives the amount of VAT. After adding to the amount of VAT the price without VAT, the tax base is obtained.⁸⁰

$$\text{the amount of VAT} = \text{price without VAT} * \text{tax rate} / 100 \quad (9)$$

$$\text{tax base} = \text{the amount of VAT} + \text{price without VAT} \quad (10)$$

When calculating VAT to a taxable person, it is necessary to take into account the right to deduct tax, which is deducted from the tax base. The taxpayer is entitled to a tax deduction in compliance with the conditions set out in Act 235/2004 Coll., On VAT. If the taxpayer is entitled to a tax deduction, the procedure is as follows. In the same way as calculating the tax (using the VAT coefficient), the tax that is subject to tax deduction is calculated. The tax that is entitled to deduct is then deducted from the tax originally calculated.⁸¹

$$\text{final VAT} = \text{the amount of VAT} - \text{VAT with the right to deduct} \quad (11)$$

⁸⁰ GALOČÍK, Svatopluk, Zdeněk KUNEŠ and Oto PAIKERT. *DPH: výklad s příklady. (VAT: interpretation with examples)* Praha: Grada, [2005]-. Účetnictví a daně (Grada). ISBN 978-80-271-1031-5.

⁸¹ Zákon č. 235/2004 Sb., o dani z přidané hodnoty, as amended (Act No. 235/2004 Coll., Value Added Tax) *Daň z přidané hodnoty: zákon o DPH: směrnice Rady EU o společném systému DPH, informace a sdělení Generálního finančního ředitelství: redakční uzávěrka.* Ostrava: Sagit, [2020]-. ÚZ. ISBN 978-80-7488-273-9.

4.6 Income tax calculation procedures

Income tax applies to almost every one of us, such as employees, legal entities, self-employed persons, pensioners. All economically active natural or legal persons with permanent residence in the Czech Republic, as well as some foreigners, are obliged to pay income tax. In the case of income tax, it is therefore necessary to distinguish whether the taxpayer is a natural person or legal entity.^{82 83}

4.6.1 Personal income tax

Personal income tax represents 15% of the income that economically active persons are obliged to pay regularly to the state under the conditions provided by law. As the name suggests, subject to personal income tax is personal income from employment, business or other income (rental income, income from capital assets, income from occasional activities).

For natural persons who keep tax records or claim flat-rate expenses is:

$$\text{tax base (loss)} = \text{income} - \text{expenses} \quad (12)$$

or for natural persons who keep accounts (registered in the Commercial Register) it is the economic result (profit or loss).⁸⁴

⁸² UCTOVANI.NET. *Kalkulačka na výpočet daně z příjmů právnických osob 2021: Jak se počítá daň z příjmů právnických osob?* [online]. Uctovani.net, 2021 [cit. 2021-01-22]. Available at: <https://www.uctovani.net/vypocet-dane-z-prijmu-pravnickych-osob.php>

⁸³ Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) *Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GR: přehled smluv o zamezení dvojího zdanění*; Evidence tržeb: zákon o EET ve znění nálezu Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-.ÚZ. ISBN 978-80-7488-272-2.

⁸⁴ Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) *Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GR: přehled smluv o zamezení dvojího zdanění*; Evidence tržeb: zákon o EET ve znění nálezu Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-.ÚZ. ISBN 978-80-7488-272-2.

- The positive tax base is called profit.
- The negative tax base is called a loss.

In case of loss, income tax is not calculated, the loss can be deducted in the following 5 tax periods.

The tax from the tax base reduced by the non-taxable part of the tax base and by deductible items from the tax base rounded to the nearest hundred CZK is 15%.⁸⁵

$$\text{income tax} = \text{rounded tax base} * \frac{\text{tax rate}}{100} \quad (13)$$

4.6.2 Corporate income tax

Legal entities that are, for example, companies, non-profit organizations, associations, cooperatives, as well as universities, municipalities, regions and others are obliged to pay corporate income tax. Corporate income tax applies to income from all activities and income from the management of all assets, unless otherwise provided by the Income Tax Act.⁸⁶

The calculation of corporate income tax is as follows:

$$\text{Profit (Loss)} = \text{revenues} - \text{expenses} \quad (14)$$

⁸⁵ Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) *Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GR: přehled smluv o zamezení dvojího zdanění*; Evidence tržeb: zákon o EET ve znění nálezů Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-.ÚZ. ISBN 978-80-7488-272-2.

⁸⁶ Zákon č. 586/1992 Sb., o daních z příjmů, as amended (Act No. 586/1992 Coll., Income Taxes) *Daně z příjmů: zákon o daních z příjmů: vyhlášky, pokyny a sdělení MF a GR: přehled smluv o zamezení dvojího zdanění*; Evidence tržeb: zákon o EET ve znění nálezů Ústavního soudu: redakční uzávěrka. Ostrava: Sagit, [2020]-.ÚZ. ISBN 978-80-7488-272-2.

$$\text{tax base} = \text{profit (loss)} + \text{Expenditures not recognized under Section 25 of Income tax Act} \quad (15)$$

or

$$\text{tax base} = \text{profit (loss)} - \text{Expenditures recognized under Section 25 of Income tax Act} \quad (16)$$

The tax of 19% from the tax base is then calculated from the calculated tax base, rounded down to the nearest thousand. The amount of income tax is obtained by multiplying the rounded tax base by the tax rate divided by 100.⁸⁷

$$\text{income tax} = \text{rounded tax base} * \frac{\text{tax rate}}{100} \quad (17)$$

If the taxpayer is entitled to a tax rebate (basic rebate, spouse rebate, dependent child rebate, disability rebate, student rebate, etc.), the tax rebate is deducted from the calculated tax. In order a taxpayer to be entitled to a rebate, the taxpayer must comply with the conditions set out in Act 586/1992 Coll., On income taxes.⁸⁸

$$\text{Tax after application of rebate} = \text{income tax} - \text{tax rebate} \quad (18)$$

⁸⁷ UCTOVANI.NET. *Kalkulačka na výpočet daně z příjmů právnických osob 2021: Jak se počítá daň z příjmů právnických osob?* [online]. Uctovani.net, 2021 [cit. 2021-01-22]. Available at: <https://www.uctovani.net/vypocet-dane-z-prijmu-pravnickych-osob.php>

⁸⁸ UCTOVANI.NET. *Kalkulačka na výpočet daně z příjmů právnických osob 2021: Jak se počítá daň z příjmů právnických osob?* [online]. Uctovani.net, 2021 [cit. 2021-01-22]. Available at: <https://www.uctovani.net/vypocet-dane-z-prijmu-pravnickych-osob.php>

5 Practical Part

5.1 Tax evasion from statistical viewpoint

5.1.1 Statistical Data of tax evasion

This part of the diploma thesis depicts a linear trend from the perspective of criminal law. There are two main sections in the Criminal Code of the Czech Republic that deal with tax fraud in the connection with the VAT and personal and corporate income taxes. These sections are Section 240 Evasion of Taxes, Fees and Similar Compulsory Payments and Section 254 Distortion of Data on Status of Management and Assets. Table no. 4 shows data from the statistics of the Police of the Czech Republic from 2010 to 2019 and is focused on the detected tax evasion under sections 240 and 254 of Criminal Code. The table also shows the sums of the numbers of already mentioned crimes. These crimes are subsequently investigated and the perpetrators are punished.

Table 4: Tax evasion in the Czech Republic (2010-2019)

Year	Tax evasion under Section 240 of Criminal Code	Tax evasion under Section 254 of Criminal Code	SUM
2010	601	246	847
2011	704	236	940
2012	916	304	1220
2013	1114	332	1446
2014	858	305	1163
2015	1015	285	1300
2016	1043	321	1364
2017	1107	261	1368
2018	1296	312	1608
2019	1096	296	1392

Source: Author's processing (Data source: POLICIE ČR, Statistické přehledy kriminality (Statistical reports of crime). Prague. (online) [2010-2019])

During the period from 2010 to 2019, some of the tools to help eliminate and prevent tax evasion were introduced. In this period, the Tax Cobra was established, in which the authorities of the Czech Republic, namely the Police of the Czech Republic, the Financial Administration of the Czech Republic and the Customs Administration, merge. Subsequently, financial administration tools which are control statement and electronic registration of sales that detect the activities of entrepreneurs and capture their economic activities.

Looking at the table, it is clear, that most of the identified crimes of tax evasion are focused on Section 240 Evasion of Taxes, Fees and Similar Compulsory Payments. Crimes from Section 240 Evasion of Taxes, Fees and Similar Compulsory Payments make up 3/4 of the sum of the number of crimes committed in connection to VAT and income tax.

5.1.2 Linear trend function of tax evasion

The following table shows the sums of tax evasion connected with the VAT and income tax of each year in the period from 2010 to 2019. Based on the table, a linear trend function was calculated and a subsequent graph showing real data at the same time the trend line showing the tendency of the long-term development of the values.

Table 5: Linear trend function of tax evasion in the Czech Republic (2010-2019)

Year	Yt	Time vector	Trend Line f.
2010	847	1	986.3
2011	940	2	1048.2
2012	1220	3	1110.1
2013	1446	4	1172.0
2014	1163	5	1233.9
2015	1300	6	1295.7
2016	1364	7	1357.6
2017	1368	8	1419.5
2018	1608	9	1481.4
2019	1392	10	1543.3

Source: Author's processing

The trend line equation in the form $Tt = 924.4 + 61.891*t + ut$ was achieved by using the set of equations.

$$10a + 55b = 12648$$

$$55a + 385b = 74670$$

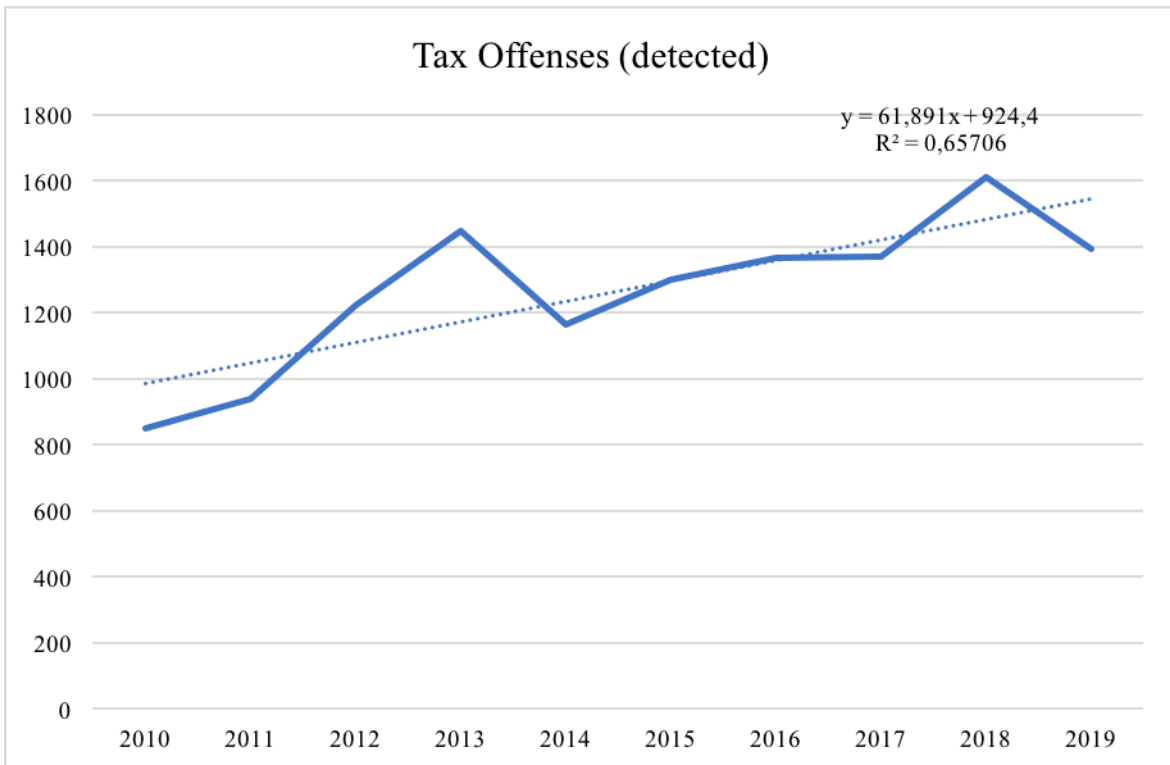
Using trend line equation, the values of the function showing the tendency of the long-term development were calculated. At the same time, according to the trend line equation, predictions for the following years can be set. For 2020 and 2021, the prediction is as follows:

$$\text{Year 2020: } Tt = 924.4 + 61.891*11 = 1605.2$$

$$\text{Year 2021: } Tt = 924.4 + 61.891*12 = 1667.1$$

The linear trend is very similar to the real values of the VAT and income tax evasion in individual years. The real values of tax evasion are affected by many unpredictable factors. These factors differ the real values from values that are calculated by a linear trend function. The forecast for years 2020 and 2021 is also provided as part of the linear trend function. Due to unpredictable factors, the forecast for 2020 and 2021 may also differ. One of the factors is for example a fact that currently the Electronic Registration of Sales is suspended until 2022. Therefore, this tool can no longer be expected to the forecast for 2020 and 2021.

Graph 1: The linear trend function of tax evasion



Source: Author's processing

The graph shows the rising number of tax evasion and thus the rising linear trend. This is due to the introduction of some tools that help to detect tax evasion more quickly. It could be said that the more of these tools, the more detected cases of tax evasion. Most of them have come into force in the last 5 years. In 2015, the tax cobra started operating, then at the beginning of 2016, entrepreneurs began to submit the VAT control statement, and at the end of 2016, sales were registered in phases using the Electronic Registration of Sales.

The decrease was observed in the years 2018 to 2019, in particular in the area of VAT. This may be due to the introduction and improving the functioning of control statement and electronic registration of sales. Comparison of the year 2010 and 2019, in terms of the number of VAT and income tax evasion offenses, the increase over the period is almost 550 more.

5.2 Demonstrative calculation of tax evasion on Value Added Tax

The VAT model example covers the tax period from March 2017 to June 2018. Natural person, name Eva Novakova, born on 2nd February 1970, did the business under her own name, IN: 785655500, permanent residence Zadní 1231/45, 56745 PRAGUE. The natural person operated as the hairdresser Eva Novakova, road transport (economic activity terminated in 2016) and also carried out economic activity selling jewellery and fashion accessories in the establishments Janex Bijoux at Kladenská 633, Prague and Parama at Daleká 392, 56745 Prague.

The taxpayer, although the payer of value added tax with a tax period of a calendar month, did not file a tax return for value added tax for the period from March 2017 to June 2018 in due time, even though the economic activity was carried out in Janex Bijoux at Kladenská 633, Prague and Parama at Daleká 392, 56745 Prague. The tax entity was sent a call for proper tax returns by the tax administrator. The tax entity did not respond to the request and did not file a proper tax return even within a substitute period of 15 days from the delivery of the request, thus violating the provisions of Section 101 a) of 235/2004 Coll., the VAT Act and Section 135 of 280/2009 Coll., the Tax Code. As the tax administrator was unable to determine the tax by means of evidence, it proceeded to assess the value added tax according to the aids. Tax assessment aids, in the case of Eva Novakova, mean the use of data obtained from the Electronic Registration of Sales, which were sent by the tax entity from the premises and also sales made by cashless transfer via payment cards to the current account of the tax entity no. 1123458765/0100 for the given tax period. The tax administrator also searched for a comparable tax entity, whose data on realized and received taxable transactions he used in determining the tax according to aids. Based on search activity tax administrator received from the lessor of commercial premises invoices for rent spaces that tax entity used for business, and also for services related to the lease of the premises. The right to deduct according to section 72 of 235/2004 Coll., the VAT Act, has a tax entity in terms of documents for the lease of commercial premises.

Using the aids, the tax administrator assessed to the tax entity:

- for the tax period from March 2017 to December 2017 the amount of VAT 154,621 CZK
- for the tax period from January 2018 to June 2018 the amount of VAT 38,227 CZK

Payment notices were delivered by the deadline of 4th December 2018 for both tax periods (March 2017, April 2017, May 2017, June 2017, July 2017, August 2017, September 2017, October 2017, November 2017, December 2017, January 2018, February 2018, March 2018, April 2018, May 2018 and June 2018). In total, for the tax periods 2017 and 2018, value added tax in the amount of 192,848 CZK was calculated using aids to the tax entity.

Based on an investigation by the Police of the Czech Republic, it was found that the natural person Eva Novakova, tax identification number: CZ8765459810, was engaged in economic activity from 6th June 2009 to 27th June 2018. Among others, she held a trade license with the subject of business Production, Trade and Services.

At the beginning of 2017, she started retailing jewellery and fashion accessories. Due to the pursuit of economic activity in the area of retail sales, Eva Novakova requested the financial administration for the allocation of authentication data on 2nd February 2017 as part of the registration in the system Electronic Registration of Sales. Establishments Janex Bijoux at Kladenská 633, Prague and Parama at Daleká 392, 56745 Prague were reported in the Electronic Registration of Sales system. For sold goods such as jewellery, fashion accessories, the basic tax rate applies, i.e. 21%.

$$21/121 = 0.1736$$

From the statement from the Electronic Registration of Sales system, it was found that Eva Novakova started registering on 3rd March 2017 at 9:11 am. The last registered sales took place on 29th June 2018 at 11:38 am. During this period, Eva Novakova received a total of **1,025,005.26 CZK** in cash.

Table 6: Electronic Registration of Sales - Overview 2017

month	total sales	tax base	VAT
03.2017	89 306,49	73 802,88	15 503,61
04.2017	69 352,59	57 312,98	12 039,61
05.2017	72 662,20	60 048,04	12 614,16
06.2017	79 066,16	65 340,27	13 725,89
07.2017	93 078,68	76 920,22	16 158,46
08.2017	186 799,34	154 370,97	32 428,37
09.2017	49 029,65	40 518,10	8 511,55
10.2017	49 079,00	40 558,89	8 520,11
11.2017	44 502,68	36 777,01	7 725,67
12.2017	99 037,00	81 844,18	17 192,82
Total:	831 913,79	687 493,56	144 420,23

Source: Author's processing

Table 7: Electronic Registration of Sales - Overview 2018

month	total sales	tax base	VAT
01.2018	46 783,53	38 661,91	8 121,62
02.2018	56 525,40	46 712,59	9 812,81
03.2018	34 617,79	28 608,14	6 009,65
04.2018	19 530,50	16 140,01	3 390,49
05.2018	20 722,75	17 125,28	3 597,47
06.2018	14 911,50	12 322,86	2 588,64
Total:	193 091,47	159 570,79	33 520,68

Source: Author's processing

Table 8: Electronic Registration of Sales - Sum 2017 and 2018

SUM		
1 025 005,26	847 064,35	177 940,91

Source: Author's processing

For payments by credit cards to the bank account no. 1123458765/0100, which was owned by Eva Novakova, the value of non-cash sales amounted to the total of **265,445.58 CZK**.

Table 9: Non-cash sales - Overview 2017

month	total sales	tax base	VAT
03.2017	19 400,60	16 032,66	3 367,94
04.2017	17 090,67	14 123,73	2 966,94
05.2017	21 194,55	17 515,18	3 679,37
06.2017	21 442,31	17 719,92	3 722,39
07.2017	22 517,25	18 608,26	3 908,99
08.2017	39 428,50	32 583,71	6 844,79
09.2017	13 705,69	11 326,38	2 379,31
10.2017	16 091,74	13 298,21	2 793,53
11.2017	12 491,19	10 322,72	2 168,47
12.2017	30 443,19	25 158,25	5 284,94
Total:	213 805,69	176 689,02	37 116,67

Source: Author's processing

Table 10: Non-cash sales - Overview 2018

month	total sales	tax base	VAT
01.2018	14 976,70	12 376,74	2 599,96
02.2018	16 555,92	13 681,81	2 874,11
03.2018	9 015,48	7 450,39	1 565,09
04.2018	6 627,49	5 476,96	1 150,53
05.2018	3 733,66	3 085,50	648,16
06.2018	730,64	603,80	126,84
Total:	51 639,89	42 675,21	8 964,68

Source: Author's processing

Table 11: Non-cash sales - Sum 2017 and 2018

SUM		
265 445,58	219 364,23	46 081,35

Source: Author's processing

Based on data on registered sales and sales made through payment cards, taxable supplies of goods in the period from March 2017 to June 2018 totaled **1,290,450.84 CZK**.

In determining the amount of damage, the Police of the Czech Republic relied on the evidence obtained (data on registered sales and sales made through credit cards).

Table 12: Registered sales and sales made through credit cards - Overview 2017

month	total sales	tax base	VAT
03.2017	108 707,09	89 835,54	18 871,55
04.2017	86 443,26	71 436,71	15 006,55
05.2017	93 856,75	77 563,22	16 293,53
06.2017	100 508,47	83 060,20	17 448,27
07.2017	115 595,93	95 528,48	20 067,45
08.2017	226 227,84	186 954,69	39 273,15
09.2017	62 735,34	51 844,48	10 890,86
10.2017	65 170,74	53 857,10	11 313,64
11.2017	56 993,87	47 099,73	9 894,14
12.2017	129 480,19	107 002,43	22 477,76
Total:	1 045 719,48	864 182,58	181 536,90

Source: Author's processing

Table 13: Registered sales and sales made through credit cards - Overview 2018

month	total sales	tax base	VAT
01.2018	61 760,23	51 038,65	10 721,58
02.2018	73 081,32	60 394,40	12 686,92
03.2018	43 633,27	36 058,53	7 574,74
04.2018	26 157,99	21 616,96	4 541,03
05.2018	24 456,41	20 210,78	4 245,63
06.2018	15 642,14	12 926,66	2 715,48
Total:	244 731,36	202 246,00	42 485,36

Source: Author's processing

Table 14: Registered sales and sales made through credit cards - Sum 2017 and 2018

SUM		
1 290 450,84	1 066 428,57	224 022,27

Source: Author's processing

According to the evidence for the tax period, Eva Novakova received:

- March 2017 total 108,707.09 CZK, 21% VAT 18 871.55 CZK
- April 2017 total 86,443.26 CZK, 21% VAT 15,006.55 CZK
- May 2017 total 93,856.75 CZK, 21% VAT 16,293.53 CZK
- June 2017 total 100,508.47 CZK, 21% VAT 17,448.27 CZK
- July 2017 total 115,595.93 CZK, 21% VAT 20,067.45 CZK
- August 2017 total 226,227.84 CZK, 21% VAT 39,273.15 CZK
- September 2017 total 62,735.34 CZK, 21% VAT 10,890.86 CZK
- October 2017 total 65,170.74 CZK, 21% VAT 11,313.64 CZK
- November 2017 total 56,993.87 CZK, 21% VAT 9,894.14 CZK
- December 2017 total 129,480.19 CZK, 21% VAT 22,477.76 CZK
- January 2018 total 61,760.23 CZK, 21% VAT 10,721.58 CZK
- February 2018 total 73,081.32 CZK, 21% VAT 12,686.92 CZK
- March 2018 total 43,633.27 CZK, 21% VAT 7,574.74 CZK
- April 2018 total 26,157.99 CZK, 21% VAT 4,541.03 CZK
- May 2018 total 24,456.41 CZK, 21% VAT 4,245.63 CZK
- June 2018 total 15,642 CZK, 21% VAT 2,715.48 CZK

In summary, the total amount of unacknowledged value added tax is 224,022.27 CZK.

In the case of the right to deduct tax (Section 72 of 235/2004 Coll., The VAT Act), the payer is entitled to comply with and meet several conditions. The first condition is that the taxable person uses the taxable supply for his economic activity. The second condition requires the taxpayer to prove the right to deduct the tax with a tax invoice containing all the requisites. If the tax obligations fully utilized for economic activities eligible for

deduction, the taxpayer is entitled to deduct the full amount. The right to deduct can be applied at the earliest in the tax return for the tax period in which the taxable supply took place and at the latest during the three-year period beginning on the first day of the month following the tax period in which the right to deduct arose.

As stated above, in order to claim the tax deduction, the taxpayer is obliged to have a tax invoice. The tax invoices, which were related to the economic activity of Eva Novakova and on the basis of which the right to deduct tax can be asserted, were for the rent of space used for business at Daleká 392, 567 45 Prague. The lessor invoiced the lease of non-residential space as a tax-exempt performance without the right to deduct tax. The tax entity was not entitled to deduct input tax related to the lease of the establishment at Daleká 392, 567 45 Prague. According to the invoice for services related to renting business space intended to be billed each month was proportion of the costs of cleaning, water and sewage, waste, electricity and operating costs. At 31st October 2017, the lessor terminated the lease with the tax entity. Eva Novakova became entitled to a deduction in the amount of:

- for the tax period March 2017 0 CZK, because the lease between Eva Novakova and the lessor was agreed from 1st March 2017 and the lessor issued a tax document for services related to the lease of business space always with the date of taxable performance of the following tax period,
- for the tax period April 2017: tax base 4,670.62 CZK, 21% VAT 980.82 CZK; tax base 211.79 CZK, 15% VAT 31.77 CZK
- for the tax period May 2017: tax base 4,827.62 CZK, 21% VAT 1,013.80 CZK; tax base 188.33 CZK, 15% VAT 28.25 CZK
- for the tax period June 2017: tax base 5,253.63 CZK, 21% VAT 1,013.26 CZK; tax base 257.49 CZK, 15% VAT 38.62 CZK
- for the tax period July 2017: tax base 4,791.58 CZK, 21% VAT 1,006.25 CZK; tax base 221.89 CZK, 15% VAT 33.28 CZK
- for the tax period August 2017 - tax base 5,473.78 CZK, 21% VAT 1,149.50 CZK; tax base 216.28 CZK, 15% VAT 32.44 CZK
- for the tax period September 2017: tax base 5,119.32 CZK, 21% VAT 1,075.06 CZK; tax base 239.67 CZK, 15% VAT 35.95 CZK

- for the tax period October 2017: tax base 4,927.04 CZK, 21% VAT 1,034.68 CZK; tax base 201.98 CZK, 15% VAT 30.30 CZK
- for the tax period November 2017: tax base 5,141.91 CZK, 21% VAT 1,079.81 CZK; tax base 201.98 CZK, 15% VAT 30.30 CZK
- for the tax period December 2017 - tax base 101.65 CZK, 21% VAT 21.35 CZK.

Based on tax invoices, the right to deduct tax in the amount of 8,725.44 CZK (21% = 8,464.53 CZK; 15% = 260.91 CZK) was calculated.

In accordance with the VAT Act, the amount of damage caused by non-payment of value added tax was quantified to the tax entity Eva Novakova. From the calculated output tax from the electronic registration of sales and sales made by non-cash transfer via payment cards to Eva Novakova's current account, the input tax stated on the tax invoices that met the conditions for claiming the tax deduction was deducted.

For the tax period from March 2017 to June 2018, the amount of VAT is:

- for the tax period March 2017: 18,871.55 CZK – 0 CZK = 18,871.55 CZK
- for the tax period April 2017: 15,006.55 CZK - 1,012.59 CZK = 13,993.96 CZK
- for the tax period May 2017: 16,293.53 CZK - 1,042.05 CZK = 15,251.48 CZK
- for the tax period June 2017: 17,448.27 CZK - 1,141.88 CZK = 16,306.39 CZK
- for the tax period July 2017: 20,067.45 CZK - 1,039.53 CZK = 19,027.92 CZK
- for the tax period August 2017: 39,273.15 CZK - 1,181.94 CZK = 38,091.21 CZK
- for the tax period September 2017: 10,890.86 CZK - 1,111.01 CZK = 9,779.85 CZK
- for the tax period October 2017: 11,313.64 CZK - 1,064.98 CZK = 10,248.66 CZK
- for the tax period November 2017: 9,894.14 CZK - 1,110.11 CZK = 8,784.03 CZK
- for the tax period December 2017: 22,477.76 CZK - 21.35 CZK = 22,456.41 CZK
- for the tax period January 2018: 10,721.58 CZK - 0 CZK = 10,721.58 CZK
- for the tax period February 2018: 12,686.92 CZK - 0 CZK = 12,686.92 CZK
- for the tax period March 2018: 7,574.74 CZK - 0 CZK = 7,574.74 CZK
- for the tax period April 2018: 4,541.03 CZK - 0 CZK = 4,541.03 CZK
- for the tax period May 2018: 4,245.63 CZK - 0 CZK = 4,245.63 CZK

- for the tax period June 2018: 2,715.48 CZK - 0 CZK = 2,715.48 CZK

The total amount of damage is (output tax 224,022.27 CZK - input tax 8,725.44 CZK) **215,297 CZK**.

Eva Novakova did not pay in the period March 2017, April 2017, May 2017, June 2017, July 2017, August 2017, September 2017, October 2017, November 2017, December 2017, January 2018, February 2018, March 2018, April 2018, May 2018 and June 2018 value added tax, even though she carried out economic activities selling jewellery and fashion accessories in the establishments Janex Bijoux at Kladenská 633, Prague and Parama at Daleká 392, 56745 Prague. Thereby Eva Novakova committed an offense Evasion of Taxes, Fees and Similar Compulsory Payments pursuant to Section 240, Paragraph 1 of the Criminal Code.

5.3 Demonstrative calculation of tax evasion on Income tax

5.3.1 Personal Income tax

The model example concerning personal income tax is shown on the taxpayer Marie Horakova. Business natural person Marie Horakova, born on 10th October 1989, ID number: 12345678, operated a hairdresser's in 2015 and 2016. In 2015, she also sold cosmetics at the hair salon. In her filed tax returns for the years 2015 and 2016, in which she reported income from hairdressing services and income from the sale of cosmetics (Section 7 of the Income Tax Act), she claimed expenses as a percentage of business income in accordance with the provisions of Section 7, Paragraph 7 of the Income Tax Act.

In addition, in 2015 and 2016 the tax entity was also active in the online sale of mobile phones and accessories, but did not declare income (cashless or cash on delivery) from this activity for taxation. For this reason, a tax audit was initiated for Marie Horakova.

In the tax returns for 2015 and 2016, Marie Horakova did not report the income in the total amount of 5,159,079 CZK.

The difference between the assessed tax and the originally assessed tax is calculated as follows.

Year 2015

Table 15: Total income for the 2015 tax year found during the tax audit

Month	Income in CZK
January 2015	214,601.00
February 2015	199,509.00
March 2015	160,986.00
April 2015	162,356.00
May 2015	217,423.00
June 2015	268,901.00
July 2015	251,357.00
August 2015	279,890.00
September 2015	362,607.00
October 2015	337,698.00
November 2015	296,097.00
December 2015	520,468.00
Total	3,271,893.00

Source: Author's processing

Table 16: Quantification of personal income tax for 2015

	Listed on the tax return	Detected by tax audit	Difference
Income (under Section 7 of the Income Tax Act)	980,282	3,271,893	2,291,611
Expenses (under Section 7 of the Income Tax Act)	723,141	2,147,548	1,424,407
Difference between income and expenses (+ profit/ - loss)	257,141	1,124,345	867,204
Tax base	257,141	1,124,345	867,204
Rounded Tax Base	257,100	1,124,300	867,200
Tax	38,565	168,645	130,080
Rebate per taxpayer	24,840	24,840	0
Tax after application of rebate	13,725	143,805	130,080

Source: Author's processing

The assessed tax for the tax year 2015 after deduction of the amount already paid to the tax administration is 130,080 CZK.

Year 2016

Table 17: Total income for the 2016 tax year found during the tax audit

Month	Income in CZK
January 2016	324,536.00
February 2016	265,947.00
March 2016	350,315.00
April 2016	396,427.00
May 2016	382,215.00
June 2016	244,678.43
July 2016	334,198.00
August 2016	295,980.16
September 2016	249,474.00
October 2016	410,661.00
November 2016	189,119.80
December 2016	238,768.00
Total	3,682,319.39

Source: Author's processing

In 2016, the tax entity sold at a loss two passenger cars for which the period between acquisition and sale was less than 1 year. Income from the sale of these vehicles (other income) was thus not exempted from the provisions of Section 4, Paragraph 1 of Act No. 586/1992, on Income Taxes, as amended. In the calculation of sub-base of tax pursuant to Section 10 of Act No. 586/1992, on Income Taxes, as amended, the Financial Administration applied expenses demonstrably incurred to achieve them, and only up to the amount of income. This unrecognized business transaction did not affect the amount of the assessed tax.

Table 18: Quantification of personal income tax for 2016

	Listed on the tax return	Detected by tax audit	Difference
Income (under Section 7 of the Income Tax Act)	814,851	3,682,319	2,867,468
Expenses (under Section 7 of the Income Tax Act)	651,881	1,851,881	1,200,000
Difference between income and expenses (+ profit/ - loss)	162,970	1,830,438	1,667,468
Sub-base of tax (under Section 7 of the Income Tax Act)	162,970	1,830,438	1,667,468
Income (under Section 10 of the Income Tax Act)	0	799,000	799,000
Expenses (under Section 10 of the Income Tax Act)	0	799,000	799,000
Sub-base of tax (under Section 10 of the Income Tax Act)	0	0	0
Tax base	162,970	1,830,438	1,667,468
Rounded Tax Base	162,900	1,830,400	1,667,500
Tax (under Section 16 of the Income Tax Act)	24,435	274,560	250,125
Solidarity tax increase (under Section 16a of the Income Tax Act)	0	38,717.70	38,717.70
Tax in total	24,435	313,278	288,843
Rebate per taxpayer	24,840	24,840	0
Tax after application of rebate	0	288,438	288,438

Source: Author's processing

The assessed tax for the 2016 tax period amounts to 288,438 CZK.

Marie Horakova achieved the tax base for the 2015 and 2016 tax periods:

- for 2015 the amount of 867,204 CZK,
- for 2016 the amount of 1,830,438 CZK,

when the personal income tax was (at the tax rate of 15% of the tax base) in accordance with Section 24 of Act No. 586/1992 Coll., on income taxes:

- in 2015 the amount of 130,080 CZK,
- in 2016 the amount of 274,560 CZK.

In 2016, the Solidarity tax increase pursuant to Section 16a of the Income Tax Act in the amount of 38,717.70 CZK was credited to the tax entity. After adding the Solidarity tax increase, the tax totalled 313,278 CZK.

In both years, the tax entity was entitled to a rebate on the taxpayer pursuant to Section 35, which amounted to 24,840 CZK for each year. In 2015, the tax entity already used the taxpayer's rebate when filing the original tax return. Therefore, it is 0. After deducting the tax rebate for the taxpayer, the personal income tax represents:

- for 2015 the amount of 130,080 CZK,
- for 2016 the amount of 288,438 CZK.

Table 19: Total personal income tax for 2015 and 2016

Tax	Assessed tax in the year		Assess
	2015	2016	Total
Personal Income Tax	130,080	288,438	418,518

Source: Author's processing

The total amount of damage caused for the years 2015 and 2016 is **418,518 CZK**.

Since Marie Horakova did not declare the income from internet sales of mobile phones and accessories in the amount of 418,518 CZK in taxable income, she committed an offense Evasion of Taxes, Fees and Similar Compulsory Payments pursuant to Section 240 Paragraph 1 of the Criminal Code.

5.3.2 Corporate Income tax

The model example concerns the tax period of 2015, 2016, 2017 and 2018. It is about a tax entity - Jan Novak born on 1 January 1960, in the role of the company's managing director and sole partner of XY s.r.o., IN: 01234567, with its registered office at Hlavní 1, 56745 PRAGUE. The company dealt with consulting in the field of obtaining subsidies, consulting activities, bookkeeping, payroll accounting etc. The company did not have any employees. The company kept the accounting in person. Contrary to Section 38 of the Income Tax Act, within the statutory deadlines pursuant to Section 136, Paragraph 1 of Act No. 280/2009 Coll., The Tax Code, as amended, the tax entity did not file a corporate income tax return.

The tax entity did not file a proper corporate income tax return for the tax period in 2015, 2016, 2017 and 2018, although the tax entity was always invited to do so by the tax administrator on 20th November in 2016, 2017, 2018 and 2019 by a request which was delivered to the data box on the day of 3rd December 2016, 2017, 2018 and 2019. Due to fact that the tax entity did not respond to the request and did not file a tax return even within the deadline, the tax administrator (Financial Administration) proceeded to the assessment of corporate income tax for the mentioned tax period on the basis of aids. To determine the tax base and tax liability, the tax administrator (Financial Administration) based its proceedings on the issued tax documents - invoices.

Total revenues according to the Tax Code were:

- For 2015 in the amount of 167,000 CZK and the total expenses 0 CZK
- For 2016 in the amount of 457,264 CZK and the total expenses 0 CZK
- For 2017 in the amount of 317,802 CZK and the total expenses 0 CZK
- For 2018 in the amount of 236,582 CZK and the total expenses 0 CZK

Subsequently, corporate income tax was assessed to the tax entity by a payment order registered under reference number 1234567/76/7890-50564-304065, dated 28th November 2019.

Assessed corporate income tax (19%) by the Financial Administration:

- For the tax period (1st January to 31st December; 2015) it amounts to 31,730 CZK,
- for the tax period (1st January to 31st December; 2016) it amounts to 86,830 CZK,
- for the tax period (1st January to 31st December; 2017) it amounts to 60,230 CZK,
- for the tax period (1st January to 31st December 2018) it amounts to 44,840 CZK.

The tax entity was assessed corporate income tax in the total amount of 223,630 CZK for the tax period in 2015, 2016, 2017 and 2018.

The accounting for the stated audited tax periods, i.e. 2015, 2016, 2017 and 2018, was voluntarily issued by the company to the Police of the Czech Republic during the investigation activities. Based on the submitted accounting to the Police of the Czech Republic for the mentioned tax periods (2015, 2016, 2017, 2018), it was found that the company XY s.r.o. reported:

Year 2015

- Total revenues of 174,700 CZK
- Total expenses in the amount of 110,142 CZK

$$174,700 - 110,142 = 64,558 \text{ CZK}$$

- Profit before tax of 64,558 CZK
- Expenditures not recognized under Section 25 of Act No. 586/1992 Coll., on income taxes in the amount of 14,828 CZK
- Other profit reduction of 60,000 CZK

$$64,558 + 14,828 - 60,000 = 19,386 \text{ CZK}$$

- Tax base of 19,386 CZK
- Rounded down to whole thousands in the amount of 19,000 CZK

$$19,000 * 0.19 = 3.610 \text{ CZK}$$

- Corporate income tax (19%) in the amount of 3,610 CZK

The total corporate income tax for the 2015 tax period, which was documented by Jan Novak as the company's managing director, amounts to 3,610 CZK.

Year 2016

Accounting data from XY s.r.o. for the 2016 tax period with distorted data:

- Total revenues of 488,964 CZK
- Total expenses in the amount of 504,992 CZK

$$488,964 - 504,992 = - 16,028 \text{ CZK}$$

- Loss before tax of (minus) 16,028 CZK
- Expenditures not recognized under Section 25 of Act No. 586/1992 Coll., on income taxes in the amount of 230,592 CZK
- Other profit reduction of 60,000 CZK

$$-16,028 + 230,592 - 60,000 = 154,564 \text{ CZK}$$

- Tax base of 154,564 CZK
- Rounded down to whole thousands in the amount of 154,000 CZK

$$154,000 * 0.19 = 29,260 \text{ CZK}$$

- Corporate income tax (19%) in the amount of 29,260 CZK

The total revenues correspond to the values stated on the tax documents - invoices issued by the tax entity. Examination of tax deductible expenses revealed by the Police of the Czech Republic that in addition to expenses incurred to obtain, secure and maintain taxable income (rent, depreciation, road tax, financial expenses etc.), the document was recorded in the account - Other services: "Commission issue" in the amount of 142,536 CZK. It is therefore a case of entering the fictitious document in the expenditure reducing the tax base. Pursuant to Section 24, Paragraph 1 of the Income Tax Act, expenses incurred in obtaining, securing and maintaining taxable income shall be deducted to determine the tax base in the amount proved by the taxpayer and in the amount stipulated by law.

- Total revenues of 488,964 CZK
- Total expenses in the amount of 505,010 CZK

$$488,964 - 505,010 = - 16,046 \text{ CZK}$$

- Loss before tax of (minus) 16,046 CZK

$$230,592 + 142,536 = 373,128 \text{ CZK}$$

- Expenditures not recognized under Section 25 of Act No. 586/1992 Coll., on income taxes in the amount of 373,128 CZK
- Other profit reduction of 60,000 CZK

$$-16,046 + 373,128 - 60,000 = 297,082 \text{ CZK}$$

- Tax base of 297,082 CZK
- Rounded down to whole thousands in the amount of 297,000 CZK

$$297,000 * 0.19 = 56,430 \text{ CZK}$$

- Corporate income tax (19%) in the amount of 56,430 CZK

The total corporate income tax for the 2016 tax period, which was documented by Jan Novak as managing director of the company, amounts to 56,430 CZK instead of 29,260 CZK, which Jan Novak initially entered a fictitious document in expenses reducing the tax base.

Year 2017

Accounting data from XY s.r.o. for the 2015 tax period with distorted data:

- Total revenues of 359,749 CZK
- Total expenses in the amount of 331,599 CZK

$$359,749 - 331,599 = 28,150 \text{ CZK}$$

- Profit before tax of 28,150 CZK
- Expenditures not recognized under Section 25 of Act No. 586/1992 Coll., on income taxes in the amount of 1,394 CZK

$$28,150 + 1,394 = 29,544 \text{ CZK}$$

- Tax base of 29,544 CZK
- Rounded down to whole thousands in the amount of 29,000 CZK

$$29,000 * 0.19 = 5,510 \text{ CZK}$$

- Corporate income tax (19%) in the amount of 5,510 CZK

As in the previous year, by examining tax deductible expenses, the Police of the Czech Republic found that in addition to expenses incurred in obtaining, securing and maintaining taxable income (rent, depreciation, road tax, financial expenses etc.) pursuant to Section 24 of Act No. 586/1992 Coll., on income taxes, an expense (cost) was entered in

the account - Other services: "Commission expenditure" in the amount of 141,134 CZK.
Jan Novak entered the fictitious document in expenditure reducing the tax base.

- Total revenues of 359,749 CZK
- Total expenses in the amount of 331,599 CZK

$$359,749 - 331,599 = 28,150 \text{ CZK}$$

- Profit before tax of 28,150 CZK

$$1,394 + 141,134 = 142,528 \text{ CZK}$$

- Expenditures not recognized under Section 25 of Act No. 586/1992 Coll., on income taxes in the amount of 142,528 CZK
- Other profit reduction of 60,000 CZK

$$28,150 + 142,528 - 60,000 = 110,678 \text{ CZK}$$

- Tax base of 110,678 CZK
- Rounded down to whole thousands in the amount of 110,000 CZK

$$110,000 * 0.19 = 20,900 \text{ CZK}$$

- Corporate income tax (19%) in the amount of 20,900 CZK

The corporate income tax for the 2017 tax period, which was additionally proved to the Police Authority by the company's managing director Jan Novak, amounts to 20,900 CZK.

Year 2018

Accounting data from XY s.r.o. for the 2015 tax period with distorted data:

- Total revenues of 321,543 CZK
- Total expenses in the amount of 315,249 CZK

$$321,543 - 315,249 = 6,294 \text{ CZK}$$

- Profit before tax of 6,294 CZK
- Expenditures not recognized under Section 25 of Act No. 586/1992 Coll., on income taxes in the amount of 4,000 CZK

$$6,294 + 4,000 = 10,294 \text{ CZK}$$

- Tax base of 10,294 CZK
- Rounded down to whole thousands in the amount of 10,000 CZK

$$10,000 * 0.19 = 1,900 \text{ CZK}$$

- Corporate income tax (19%) in the amount of 1,900 CZK

The total revenues correspond to the values on the invoices issued by the tax entity. Examination of tax deductible expenses in the 2018 tax period revealed that also in expenditures reducing the tax base, in addition to expenses incurred to obtain, secure and maintain taxable income (rent, depreciation, road tax, financial expenses etc.) according to Section 24 of Act No. 586 / 1992 Coll., On income taxes, an expense (cost) was entered in the account - Other services: "Commission expenditure" of 205,034 CZK. The fictitious document was therefore re-entered in the expenses reducing the tax base by the managing director of XY s.r.o.- Jan Novak.

- Total revenues of 321,543 CZK
- Total expenses in the amount of 315,249 CZK

$$321,543 - 315,249 = 6,294 \text{ CZK}$$

- Profit before tax of 6,294 CZK

$$4,000 + 205,034 = 209,034 \text{ CZK}$$

- Expenditures not recognized under Section 25 of Act No. 586/1992 Coll., on income taxes in the amount of 209,034 CZK
- Other profit reduction of 25,000 CZK

$$6,294 + 209,034 - 25,000 = 190,328 \text{ CZK}$$

- Tax base of 190,328 CZK
- Rounded down to whole thousands in the amount of 190,000 CZK

$$190,000 * 0.19 = 36,100 \text{ CZK}$$

- Corporate income tax (19%) in the amount of 36,100 CZK

The tax liability for corporate income tax, which was additionally documented by the company's managing director Jan Novak to the Police of the Czech Republic, amounts to 36,100 CZK for the 2018 tax period.

XY s.r.o. reached the tax base for the years 2015, 2016, 2017 and 2018:

- For 2015 in the amount of 19,386 CZK
- for 2016 in the amount of 297,082 CZK
- for 2017 in the amount of 110,678 CZK
- for 2018 in the amount of 190,328 CZK

When corporate income tax (at a tax rate of 19% of the tax base) in accordance with Section 24 of Act No. 586/1992 Coll., on income taxes:

- year 2015 in the amount of 3,610 CZK

- year 2016 in the amount of 56,430 CZK
- year 2017 in the amount of 20,900 CZK
- year 2018 in the amount of 36,100 CZK

The total amount of damage for the years 2015, 2016, 2017 and 2018 is **117,040 CZK**.

Jan Novak the managing director of XY s.r.o. has committed an offense Evasion of Taxes, Fees and Similar Compulsory Payments pursuant to Section 240, Paragraph 1 of the Criminal Code.

6 Results

The time series analysis and the linear trend created, followed by a prediction for the years 2020 and 2021, show that tax evasion is increasing year by year. The unpredictability and the situation that has arisen during 2020 and 2021 make it difficult to determine whether the predictions will come true or not. The time series analysis shows some of the tools used to detect and subsequently eliminate tax evasion. These tools were the introduction of Control Statement (2016) and the Electronic Registration of Sales system (2017). In the period before the introduction of the tools and at the beginning of the operation of the tools, the number of detected tax evasions increased and subsequently started to decrease from 2018, particularly in the field of VAT. When comparing the first and last year of the observed period, i.e. year 2010 and 2019, the number of registered tax evasion for the given year increased by almost 550.

Demonstrative examples for illustrating how the amount of tax evasion committed by a taxpayer is determined, separately in tax proceedings and separately in criminal proceedings, are given below.

Note on criminal proceedings: Until 30th September 2020, the limit of the amount of damage for tax offenses was at least 50,000 CZK (Section 138 of the Criminal Code). From 1st October 2020, this damage limit has been increased to at least 100,000 CZK. The diploma thesis worked with the damage limit of 50,000 CZK, since all criminal offenses occurred before 2019, i.e. before the amendment of the Criminal Code.

In the first demonstrative example, the calculation of the value added tax evasion was performed.

An entrepreneurial natural person, a VAT payer, even though she performed an economic activity (sale of jewellery and fashion accessories), did not file value added tax returns for the 2017 and 2018 tax periods. Due to the fact, that she did not respond to the call for VAT returns for individual tax periods, although she was obliged to pay VAT on sales of goods, did not react in any way, the natural person was assessed VAT for individual tax periods according to aids (fiction) according to Section 98, Paragraph 3 letter c) of the Tax Code.

Data obtained from the electronic registration of sales and sales made by non-cash transfer of funds via payment cards to the current account of the entrepreneur were used as the aids for determining the output tax. For received taxable transactions, information from another entrepreneur with the same subject of business was used. The total amount due for value added tax for tax periods of 2017 and 2018 was 192,848 CZK.

Since the tax was assessed on the basis of aids (fiction) and not by evidence (real documents and invoices), the police, in accordance with the VAT Act, quantified the actual damage caused by non-payment of value added tax according to the rules of criminal proceedings. From the output tax, which the police calculated from the Electronic Registration of Sales system and sales made by non-cash transfer of funds via payment cards to the current account of the entrepreneur in accordance with the provisions of Section 37, Paragraph 2 of the VAT Act, deducted the input tax stated on the tax invoices, which complied with the conditions for applying the tax deduction according to Section 73 of the VAT Act (real documents). The total amount of damage (tax evasion) within criminal proceedings was 215,297 CZK. Due to the fact, that the entrepreneurial natural person did not pay value added tax for the individual tax periods of 2017 and 2018, despite carrying out an economic activity, she committed an offense Evasion of Taxes, Fees and Similar Compulsory Payments pursuant to Section 240, Paragraph 1 of the Criminal Code.

In the second demonstrative example, a personal income tax evasion was calculated.

In the demonstrative example of personal income tax, the procedures for calculating the amount of damage are the same. Entrepreneurial natural person Marie Horakova, born on 10th October 1989, ID number: 12345678, operated a hairdresser's in 2015 and 2016. In 2015, she also sold cosmetics in the hair salon. In the filed tax returns for the years 2015 and 2016, in which she declared income from hairdressing services and income from the sale of cosmetics (Section 7 of the Income Tax Act), she claimed expenses as a percentage of business income in accordance with the provisions of Section 7, Paragraph 1, of the Income Tax Act. In addition, in 2015 and 2016 she operated internet sales of mobile phones and accessories, but did not declare income (cashless or cash on delivery) from this activity for taxation. For this reason, a tax audit was initiated for Marie Horakova.

In the tax returns for 2015 and 2016, Marie Horakova did not declare income in the total amount of 5,159,079 CZK. Expenditures on unrecognized income were claimed as a percentage of business income in accordance with the provisions of Section 7, Paragraph 7 of the Income Tax Act. The total tax assessed by evidence for the years 2015 and 2016 amounted to 418,518 CZK.

In accordance with the Income Tax Act, the police quantified the damage caused by non-payment of value added tax according to the rules of criminal proceedings in the same amount as the tax administrator. The total amount of damage (tax evasion) within criminal proceedings was 418,518 CZK. Since the entrepreneur did not pay personal income tax in the amount of 418,518 CZK for the tax period of 2015 and 2016, despite carrying out an economic activity (internet sales of mobile phones and accessories), she committed an offense Evasion of Taxes, Fees and Similar Compulsory Payments according to Section 240, Paragraph 1, of the Criminal Code.

In the last demonstrative example, the corporate income tax evasion was calculated. Entrepreneurial legal entity XY s.r.o., ID number: 12345678, whose executive and at the same time the only employee was Jan Novak, dealt with consultancy in the field of obtaining subsidies, bookkeeping, payroll accounting etc. Although the company performed economic activities, did not file corporate income tax returns for the tax periods 2015, 2016, 2017 and 2018. Due to the fact, that the company did not respond to the call for corporate income tax returns, even though it was obliged to pay corporate income tax for the services provided, to XY s.r.o. was assessed corporate income tax according to aids (fiction) pursuant to Section 98, Paragraph 3, letter c) of the Tax Code. As an aid to determining the tax, the tax administrator relied on issued invoices - tax documents. The total amount owed for corporate income tax for the tax periods of 2015, 2016, 2017 and 2018 was 223,630 CZK.

Given that the tax was assessed according to aids (fiction) and not by evidence (documented evidence, including documents), the police, in accordance with the Income Tax Act, quantified the actual damage caused by non-payment of corporate income tax according to the rules of criminal proceedings. From the submitted accounting, it was found that the total revenues for individual tax periods coincide with the values stated on the invoices. The examination of tax deductible expenses revealed that, in addition to the costs incurred to achieve and maintain revenue, fictitious invoices were also included to expenses. The tax base was increased by these unrecognized expenses. The total amount of damage (tax evasion) within criminal proceedings was 117,040 CZK. Since XY s.r.o. did not pay corporate income tax in the amount of 117,040 CZK for the tax period from 2015 to 2018, despite carrying out an economic activity, it committed an offense Evasion of Taxes, Fees and Similar Compulsory Payments according to Section 240, Paragraph 1, of the Criminal Code.

7 Recommendation

The proposal to improve the issue of the diploma thesis entitled Tax evasion and its prevention in the field of VAT and income tax in the Czech Republic concerns the prevention of tax evasion. Prevention of tax evasion could be achieved, for example, by a simpler and clearer interpretation of the legislation, by increased sanctions in the Criminal Code for committing economic crimes and ensuring their strict compliance. Furthermore, efforts to improve communication and cooperation between the Police of the Czech Republic and the Financial Administration of the Czech Republic. With improved cooperation also comes a joint record of tax evasion, which would lead to more efficient, simpler and at the same time faster acquisition of data and information. Both institutions would have access to these information, thus ensuring more efficient analytical and search activity.

Another proposal is to ensure more frequent trainings in tax issues, including current issues in the field of tax evasion and the latest cases to increase professional expertise for both, employees of the Financial Administration of the Czech Republic and employees of the Police of the Czech Republic dealing with economic crime.

8 Conclusion

The diploma thesis dealing with the issue of tax evasion and tax fraud in the field of value added tax (VAT) and income tax (natural persons and legal entities) in the Czech Republic found that tax evasion in the Czech Republic for the entire period (2010 to 2019) has been constantly growing. This can be seen from the examination of the issue in both areas and from the statistical calculations made, where the linear trend generated on the basis of data is increasing. However, from 2018, tax evasion in the area of VAT started to decrease, most likely due to the introduction and subsequent proper functioning of control statement and electronic registration of sales.

The types of tax evasion cannot be specified in the same way for both areas, since tax and criminal proceedings are by their nature completely different types of proceedings, with no procedural connection. The legality of the course of tax proceedings is one matter and finding out the facts from which the intention of fault can be inferred is another matter. The offender may commit the crime of tax evasion even if the financial administration does not detect the tax evasion. Evidence found in criminal proceedings does not serve directly as evidence in tax proceedings and, conversely, evidence found in tax proceedings does not serve directly as evidence in criminal proceedings and its relevance can be rebutted. As an illustrative example of different procedures, the diploma thesis carried out calculations of tax evasion for natural persons and legal entities, in the area of VAT and income tax, where in some cases the method of calculating the amount of damage coincided and in others not.

Due to the above-mentioned differences, it was found that the Police of the Czech Republic and the Financial Administration of the Czech Republic have their own statistical records of tax evasion and tax fraud according to their primary activities (tax proceedings, criminal proceedings), and thus there is no general records of tax evasion. It is therefore impossible to compare, evaluate and obtain unambiguous data on tax evasion in the Czech Republic. The Financial Administration of the Czech Republic keeps records of the number of performed tax audits for individual types of taxes, the amount of assessed unpaid taxes and the complaints transmitted to the Police of the Czech Republic. The

Police of the Czech Republic records the number of economic crimes, divided into registered, clarified, prosecuted and other categories of division of criminal offenses according to criminal proceedings. Statistics from both areas show the extent of total damage that occurred in the Czech Republic during the period under examination.

Based on the performed examination, some of the most frequent and regular cases of tax evasion includes non-filing of a tax return, non-payment of tax or only its partial payment, reduction of sales, use of fictitious invoices, non-keeping accounts or tax records. For this reason, they have also been used as demonstrative examples to illustrate how the amount of tax evasion committed by a taxable person is determined, separately in tax proceedings and criminal proceedings. Subsequently, in criminal proceedings, where the act for which the criminal proceedings are being conducted is proved, in the connection with the circumstances decisive for the fulfilment of the factual substance of the crime, a communication of charge appointed by the competent court is proposed according to the calculated damage.

From the analysis of demonstrative examples, it was found that in most cases the Financial Administration of the Czech Republic actually assesses (measures) the different value of damage compared to the Police of the Czech Republic, as mentioned above, due to different procedures of both institutions. The Financial Administration of the Czech Republic is governed by the Tax Code and the Police of the Czech Republic is governed by the Criminal Code.

It can be said that the amount determined by the Financial Administration of the Czech Republic serves as the amount owed by the tax entity to the state and the amount determined by the Police of the Czech Republic serves to determine the amount of damage on the basis of which a natural person or legal entities will be prosecuted. The minimum amount of damage within the framework of tax evasion or non-payment of tax is 100,000 CZK from 1st October 2020 (50,000 CZK until 30th September 2020).

In determining the amount of damage, in addition to accounting or tax records, invoices, contracts and other means of evidence, both state institutions also use auxiliary records,

such as information from the Electronic Registration of Sales system, Control Statements, extension of reverse charge or information from banking institutions.

With regards to cooperation in the detection of tax evasion, there is legislation regulating such cooperation, which concerns the provisions set out in particular in the Criminal Code and the Tax Code. Furthermore, as part of streamlining of tax evasion detection, a special team called the Tax Cobra has been set up to deal only with tax evasion, precisely its detection and prevention. This team cooperates in a special regime. The problem is that there is no common record of tax evasion and records of natural persons and legal entities who participated in the tax evasion, which would allow the Police of the Czech Republic and the Financial Administration of the Czech Republic to effectively interconnect information and data from which both institutions could immediately draw. Joint records would allow more efficient, faster and simpler procedures for the screening and investigation of tax evasion.

Based on analyses and research, the research hypothesis can be confirmed: "The complete elimination of tax evasion cannot be ensured by improved legislation, but by a conscious approach of tax entities." Tax evasion could be reduced by a clear interpretation of tax laws, better cooperation between the Financial Administration and the Police of the Czech Republic, increased sanctions for criminal offenses or other measures created by the state. However, the complete elimination of tax evasion cannot be achieved without the help of tax entities and their fair dealing.

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