

Chapter 7

VAT Control Statement

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7.1. Introduction

Value Added Tax (VAT) fraud can have a long-term negative impact on the market environment. If fraudsters manage to gain a significant market share, they can gradually eliminate honest entrepreneurs, who are then forced to decide whether to adapt to the new market rules and slip into the grey zone themselves, or leave the market. Such a situation is undesirable because it also has a negative impact on public budgets (Dytrychová et al., 2024; Moravec et al., 2021).

In these crisis situations, the state must not hesitate too long to find a solution. If fraud from one sector spreads to others, it can cripple the entire economy – however finding a suitable solution is not easy. Fraudsters are constantly inventing scenarios that allow them to defraud the state of the largest possible amounts of taxes. They use front men who have no idea about their own involvement in the fraud (Knížek, 2013).

After completing the (repeated) fraud, the fraudsters leave behind companies without any liquid assets and completely cut off communication with the tax administrator. This is the scenario used in carousel fraud (Fedeli & Forte, 2011; Olexová et al., 2022). This type of fraud exploits the weaknesses of VAT in intra-Community supplies between at least two European Union countries (see Fig. 7.1).

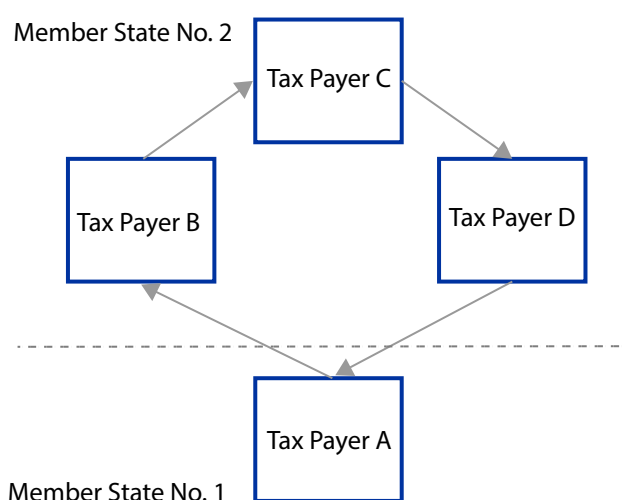


Fig. 7.1. Scheme of carousel fraud

Source: own elaboration.

The carousel fraud begins with Taxpayer A (Member State No. 1) supplying the subject of the transaction to Taxpayer B (Member State No. 2), which is the most risky in terms of the entire tax loss. If, when applying the reverse charge mechanism (Hodinková & Semerád, 2025), it fails to fulfil its tax obligation, Member State No. 2 loses the entire value added tax.

Subsequently, the subject of the taxable supply is delivered to Taxpayer C playing the role of a buffer. Regardless of whether this entity is aware of its involvement in the chain of companies, it performs an important role. It is precisely this entity that enables the tax theft by paying the value added tax to Taxpayer B and subsequently claiming a tax deduction. Thus, the state does not collect any tax and even allows Taxpayer C to claim a deduction.

In the next step, a sale to Taxpayer D may occur, and from there, the goods may return to Taxpayer A in State No. 1, which completes the entire cycle. The result is a tax loss for State No. 2. This procedure can be used several times, and each time, if the fraud is completed, the entire amount of tax is stolen. It is estimated that EU countries lose up to EUR 100 billion each year to carousel fraud (European Commission, 2017).

The only player who directly profits from this fraud is the recipient of the taxable supply. In order to carry out such a large-scale fraud, it is necessary to motivate buyers to purchase the subject of the supply from fraudsters. If business relationships are not based on personal ties, one of the motivational tools is a very low price (unusual price), meaning a price that is not a normal market price or that cannot be obtained without unauthorized tax evasion.

Although with the development of legislation the tax administrator is given a number of effective tools, for example it can apply liability for unpaid tax on transactions at non-market prices (Semerád & Semerádová, 2025), and it is difficult to decipher other entities in the chain. To do this, a digital footprint must be found (most often in the form of a bank transfer payment or a card payment¹) – using it, it is then possible to decipher which taxpayer paid the fraudster.

¹ Cash payments are problematic. Due to their supervision, countries are introducing electronic sales records, see e.g. (Semerád et al., 2024).

However, fraudsters try to cover their tracks and to hide from the tax administrator, and they also use payments to foreign accounts for this purpose. The tax administrator can usually intervene only when it manages to decipher individual payments. To make the situation even more confusing, fraudulent structures containing several dozen entities from multiple countries can be artificially created. With these groupings, manual control is ineffective and is very time-consuming and personnel-intensive.

An effective aid is the automated processing of data that taxpayers send electronically to the tax administrator in accordance with the value added tax return. The path to digitalisation in cross-border trade is indeed one of the goals of the European Union.

While there are uniform rules for reporting, such as the recapitulative statement, reverse charge and online invoicing for intra-Community supplies, under the VAT in the Digital Age initiative (e.g. IBFD, 2025; Merks & Gruson, 2025), EU Member States are not unified in the case of domestic supplies. Thus, one may encounter the application of the quick reaction mechanism for various subjects of supply, but its use is time-limited and unsuitable for long-term use.

To be successful in its activities, the tax administrator needs to have real-time data (at the moment of filing the tax return) to be able to carry out cross-checks between taxpayers. This cross-check needs not only be used for carousel fraud, but can equally effectively serve for automated control of reports, for detecting and correcting more or less serious errors and inaccuracies. The errors can be divided into intentional and those caused by incorrect processing.

Intentional errors include:

1. Claiming VAT deductions on fictitious invoices. The taxpayer invents an invoice, and because the tax administrator lacks the tools to verify it, the deduction claim is approved.
2. The same tax document is used by multiple entities. The tax document may be real, but it may be issued for a different taxpayer. Thus, one deduction claim can be applied simultaneously by multiple entities. This occurs in particular with simplified tax documents such as for fuel purchases (Czech Television, 2024), where the recipient of the taxable supply is not specified. The Czech Financial Administration combats this issue by scanning documents during inspections. If repeated use by multiple entities is subsequently detected, their inspection is initiated.
3. The deduction claim is applied to supplies involving an unreliable taxpayer. In such cases, liability for unpaid tax should be applied. However, the tax administrator may not find out in time.

Errors caused by incorrect processing include:

- 1) The taxpayer claims an incorrect tax rate; usually higher than the one stated on the invoice.
- 2) The deduction claim is reported in a period with which it is not materially and temporally related (usually earlier than the deduction claim arose). In Czechia, the recipient of the taxable supply can claim a deduction only when the tax document is delivered to them. Thus a sale may take place in January, but if the recipient has the document available only in February, they can claim it no earlier than February.
- 3) The same tax document can be used twice by one entity. Although accounting software usually alerts the recipient to this error, it can happen that an inattentive accountant applies the same document multiple times.

- 4) The deduction claim can also be applied when the supply is subject to the reverse charge mechanism, but the accountant forgets to apply the output tax. The recipient makes some other administrative error when transcribing the invoice into the accounting program; this may include an incorrect invoice number (variable symbol).
- 5) Errors can also occur when transcribing other data. The deduction claim is applied to the supply of goods or services from a non-VAT payer.

To reduce errors in reporting tax liabilities and to protect the good faith of honest entities, it is necessary to use modern elements in tax administration (Semerádová & Semerád, 2022), therefore Czechia introduced the VAT Control Statement in 2016.

7.2. VAT Control Statement

7.2.1. Reasons for Introduction

The tax administrator obtains aggregate information about taxpayers at regular intervals (after the end of the tax period; at most once a quarter). If these taxpayers do not have intra-Community supplies, the tax return is usually the only document from which the amount of input and output tax can be determined. Note that the tax administrator could also use movements on registered bank accounts² for ongoing control, and the administrator also had data on cash payments from electronic sales records in the period from 2016 to 2022. Nevertheless, the aggregate information from the tax return is insufficient for the analytical activities of the tax administrator. It is not possible to verify from them whether the aforementioned errors occur when reporting received and issued invoices. This led the Czech tax administrator to seek a tool that would provide more detailed information about individual supplies. This tool became the VAT Control Statement, which, in simple terms, allows control of reported inputs and outputs both on the supplier's side and on the recipient's side of the taxable supply (Table 7.1). Given that the data are cross-referenced even with a time lag (the buyer has several calendar years to claim a deduction), the entire process must work automatically. If the reports contain any discrepancies, for example, invoice numbers, tax bases, or the applied rates do not match, the tax administrator can specifically call on the defaulting taxpayers to correct them.

The VAT control statement was introduced in Czechia on 1 January 2016. It is an electronic form that contains detailed information about all realised and received supplies that a particular taxpayer carried out within the tax period. The individual items are analytically arranged into two parts, A and B. As stated by the General Financial Directorate (2024), including a detailed description of the individual items, and involves:

A. Transactions for which the payer is obliged to declare the tax and supplies in the domestic reverse charge mechanism.

- A.1. Realised taxable supplies in the domestic reverse charge mechanism, for which the recipient of the supply is obliged to declare the tax pursuant.

² Taxpayers in Czechia must compulsorily register their domestic bank accounts. These lists are publicly available. If a payment were made to a bank account other than a registered one, the taxpayer would expose themselves to the risk of liability for unpaid tax.

- A.2. Received taxable supplies for which the payer as recipient is obliged to declare the tax pursuant.
- A.3. Realised supplies in the special regime of the investment gold pursuant.
- A.4. Realised taxable supplies and received payments with the obligation to declare tax pursuant in the amount above CZK 10,000, including VAT and all corrections made in connection with irrecoverable claims regardless of the threshold amount.
- A.5. Other realised taxable supplies and received payments with the obligation to declare tax pursuant in the amount up to CZK 10,000, including VAT, or taxable supplies for which the obligation to issue a tax document did not arise.

Table 7.1. Example A of required data in section A.4

No. of line	Tax identification number of customer	No. of tax document	Date of obligation to declare the tax	Tax Base 1	Tax 1	Tax Base 2	Tax 2	Code of VAT regime	Corrections of irrecoverable claims
1	123456789	250123456	02.03.2025	2000	420	–	–	1-§89	–

Source: own elaboration based on the Financial Administration of the Czech Republic (2024).

- B. Received taxable supplies with the place of supply in the country.
- B.1. Received taxable supplies in the domestic reverse charge mechanism, for which the recipient is obliged to declare the tax pursuant.
 - B.2. Received taxable supplies and provided payments for which the recipient claims VAT deduction pursuant in the amount above CZK 10,000, including VAT and all VAT deduction corrections in connection with irrecoverable claims regardless of the threshold amount.
 - B.3. Received taxable supplies and provided payments for which the recipient claims VAT deduction pursuant in the amount up to CZK 10,000, including VAT.

Individual items are clearly and automatically exported from the accounting program. A critical point can be supplies up of to CZK 10,000, where information about the other entity is not provided (Table 7.2). It is naturally less likely that large-scale fraud would be achieved with such small amounts, however the resulting anonymity for certain supplies can arouse distrust.

Table 7.2. Example B of required data in section A.4

Tax Base 1	Tax 1	Tax Base 2	Tax 2	Tax Base 3	Tax 3
5000	1050	–	–	–	–

Source: own elaboration based on the Financial Administration of the Czech Republic (2024).

The amount of CZK 10,000 has a historical connection in Czechia to simplified tax documents, which can only be issued up to that amount, including VAT. A specific feature is that buyer details do not have to be included for these supplies as this obligation arises only on an invoice exceeding this limit.

This information gap was removed in Czechia by electronic sales records which were introduced, among other things, due to fraud in retail, accommodation services, and restaurants (Semerád et al., 2021). By its abolition and the subsequent increase in the limit for VAT registration from CZK 1 million to CZK 2 million, the Czech administration lost valuable data about many entrepreneurs (Semerád et al., 2023), which resulted in the unflattering nickname of ‘the dark period’.

7.2.2. Problematic Aspects of the VAT Control Statement

From a technical point of view the VAT control statement was sufficiently prepared. When compared to Slovakia, where the control statement has been in use since 2014 (Financial Administration of the Slovak Republic, 2014; Ministry of Finance of the Slovak Republic, 2020), Slovak taxpayers faced more technical issues when reporting certain taxable transactions (Morávek, 2015).

However, what caused huge concerns on the part of taxpayers were the penalties for errors in submitting the VAT control statement, where penalties ranged from CZK 1,000 to CZK 500,000 depending on the offence³. Taxpayers feared that they could be closed down.

Concerns also stemmed from the fact that taxpayers had to respond within five days of the summons, which posed a huge problem, for example, during holidays and when experiencing health problems, compared to Slovakia, where taxpayers have five business days to respond (Mintál, 2024).

Entrepreneurs responded quickly, and the Ministry of Finance of the Czech Republic itself (2016) retroactively amended some legal provisions after ten days of the VAT control statement's effectiveness (Semerád et al., 2016).

A three-month tolerance period was announced, during which penalties were not applied, whereas in Slovakia the first six-month period was exempt from penalties.

Penalties related to the response of taxpayers to the tax administrator's summons, for example, to correct, supplement, or confirm the data contained in the submitted VAT control statement, are subject to the administrative discretion of the tax administrator. The specific amount of the imposed penalty takes into account the significance and potential impact of the breached obligation, as well as the level of cooperation of the taxpayer. Sanctions are also applied in Slovakia, however they are not strictly defined: "The tax office imposes a fine of up to 10,000 euros on the taxpayer. If the taxpayer repeatedly violates the obligations stated in the first sentence, the tax office imposes a fine of up to 100,000 euros. When determining the amount of the fine, the tax office takes into account the severity and duration of the unlawful situation" (Ministry of Finance of the Slovak Republic, 2004..., Section 78a 15).

The established deadline related to the VAT control statement, including the deadline for submitting a subsequent VAT control statement in response to the tax administrator's summons to supplement, change, or confirm data, was adjusted from five calendar days to five working days.

³ If a taxable person registered for VAT does not submit a VAT Control Statement within the due date, the following sanctions will be applied: a) 1000 CZK, if the VAT Control Statement is submitted after the due date without summons from the Tax Administration, b) 10 000 CZK, if the VAT Control Statement is submitted within the deadline given by the Tax Administration in issued and delivered summons, c) 30 000 CZK, if the Corrective VAT Control Statement is not submitted although summons to submit a Corrective VAT Control Statement were issued and delivered by the Tax Administration, d) 50 000 CZK, if the regular VAT Control Statement is not submitted nor submitted after summons of the Tax Administration. Nevertheless, if a taxable person registered for VAT seriously violates or obstructs the administration of VAT by not submitting the VAT Control Statement, the tax administrator can impose a sanction up to 500,000 CZK depending on individual conditions (Semerád & Bartůňková, 2016).

7.2.3. Statistical Review of the VAT Control Statement

The first results of the Financial Administration of the Czech Republic (2016) showed that:

- The Financial Administration received VAT control statements for January 2016 from 245,000 monthly VAT payers (out of 288,000 payers). Most of them submitted the VAT control statement in the correct format.
- Before the commencement of summons to rectify submission defects, most payers corrected their submissions themselves. The original error rate in the submission structure thus decreased from 4% to less than 1%.

The Ministry of Finance of the Czech Republic (2017) subsequently added that after the introduction of the VAT control statement there was a year-on-year increase in VAT revenue of CZK 10-12 billion.

It is clear from these statistics that most VAT payers began to fulfil the obligations arising from the VAT control statement without major technical difficulties immediately from the start of the law's effectiveness. Similarly, the impact on tax revenue, which increased year-on-year, can also be positively evaluated.

Since 2016, the VAT control statement has become a fully automated and trouble-free report that taxpayers send to the tax administrator at regular intervals simultaneously with the tax return. From the perspective of Czechia, one can recommend this measure to tax administrators from other jurisdictions.

7.3. Conclusions

Czechia, like other European Union Member States, has long been fighting value added tax fraud. In the context of intra-Community supplies, standardised tools such as reverse charge, recapitulative statements, VAT in the Digital Age, and other tools after the application of the quick reaction mechanism are used. In the context of domestic administration, however, the solution is the responsibility of individual countries.

It is clear that for effective tax administration it is not enough to have only aggregate information from the tax return, therefore the VAT control statement was introduced in Czechia, providing the tax administrator with detailed information about received and realised taxable supplies.

The data obtained from all taxpayers are subsequently matched, which allows the effective detection of errors in reporting. This can include not only administrative deficiencies (e.g. incorrect invoice number), but also intentional fraud (e.g. reporting fictitious invoices).

The VAT control statement was very well prepared from a technical point of view. Most taxpayers reported their obligations correctly. The error rate was approximately 1%. According to data from the Ministry of Finance of the Czech Republic, there was a year-on-year increase in VAT collection of CZK 10-12 billion.

The only negative point was initially the taxpayers' concerns about high penalties (up to CZK 500,000) and the obligation to respond to the tax administrator's summons within five calendar days. Therefore the Ministry of Finance of the Czech Republic itself retroactively amended some provisions after ten days of the law's effectiveness to prevent the imposition of liquidation fines and to adopt a pro-client approach towards honest taxpayers.

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