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Supreme Audit Office



JOINT FINAL REPORT

on the Results of Parallel Audits of Excise Duty
Administration in the Slovak Republic
and in the Czech Republic

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Introduction

This joint report provides information about the course and outcome of international cooperation on parallel audits conducted by the Supreme Audit Office of the Slovak Republic (“Slovak SAO”) and the Supreme Audit Office of the Czech Republic (“Czech SAO”) in the field of excise duty administration in 2012-2015.

The cooperation between the Supreme Audit Institutions of both countries was carried out based on an agreement on cooperation on parallel audits of excise duty administration concluded between them in August 2015.

The topic of the parallel audits was chosen because both EU Member States follow common European legislation on this matter, thereby providing an opportunity to ascertain how European legislation is applied on a national level, how the excise duty administration system is set up, and how the system in Slovakia and the system in the Czech Republic differ.

The greatest benefits of these audits consisted in the exchange of experience, identification of differences and good practice. Last, but not least, finding out that international comparability of data on efficiency and effectiveness of excise duty administration is extremely limited without performing parallel audits was also beneficial.



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1. Summary and assessment

- Legislation in the Czech Republic and in Slovakia on excise duty and its administration complies with EU legislation and exceeds EU requirements substantially. Differences have been discovered between Slovak and Czech excise duty regulations: in the Czech Republic, verification of the economic stability of applicants for permits and mandatory labelling and dyeing of several mineral and some other oils contribute to effective excise duty administration; in Slovakia, the distribution of excise stamps is simpler than in the Czech Republic and less of a burden on excise duty administrators. In the fight against excise duty evasion, supervising the movement of raw tobacco or tobacco materials, the implementation of the institute of a transport fuel distributor, and keeping a registry of merchants of consumer packaged alcohol appear to be a good practice in the fight against excise duty evasion.
- Excise duty revenues in the Czech Republic and in Slovakia grow more slowly than other tax revenues.

The objectives of the EU consisting in reducing labour taxation, introducing green measures, and reducing dependencies on tobacco and alcohol have not been yet implemented in the Czech Republic and Slovakia also because excise duty indexation has not been introduced in either country. This has resulted in the reduced importance of excise duties on total tax revenues and, due to growing buying power, an actual drop in the tax burden in the form of excise duties. In future, it will be necessary to replace the introduced green measures which the state subsidises and which have a negative impact on excise duty revenues by other revenues or by a reduction in public spending.

- Administrative expenditure on excise duty administration in both the Czech Republic and Slovakia have been rising long especially because of wage growth and the diminishing effectiveness of such spending. In Slovakia, such effectiveness is also negatively affected by the costs of computerisation of excise duty administration (IT expenditures) and the payroll costs of employees carrying out constant fiscal supervision in alcohol warehouses. Computerisation of excise duty administration in Slovakia has not significantly affected the number of excise duty administrators. Both the Czech and the Slovak SAO recommend that the Slovak Tax Directorate reassesses the justification for constant fiscal supervision in alcohol warehouses. In the Czech Republic, the effectiveness of administrative expenditures is influenced by the fact that, in the audited period, the Czech Customs Administration did not apply procedures that would lead to a reduction in the staffing required for excise duty administration.

- In each of the audited years, the number of comparable administrative tasks performed by excise duty administrators in Slovakia and in the Czech Republic was similar; however, the number of comparable tax subjects in Slovakia is about one third smaller than in the Czech Republic. Slovak excise duty administrators perform administrative tasks predominantly in the form of physical fiscal supervision, whereas Czech excise duty administrators place emphasis on remote supervision and risk analysis. Excise duty administration in Slovakia is administratively more demanding than in the Czech Republic and, with regard to the ratio of tax actions to entities, more expensive as well.
- Excise duty administration in the Czech Republic and Slovakia was computerised in different areas. In Slovakia, the administration of excise declarations is fully computerised; in the Czech Republic, documents proving taxation of various products in free circulation are submitted electronically. As both computerisation methods support effective excise duty administration, both the Czech SAO and the Slovak SAO recommend applying them outside these two countries as well.
- Total expenditures on implementing the Excise Movement and Control System (“EMCS”) could not be compared, as the Financial Directorate of the Slovak Republic only provided expenditure data pertaining to the system upgrade that took place between 2011 and 2015, although spending occurred even prior to this period. Expenditure in the mentioned period only on the EMCS upgrade was 20% higher than total spending in the Czech Republic on both implementing and upgrading of the EMCS over a period exceeding ten years.

Excise duty administration in the Czech Republic and Slovakia did not attain comparable qualitative indicator values in comparable spending. The level of supervision in both countries is comparable; in Slovakia, however, excise duty administration is much more demanding on resources.

Implementation of a computerised system for the movement and surveillance of excisable products has resulted in more effective excise duty administration in both countries but less so in Slovakia, as Slovakia spent much more than the Czech Republic on implementing and modernising the system.

2. Basic information

Cooperation of both audit institutions was based on the “*Agreement on Cooperation on Parallel Audits of Excise Duty Administration*” dated 18 August 2015. The Czech SAO and the Slovak SAO agreed to conduct parallel audits aimed primarily at excise duty administration. The results of the audits would allow analysis, comparison, and assessment of the findings. The audit questions on which the parallel audits were based were agreed jointly.

Characteristics of the subject and objectives of the parallel audits: The parallel audits aimed to compare the performance of the excise duty administrators while taking into account qualitative and quantitative indicators and identifying weaknesses in the excise duty administration process. Answers to the following audit questions in particular should have been sought:

- Have excise duty administrators in the Czech Republic and Slovakia been attaining comparable values of qualitative indicators while incurring comparable costs?
- Has implementation of the EMCS¹ resulted in more effective excise duty administration and has been spending on its implementation effective?

The parallel audits should have ascertained the reasons for the differences affecting the efficiency and effectiveness of excise duty administration in the Czech Republic and in Slovakia, especially in the area of legislation and in the setup of the organisational structure.

The joint final report on the audit results was drawn up in accordance with ISSAI 300 - Fundamental Principles of Performance Auditing.

The General Directorate of Customs (“GDC”) and the Financial Directorate of the Slovak Republic (“FD SR”) have joined the joint declaration on mutual cooperation of the Visegrad Four countries, the aim of which - in the area of excise duty - is to fight fraud, examine the possibility of harmonising legal regulations and finding harmonised interpretations of rules of various problems, examine the possibility of joint activities to increase the effectiveness of efforts to detect fraud, and share experience and best practice.

¹ EMCS is operated according to Decision No 1152/2003/EC of the European Parliament and of the Council of 16 June 2003 on computerising the movement and surveillance of excisable products.

2.1. Identification of audit conducted by the Czech SAO

Audit number: 15/33

Subject of audit: Excise duty administration

Audit objective: The objective of the Czech SAO audit was to examine the procedure used by the customs authorities in excise duty administration, especially when monitoring movement of goods under excise duty suspension and when enforcing duties (customs debt), and to examine whether the excise duty administration system has been set up to ensure the effective collection of state budget revenue.

Audited period: 2012-2015 and, if the facts so warrant, the periods before and after

Auditee: General Directorate of Customs

2.2. Identification of audit conducted by the Slovak SAO

Audit number: KA-023/2016/1050

Subject of audit: Excise duty administration

Audit objective: The objective of the audit was independent and objective examination of whether the FD SR and the customs offices operate economically, effectively, efficiently, and in compliance with generally binding legal regulations as regards excise duty administration.

Audited period: 2012-2015

Auditee: Financial Directorate of the Slovak Republic

3. Excise duty legislation in the Czech Republic and in Slovakia

Legislation on excise duty administration can be divided into two levels: EU legislation (see Annex 1) and national legislation (see Annex 2).

Council Directive 2008/118/EC concerning the general arrangements for excise duty and repealing Directive 92/12/EEC defines excise duty and lays down the basic rules for excise duty administration and the handling of energy products and electricity, tobacco products, ethyl alcohol, and alcoholic beverages. This directive allows excise duties to be imposed on other products as well.

EU legislation regulates especially the minimum conditions for the following:

- Excise duty rates on specific products;
- Criteria for production, storage, processing, and holding excisable products;
- Establishment of the excise duty obligation;
- Excise duty exemption and refund; and
- Supervision over movement of various goods between EU Member States, international cooperation, and maintenance of a registry of economic entities and tax warehouses.

EU legislation allows the implementation of control procedures and institutions on the national level, provided that these do not lead to a distortion of competition.

3.1. Excise duty legislation in the Czech Republic

3.1.1. Specification of legislation in the Czech Republic

In the Czech Republic, excise duty provisions are concentrated in the Excise Duty Act (Act No 353/2003 Coll.), which governs the administration of duty on mineral oil, duty on ethyl alcohol, duty on tobacco products, duty on beer, duty on wine and intermediate products, and duty on raw tobacco. This act defines the forms of handling excisable products, duty payers, authorisation proceedings, conditions for moving products, excise declarations and penalties for violating legal regulations. This act and the related decrees further regulate certain other conditions for handling mineral oils (marking mineral oils) and storing raw tobacco for purposes other than production of tobacco products.

Duties on other energy products (i.e., natural gas and some other gases, solid fuels, and electricity) are regulated in Parts 45-47 of Act No 261/2007 Coll., on stabilisation of public budgets.

In the Czech Republic, some special legal regulations contain several provisions related to excise duty administration, specifically the Fuels Act (Act No 311/2006 Coll.) and implementing regulations governing the conditions for selling, dispensing, and distributing fuel and keeping records of fuel placed in free circulation.

Act No 61/1997 Coll., on ethyl alcohol, and its implementing regulations define the conditions for producing, storing, recording, and controlling the production and circulation of ethyl alcohol. Act No 307/2013 Coll., on mandatory labelling of spirits, and the related implementing regulations set out the mandatory labelling of consumer packaged alcohol, the conditions for using alcohol excise stamps, and the conditions for handling ethyl alcohol (i.e., production, processing, sale or other transfer, carriage, movement, storage, receipt, use, holding, import, or export).

The procedures in duty proceedings that are not set out in special regulations are regulated by Act No 280/2009 Coll., the Tax Code. Penalties are imposed according to Act No 500/2004 Coll., the Code of Administrative Procedure.

The conditions for issuing trade licences (concessions) for carrying out the business of “production and processing of fuel and lubricants and distribution of fuels” and “production, modification, and sale of fermented ethyl alcohol, potable ethyl alcohol, and alcoholic beverages” are regulated by Act No 455/1991 Coll., on trades (the Trade Licensing Act).

The Czech Republic made use of its right to introduce control procedures and concepts for checking the movement of specific products placed in free circulation and overseeing the observance of legal regulations on handling various products on which excise duty has not been paid and on handling various products on which excise duty has been paid. This applies to the handling of special mineral oils and raw tobacco, marking certain other mineral oils, and labelling tobacco products and consumer packaged alcohol.

The Czech Republic made use of its rights to impose excise duty on other products as well and introduced excise duty on raw tobacco as one of the measures against tax fraud.

3.1.2 Structure of amendments to legislation on each type of excise duty in relation to the subject of the audit in the Czech Republic

Based on Resolution No 735/2012 of the Government of the Czech Republic of 3 October 2012 implementing the “plan for zero tolerance of the alcohol black market”, fundamental legislative changes took place in the Czech Republic between 2012 and 2015 leading to the implementation of measures against excise duty fraud on ethyl alcohol. In the same period, several amendments were made to legislation regulating duty on mineral oil, duty on tobacco products, and the criminal offence of planning tax evasion.

Criminal law protection of taxable revenues

Effective since 1 July 2016, planning “evasion of taxes, fees, and similar mandatory payments” has become a criminal offence, making it easier for the police to adopt measures in a more effective and timely manner to prevent tax fraud by, for example, deploying criminal intelligence operations.

General provisions on excise duty administration

The issuance of authorisations (licences) to handle excisable products pursuant to the Excise Tax Act is, effective since 1 January 2015, conditional upon satisfaction of the following:

- Credibility;
- Debt-free status;
- Economic stability;

- Possession of a trade licence allowing activities related to the authorisation; and
- Fact that the applicant is not in liquidation or in bankruptcy.

The aim of the legislation was to address tax arrears by reducing the number of entities with authorisation to handle excisable products.

The condition of economic stability now allows an excise duty administrator to consider the financial situation of tax entities both during the authorisation proceedings and after the authorisation is issued. The purpose of this measure is to bar subjects without sufficient income that would allow them to duly satisfy duty obligations from handling certain products. To assess the economic stability of applicants, several indicators have been laid down (profitability, liquidity, financial stability, activity, and productivity of labour), based on which a financial analysis is carried out. In addition to these indicators, the final decision is also based on the excise duty administrator's judgment with regard to the specific conditions of the respective proceedings.

The law sets out the frequency for checking the fulfilment of the conditions of economic stability based on current conditions as once a year in connection with the submission of the tax declaration. The excise duty administrator can stipulate other conditions required for duty administration. If the authorisation holder is no longer fulfilling the conditions, the excise duty administrator is authorised to cancel or suspend the authorisation.

Out of a total of 2,609 entities examined for economic stability by the Czech Customs Administration, 18.6% were found to be economically unstable with a high risk of arrears should the obligation to declare and pay tax exceed the amount of the tax guarantee (e.g., recurring consignee). The authorisation of ten entities was cancelled; other applicants increased the amount of the tax guarantees, capitalised their contribution in their company, or submitted current data from their bookkeeping to show they satisfied all the conditions for receiving authorisation.

The conditions of credibility and debt-free status must also be satisfied by an individual (natural person) who is a governing body or a member of such body or by an individual who may not be the applicant's governing body or member of such body but is carrying out this activity (chaining of legal entities in the position of governing body or member, so-called linked entities). By the end of 2016, there were scrutinized more than 30,000 linked entities.

Records kept pursuant to the Excise Duty Act (Sections 37-40 and Section 60 of Act No 353/2003 Coll.) must contain the following data:

- Type, name, code and amount of goods produced, received, issued or dispatched, categorised according to type of duty arrangement (duty suspension, import, placement back under duty suspension, export, free circulation, own consumption, loss);
- Identifier (SEED ID) of consignee or consignor of various goods, declarant, event date, and date of entry in the records;
- Movement of various goods (e.g., means of transport, carrier, transport number)
- Registration numbers of related documents; and
- Notification of placement of consumer packaged alcohol bearing an excise stamp into free circulation and data on its distribution.

A record of receipt must be drawn up immediately once transport ends. Electronic recordkeeping has to be maintained in xls, xlsx or ods format, or it has to be possible to convert output into such format.

Ethyl Alcohol

After 2012, the Czech Republic introduced comprehensive measures consisting in a detailed overview of the operations of entities (see Annex 3, Diagram A), from production of raw ethyl alcohol and labelling with alcohol excise stamps to distribution to the final merchants or authorised

users of duty-exempt ethyl alcohol. In the Czech Republic, alcohol facilities not in operation are also subject to supervision by the customs authorities. The aim of the new legislation was to improve the overview of ethyl alcohol processing and ethyl alcohol production, identify the persons handling consumer packaged alcohol, limit the handling of ethyl alcohol to financially stable and credible persons and ensure constant supervision over the production and labelling of alcohol. The most important measures are as follows:

Ethyl alcohol production, receipt, storage, and dispatch records contain information about the amount of ethyl alcohol in each stage of production and processing with document numbers indicated.

Restrictions on package volume, material of consumer packaged goods, and on the number of packages with a damaged excise stamp at the point of final sale or dispatch to consumers. Consumer packaging means a container or other package holding a maximum of one litre or, if a container is made of glass, three litres. Ethyl alcohol in bigger packaging is considered as being unmarked and may not be handled. At the point of final sale to individuals for consumption, there can only be one consumer packaged item with a damaged excise stamp or, if the packaging is equipped with a one-way valve, three consumer packaged items with a damaged excise stamp.

Mandatory registration of persons who place consumer packaged alcohol with at least 15% ethyl alcohol per volume into free circulation and who are ethyl alcohol importers or producers in the Czech Republic or operators of warehouses under duty suspension, provided personal and technical conditions are met. The personal conditions of credibility, integrity, and no record of being banned from doing business have to be met by the applicant and the person acting in the capacity of the statutory body or a responsible person. Depending on the number of alcohol excise stamps ordered, the applicant has to pay a **guarantee** of CZK 100,000-5,000,000 (i.e., approx. EUR 3,700-185,000). The technical conditions for registration include **suitability of the alcohol labelling site and a camera security system that is located in the labelling facilities or warehouse**, operates continuously and allows remote access to the duty administrator.

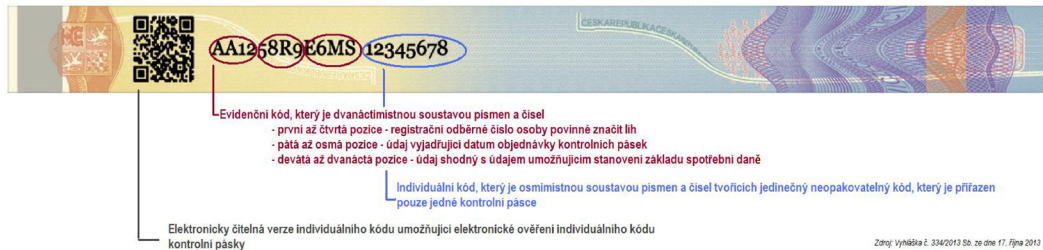
Registration markings of the excise stamp are used for labelling alcohol with a volume greater than 0.06 litres. During movement of the alcohol excise stamps, the registration markings of the alcohol excise stamps must be indicated in the transport documents or, in the case of export, in the customs declaration.

Until 30 November 2013, alcohol excise stamps contained a 10-digit registration code that included a 4-digit offtake registration number, excise stamp application code, and ethanol concentration level classification code.



Effective of 1 December 2013, excise stamps contain two types of identifiers and the amount of ethyl alcohol in the consumer packaged alcohol expressed in millilitres of ethanol at 20°C, rounded down to whole millilitres.

210 x 16 mm



[Registration Code, which is a 12-digit alphanumeric code

- 1st to 4th position – registration offtake code of the person obliged to label alcohol
- 5th to 8th position – information expressing the date of the excise stamp order
- 9th to 12th position – information identical to the information allowing determination of the excise tax base

Special 8-digit alphanumeric code comprising a unique, unrepeatable code allocated to only one excise stamp

Electronically readable version of the special code allowing verification of the code on the excise stamp

Source: Decree No 334/2013 of 17 October 2013]

The alcohol excise stamp record contains daily entries on the ways in which the alcohol excise stamps are used according to the registration codes, as well as the documents that the entries are based on. In case of destruction, loss, or theft of specific alcohol excise stamps, the holder is obliged to inform the excise duty administrator electronically on the next business day following the decisive event about the registration codes of the relevant alcohol excise stamps and the number of stamps in question.

Introduction of new offences and adjustment of the amounts of penalties imposed in case of a breach of legal regulations in connection with handling alcohol excise stamps. Penalties may be imposed up to the amount of the excise duty or even exceed such amount ten times (e.g., in case of damage or loss of alcohol excise stamps exceeding 0.1% of the total amount of each executed order of alcohol excise stamps or in case of failure to return alcohol excise stamps by the statutory deadline).

Restrictions on handling alcohol excise stamps to allow only registered holders to do so. They may not assign the stamps to other persons except foreign suppliers for the purpose of labelling consumer packaged alcohol manufactured outside the Czech Republic. Exported alcohol excise stamps have to be affixed to the consumer packaging and imported back within nine months of when the stamps were received from the duty administrator.

Mandatory registration of distributors of consumer packaged alcohol under the condition of satisfaction of similar conditions as in the case of a person obliged to label alcohol, with an obligation to pay a guarantee of up to CZK 5,000,000 (i.e., approx. € 185,000).

Specification of persons allowed to sell or purchase consumer packaged alcohol. Authorised persons are obliged to sell consumer packaged alcohol to other registered persons, to final sellers, or they can sell it as final sellers themselves. They may purchase alcohol from other registered persons, liquidators (insolvency administrators, receivers), administrative authorities, government establishments, or unregistered persons in connection with tax execution procedure.

Holders and distributors of alcohol are obliged to send **notifications of placement of alcohol into free circulation or of the sale of consumer packaged alcohol in free circulation** on the day immediately following the day after the decisive event to the duty administrator through the information system operated by the duty administrator (ORO WebKlient) or, upon observing content requirements, in xml format. The notification contains the number of alcohol excise

stamps used and the type of consumer packaging, percentage volume of ethyl alcohol, European Article Number (EAN), identification of distributor or final seller and the name of the product and production batch number. Between 2014 and 2015, tax entities sent approx. 10.5 million notifications.

Mandatory concession (specific form of trade licence) not only for ethyl alcohol production and treatment, but also for the sale of consumer packaged alcohol by a business operator to individuals for their personal consumption or to other legal entities or entrepreneurs for their own internal needs. A concession can only be run following the issuance of a decision by the trade licencing office and upon fulfilling professional and other qualifications. The sale of ethyl alcohol does not require any prescribed professional qualifications. A benefit for the excise duty administrator is an overview of ethyl alcohol merchants and their operating premises and restriction of trading to credible entities. In the Czech Republic, approx. 94,000 concessions were registered in 2014 and 104,000 in 2015 for the field that includes production, treatment, and sale of fermented ethyl alcohol, potable ethyl alcohol, spirits, and other alcoholic beverages.²

Other than the excise duty administrator, the following authorities can also conduct checks of the observance of legal regulations in connection with the handling of excisable products in the Czech Republic:

- Trade licencing offices;
- Czech Agriculture and Food Inspection Authority;
- Bodies of the Czech Financial Administration;
- Bodies of the Czech Trade Inspection.

The excise duty administrator is informed immediately if a breach of obligations or violation of a ban is discovered.

Mineral oils

The Czech Republic has in place a comprehensive system of supervision (see Annex 3, Diagram B) of excisable mineral oils and certain non-excisable mineral oils that have been misused for tax evasion purposes. The system includes the supervision of activities ranging from the production, storage, movement, marking, and dyeing of various mineral oils and marking certain other mineral oils, to the delivery of mineral oils to end consumers or users and, in certain cases, even the consumption of mineral oils. The supervision undertaken by customs authorities also includes production and handling of marking substances for marking mineral oils.

Mineral oils listed under combined nomenclature codes³ 2710 19 25 (Other kerosene), 2710 19 29 (other medium oils not listed elsewhere) and 2710 19 41, 2710 19 45, and 2710 19 49 (heavy gas oils) are subject to marking and dyeing, provided that marking is not prohibited⁴. Other mineral oils, such as benzol, toluol, xylol and lubricating oils, and other oils intended for uses other than engine propulsion are subject to marking. Marking and dyeing various mineral oils and certain other mineral oils using a marking substance is possible only if permitted by the excise duty administrator.

² Apart from beer, fruit wine, other wine and mead and fruit brandies obtained from distillation.

³ Council Regulation (EEC) No 2658/87 dated 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff.

⁴ For example, in connection with use of mineral oils as fuel (save for boating if not private recreational boats) or as a component for the production of fuel if marking impairs use.

The most important new measures implemented since 2012:

Monitoring the handling of special mineral oils,

which is the group of mineral oils found under combined nomenclature codes 2710 19 71 to 2710 19 99 (i.e., lubricating oils and other oils intended for uses other than engine propulsion) with a viscosity at 40°C that is less than 12 mm²/s⁻¹, inclusive, and which have at least one of the following specifications:

- Flash point is lower than 150°C or
- During distillation, it is redistilled less than 20% of volume, including losses, at 350°C.

These mineral oils have been misused to adulterate final fuels, especially diesel, or have been used directly or sold as motor fuel, as the physical properties are very similar.

Entities handling monitored mineral oils either in bulk storage or in packaging exceeding 220 litres must be **registered** with the duty administrator. For the registration to be issued, the applicant, the governing body, and the responsible representative have to meet the stipulated personal conditions, and these have to be satisfied for the duration of the registration. As at 30 November 2016, the registry of persons authorised to handle mineral oils contained 54 valid registrations; four registrations were cancelled on the request of the registration holders themselves.

Electronic records have to contain detailed information about income, own consumption, and sale or movement of mineral oils, including document numbers, numbers of the notifications of receipt sent to the excise duty administrator, storage and consumption sites, purpose of consumption, or, in the case of sale, place of delivery (destination) and customer registration number.

The excise duty administrator has to receive **notifications of each receipt** of special mineral oils 24 to 72 hours prior to the receipt. The notification must include identification of the business partners, name and nomenclature of each special mineral oil, amount, purpose of consumption or sale/transfer information.

Notification of the expected amount of mineral oil to be purchased, sold or consumed in the respective year must be submitted by the entity at the time of submission of the registration application or by the end of the respective calendar year. Notifications of the purpose of use and marking, storage, or consumption site, and identification data about the person to whom the special mineral oil is sold or transferred are to be submitted before each change of such information. Notifications are submitted electronically using intelligent forms or via data box in PDF format. A total of 630 notifications were submitted by persons handling special mineral oils during the audited period.

An excise duty administrator has to **confiscate and forfeit** special mineral oils or the transport vehicle when he discovers that special mineral oils are being handled without registration or if the registered person is not fulfilling his notification obligations. Just like the case of failure to fulfil obligations connected to the transport/movement of excisable goods, these shortcomings cannot be remedied after the fact.

Fuel distributor registration

is mandatory for persons who sell or are authorised to sell fuel. Only persons who fulfil the following criteria can be registered distributors:

- **Mandatory concession** from the Trade Licensing Office (specific form of trade licence). The customs office provides an opinion on the concession application or on the appointment of a responsible representative. It examines whether the concession applicant or the governing body or members of the governing body of the applicant/legal entity and the appointed

responsible representative fulfil the condition of credibility. If these persons satisfy the credibility condition, the customs office issues a positive standpoint. A credible person means a person with integrity, i.e., a person with no criminal record regarding property-related, customs-related or tax-related offences. Possession of professional qualifications is also a condition for the issuance of a concession.

- **Debt-free status** of the same persons as in the case of credibility above. A person with debt-free status is a person who provides a sufficient guarantee that he will satisfy his payment obligations to the state duly and on time, i.e., he has no arrears with respect to the state budget or general health insurance.
- **The fact that the fuel distributor was not disqualified, i.e., barred from carrying on his business activities, by a court or administrative authority.**
- **The fact that the fuel distributor is not in liquidation or bankruptcy.**
- **Payment of a guarantee (or provision of a bank deposit)** in the amount of CZK 20,000,000 (i.e., approx. € 740,000), which can be reduced to CZK 10,000,000 (i.e., approx. € 370,000) after being registered as a fuel distributor after three years and satisfying other conditions.

A distributor is obliged to submit the fuel distribution **notification** within 20 days of the end of the calendar month. The electronic notification has to contain information about each purchase and sale of fuel. The reported data are data about business partners, document numbers, the specific product, amount, price, carrier, and means of transport, and loading and unloading site.

The entitlement to a refund of duty on mineral oils used in primary agricultural production

was re-introduced in 2014. The excise duty refund on mineral oils can only be claimed for those activities that clearly relate to activities carried out on land plots. In 2015, there were about 64,000 such excise duty refund claims, totalling CZK 1,172,844,680 (i.e., € 43,401,720). In 2017, the Czech Government also introduced an excise duty refund on fuel for farmers with livestock production. Farmers or breeders of cattle, pigs, poultry, sheep, and goats are now also entitled to apply for a refund.

Tobacco products

Restriction of the sale of tobacco products with an old VAT rate

In response to the long-term failure to generate budgetary revenues from excise duty on tobacco products, the Czech Republic, effective of 1 December 2014, introduced a restriction on the sale of tobacco products with an old VAT rate should the VAT rate change.

Excise duty on tobacco products is paid through tobacco excise stamps. Use of tobacco excise stamps is understood as the affixation of stickers on a unit package (Section 116 of the Excise Duty Act). The production of tobacco products in a state intended for end users is decisive for the application of excise duty rates, even though their unloading, delivery, dispatch, sale, or sale to end users may not take place. The letter of the alphabet representing the excise duty rate is indicated on the tobacco excise stamp together with the price for the end user in the case of cigarettes, number of pieces in the package or amount of loose smoking tobacco in kilogrammes. A tobacco excise stamp has no identifier.



The length of the interim period for the sale of unit packages of cigarettes intended for direct consumption, affixed with a tobacco stamp with the previous old tax rate, was specified as the elapse of the last day of the second calendar month following the effective date of the new excise duty rate.

Developments in the offtake of tobacco stamps in 2014 and a comparison with developments in previous years suggest that each year, tobacco product manufacturers had substantially frontloaded tobacco products with the “old” tax rate, which led to the force of the “new” tax rate factually moving forward by about a year.

Duty on raw tobacco

Due to the risk of misuse of raw tobacco to produce tobacco products without a licence from the excise duty administrator and due to the non-payment of excise duty, imposing a duty on raw tobacco and monitoring the handling of raw tobacco were measures introduced to fight tax fraud.

Effective 1 July 2015, excise duty is imposed on raw tobacco that has not been used or supplied to produce tobacco products, supplied to a different Member State or a third country or in respect of which the origin, purpose of use or person to whom such tobacco should be supplied has not been proven.

Raw tobacco handling restrictions

Raw tobacco handling restrictions have been added to the supervision of the movement and production of tobacco products, labelling unit packages with excise stamps and restriction of sales to defined locations. Facilities for processing raw tobacco and producing tobacco products are not subject to supervision by the customs authorities.

Storing raw tobacco for other purposes than producing tobacco products may only be carried out by a registered person. Such tobacco must not be processed or treated further, however.

Only a person that fulfils the personal conditions applicable to applicants, governing bodies and responsible representatives may become a **registered person**. This condition has to be satisfied for the entire registration period. The registration conditions are as follows: a) authorisation to carry on a trade that allows storage of raw tobacco, b) credibility, c) debt-free status, d) the person storing the raw tobacco has not been disqualified from such activity, thus preventing him from carrying on such activity, e) the person storing raw tobacco is not in liquidation or bankruptcy, and f) payment of a guarantee of CZK 20,000,000 (i.e., approx. € 740,000).

Electronic records must contain the date of receipt or dispatch of the raw tobacco, document number, identification of business partner, and amount and type of tobacco.

Notification of each receipt of raw tobacco by the registered person storing raw tobacco has to be made to the excise duty administrator 24 to 72 hours prior to receipt or dispatch. Data about the business partner, amount of raw tobacco, storage address, purpose of use, and carrier are reported.

Notification of amount of raw tobacco received or dispatched in the respective year is submitted by the entity either at the same time that the registration application is submitted or by the end of January of the respective year.

Notifications are submitted electronically via data box in PDF format.

Movement of raw tobacco has to be accompanied by a document containing the prescribed information.

3.2. Excise duty legislation in the Slovak Republic

The legal framework regulating excise duty in the Slovak Republic is based on EU legislation, thus helping to create a common tax system. Each type of excise duty is defined in Slovak legislation, with such legislation being similar to that of the neighbouring countries.

3.2.1. Specification of legislation

Excise duty legislation comprises four laws according to the subject of the excise duty. Harmonisation has been achieved by the adoption of the following excise duty laws:

- Act No 98/2004 Coll., on excise duty on mineral oil;
- Act No 106/2004 Coll., on excise duty on tobacco products;
- Act No 530/2011 Coll., on excise duty on alcoholic beverage;
- Act No 609/2007 Coll., on excise duty on electricity, coal, and natural gas.

All excise duty regulations represent substantive law regulations and focus on taxation of the subject of the excise duty in the fiscal territory.

Act No 563/2009 Coll., on excise duty administration (Tax Procedure Code) is a procedural law regulation governing excise duty administration and the rights and obligations of tax entities and other persons.

Within this legal framework, the provisions of Council Directive No 118/2008/EC of 16 December 2008, concerning the general arrangements for excise duty and repealing Directive 92/12/EEC, as well as other EU directives and regulation, have been transposed.

3.2.2. Structure of changes to legislation on the various types of excise duty in relation to the subject of the audit

Since 2011, excise duty legislation has undergone fundamental changes according to the structure of the various types of excise duty.

In EMCS, movements of excisable goods under duty suspension have become fully electronic, replacing the administrative paper document accompanying such movement. This new electronic system tracks movements in real time.

Within EMCS, the concept of suspension of access to tax entities was introduced in 2015. Under this concept, the customs office has the possibility to suspend access should there be warranted concern that taxes from previous tax periods will not be paid or levied or due to their unenforceability. The above pertains to the due date of the duty, as during movement, a guarantee has to be paid before excisable goods can be moved. This guarantee is released, however, once the goods reach their destination.

Excise duty on mineral oil

A fundamental change in excise duty administration occurred in 2011, when the possibility to use “red diesel” was cancelled. Marked gas oil, commonly called “red diesel”, used to be classified as a mineral oil. In the past, “red diesel” was used for specific purposes defined under the law, e. g., in agriculture, and a lower excise duty rate was applied to it.

This change has had a positive impact on the revenue side of the state budget. The reason behind cancellation of “red diesel” was to reduce the public deficit, simplify the system of taxation of mineral oils, and reduce the administrative burden for the affected tax entities.

In 2012, a new type of tax entity was created: motor fuel merchant. The purpose of this legal amendment was to introduce a recordkeeping obligation for all service stations. The obligation to

purchase petrol and diesel from fuel distributors makes it easier to keep track of the movement of taxed petrol and diesel.

In 2014, two new tax entities were introduced: fuel distributor and fuel consumer. This change was aimed at preventing tax evasion with respect to petrol and diesel and making the movement of these fuels easier to track (see Annex 4, Diagram A).

Provisions on recordkeeping requirements for tax entities trading with lubricating and base oils were expanded as part of the fight against tax evasion. In Slovakia, these mineral oils do not have to be marked with an indicator substance.

Excise duty on tobacco products

In efforts to fight tax evasion and monitor tobacco, the scope of the Tobacco Act was expanded to include a new type of tax entity: raw tobacco merchant. Raw tobacco is not a harmonised tobacco product and its movement is not monitored within the EU.

Also, the obligation to keep a record of technical equipment for the production tobacco products was introduced.

The legislation introduced a new system for ordering, assessing, printing, distributing, and using excise stamps intended for labelling consumer packaged tobacco products. Tobacco excise stamps are used to label cigarettes, cigars, cigarillos, and tobacco.

As part of the new system, an excise stamp user has to request the customs office to issue excise stamps electronically through the excise stamp offtake information system. This computerisation introduced electronic communication between tax entities and excise duty administrators. One state printer of excise stamps was appointed: the Kremnica Mint (Mincovňa Kremnica). Also, supervision over the printing of excise stamps was introduced. The changes contributed substantially to eliminating tax evasion.

The new excise stamp printing system strengthens the product control system because a unique identification number is generated for each excise stamp, and this number makes it easy to check whether the product comes from legal sources. A unique 12-digit identification number (1st-2nd position is the checksum; 3rd position indicates whether the code belongs to the excise stamp or a group of packages; 4th position is the series identifier; 5th-8th position is the alphanumeric part of the sequence; and 9th-12th position is the decimal part of the sequence) can be also applied in the form of a two-dimensional barcode.

Excise stamps designated for labelling cigarettes have to show the price of the cigarettes, the symbol for the valid excise duty rate, number of cigarettes per consumer package, and cigarette length.



Excise duty on alcoholic beverages

The biggest change in legislation affected ethyl alcohol, wine and beer, as the original three substantive law regulations were repealed and a single excise duty act on alcoholic beverages was created.

The main reason for this new law was the need for a collective solution to the taxation of alcoholic beverages, their production, movement monitoring, excise bonds, and the need to improve the business environment in the respective field, make excise duty administration more effective, and reduce the administrative burden for SME.

This new method for addressing the taxation of various types of alcoholic beverages introduced the use of a single excise duty rate for all alcoholic beverages with the percentage of actual ethyl alcohol by content being taken into account. In the case of still wine, sparkling wine, and fermented beverages, the percentage of ethyl alcohol by content in the final product is taken into account. The concentration in beer is also expressed as a percentage of actual ethyl alcohol content in the final product.

The term minor producer of fermented beverages was introduced, essentially to exempt from excise duty those individuals who produce sparkling fermented beverages up to 1,000 litres per fiscal year for their own use and their household's use.

The legislation introduced a new system of ordering, assessing, printing, distributing, and using excise stamps for labelling consumer packaged alcohol. Under this new system, an excise stamp user has to request the customs office to issue excise stamps electronically through the excise stamp offtake information system. This computerisation introduced electronic communication between tax entities and excise duty administrators. One state printer of alcohol excise stamps was appointed: the Kremnica Mint (Mincovňa Kremnica). Supervision over the printing of excise stamps was also introduced. The changes contributed substantially to the elimination of tax evasion (see Annex 4, Diagram B) and excise stamp counterfeiting.

The new excise stamp printing system strengthens the product control system because a unique identification number is generated for each excise stamp, and this number makes it easy to check whether the product comes from legal sources. A unique 12-digit identification number (1st-2nd position is the checksum; 3rd position indicates whether the code belongs to the excise stamp or a group of packages; 4th position is the series identifier; 5th-8th position is the alphanumeric part of the sequence; and 9th-12th position is the decimal part of the sequence) can also be applied in the form of a two-dimensional barcode.



3.3. Comparison and assessment

3.3.1. Comparison

Excise duty on ethyl alcohol, mineral oils, tobacco products, beer, wine, and intermediate products are regulated in the Czech Republic by a single piece of legislation: Act No 353/2003 Coll. Duties on solid fuel, natural and other gases and electricity are part of Act No 261/2007 Coll. In comparison,

the Slovak Republic has a special law for each type of excise duty, save the excise duty act on alcoholic beverages, which applies to ethyl alcohol, beer, wine, and intermediate products. A special law regulates excise duty on electricity, coal and natural gas.

As of 1 January 2015, the issuance of a licence to handle excisable products under the Excise Duty Act has been conditional in the Czech Republic upon proving the economic stability of applicants, which the customs authorities check annually by performing a financial analysis. In Slovakia, a similar analysis is performed only when deciding on waiving or reducing the excise guarantee.

The FD SR performs fiscal supervision by having one of its employees present when excise stamps are being affixed to alcohol and tobacco products, destroyed at the printer, and sold to individual users. The law states that only the state-owned enterprise Kremnica Mint (Mincovňa Kremnica) is authorised to print excise stamps. In the Czech Republic, the customs authorities do not supervise the production of tobacco excise stamps and alcohol excise stamps at the printer. Tobacco excise stamps and alcohol excise stamps are collected from the printer by the authorised branch of the customs office in Kutná Hora. Tobacco excise stamps are purchased by tobacco producers at this branch; alcohol excise stamps are further distributed to the various excise duty administrators pertinent to the labelling sites. Czech legal regulations do not define producers of tobacco excise stamps and alcohol excise stamps. In Slovakia, there is the obligation to register technical equipment for producing tobacco products or parts thereof. There is no such obligation in the Czech Republic.

In the Czech Republic, tobacco excise stamps bear the excise duty applicable to tobacco products, which is paid upon purchase of the tobacco excise stamps at the authorised customs office. Tobacco excise stamps in Slovakia do not contain the applicable excise duty.

In the audited period, the Czech Republic introduced a refund of excise duty on mineral oils if such oils were used for primary plant production in agriculture, known as “green diesel”. Since 2017, this refund was extended to include motor oils used in animal production. In Slovakia, there is no support for farmers (support existed until 31 December 2010 in the form of “red diesel”). To boost the fight against tax fraud, the Czech Republic introduced the obligation on fuel distributors to pay a guarantee of CZK 20,000,000 (€ 740,000). A consequence of the introduction of this measure was a drop in the number of fuel distributors from 1,891 in 2013 to 174 in 2014 (i.e., 1,717 fewer tax entities). Slovakia introduced a similar fuel distributor concept, but without the guarantee for securing the excise duty on mineral oil. Slovakia registered 303 distributors in 2014 and 407 in 2015. Slovakia has also the concepts of motor fuel merchant and motor fuel consumer, with the locally pertinent customs offices issuing the respective authorisations. The Czech Republic has no such concept. In the Czech Republic, various mineral oils and some other mineral oils are subject to marking; in Slovakia, after the cancellation of “red diesel”, mineral oils are no longer marked.

In the Czech Republic, alcohol excise stamps contain a unique 8-digit code to verify the source of the alcohol and a 12-digit registration code that also indicates ethyl alcohol strength, according to which the excise stamp register is kept. Destroyed, lost, and returned excise stamps are recorded in the register on the business day that follows the decisive event. Excise stamps holders are obliged to provide notification of the use of the stamps by the same deadline. In Slovakia, excise stamps used to label consumer packaged alcohol contain a unique 12-digit identification number that is – in case of its usage - reported once per month to the excise duty administrator and is used to verify the authenticity of the excise stamps. The register lists the number of purchased, used, and returned excise stamps.

Both the Czech Republic and Slovakia have introduced the concept of mandatory registration or registry of alcohol distributors. In Slovakia, registration is conditional upon satisfaction of conditions linked directly to storage space exceeding 200m²; annual turnover from the sale of consumer packaged alcohol of at least € 100,000 or the paid-up capital amounting € 100,000; and at least 10 employees. In the Czech Republic, registration is conditional upon payment to the

excise duty administrator of a guarantee of CZK 5,000,000 (i.e., € 185,000) which is kept for the entire period that the registration is valid.

In Slovakia, when producing ethyl alcohol generally, and not only consumer packaged alcohol, the constant presence of an excise duty administrator is required. When producing consumer packaged alcohol in the Czech Republic, a special form of registration is required for the person obliged to label alcohol. This registration is conditional upon payment of a guarantee ranging from CZK 100,000 (i.e., € 3,700) to CZK 5,000,000 (i.e., € 185,000), depending on the number of purchased excise stamps, and installation of a camera surveillance system that allows the duty administrator to access it remotely at any time.

3.3.2. Assessment

The laws of the Czech Republic and Slovakia greatly exceed minimum EU requirements for the subject and administration of excise duties. They also respond to identified risks from other Member States and risks specific to the fiscal territories. The legislative changes adopted in the audited period allow excise duty administrators to prevent better possible tax evasion.

In the fight against tax evasion in the form of misuse of raw tobacco (e.g., of tobacco leaves), the Czech Republic and Slovakia introduced – above and beyond the legal framework of the EU – a duty on raw tobacco. Even though raw tobacco, or tobacco raw material, is not a harmonised tobacco product, the Czech Republic and Slovakia track its movement nevertheless. The Czech SAO and the Slovak SAO can recommend the application of such measure in other EU Member States as well.

In the Czech Republic, a good practice has shown that verifying the economic stability of applicants as a condition for issuance of a licence under the Excise Duty Act is a very successful way to reduce the risk of tax arrears. For this reason, both audit institutions recommend the application of such verification procedures in Slovakia.

Distribution of excise stamps is more effective in Slovakia than in the Czech Republic because it does not burden the customs authorities with the costs associated with transporting the alcohol and tobacco excise stamps between the printer and the users of the stamps.

The Slovak Financial Administration has a better overview of the existence and location of technical facilities for the production of tobacco products. The Czech Republic, however, has a more effective system for collecting excise duty on tobacco products as the order for tobacco excise stamps constitutes an excise declaration with subsequent payment of tax.

By implementing the concept of motor fuel merchant and motor fuel consumer, the Slovak Financial Administration has a better overview of fuel sales points. The introduction of mandatory marking of mineral oils in the Czech Republic makes it easier to control misuse of mineral oils with a reduced duty rate or exempted from duty.

The Czech Republic (2013) and Slovakia (2014) introduced a new excise stamp containing an identification code. The Czech excise stamp also contains a registration code, whereas new legislation in Slovakia abandoned the introduction of such code. At this time, it is still not possible to assess the situation for the reason of the short time that the legislative changes have been in force. Implementation of effective labelling of consumer packaged alcohol with an excise stamp is an effective measure in the fight against tax evasion. The Slovak SAO and the Czech SAO can recommend implementation of this control measure even in other Member States.

Slovakia takes a client-friendly approach to its alcohol distribution conditions, as it does not block the funds of tax entities. Conversely, the Czech Republic takes a rather restrictive approach, as it requires the payment of a guarantee, which blocks the cash flow of tax entities. This measure does, however, reduce the risk of tax arrears arising.

4. Development of excise duty revenues

Excise duty is an indirect tax imposed by the state to increase its budget revenues and to regulate the sale of goods, the consumption of which is considered detrimental to an individual and/or society (the regulatory function of taxes). According to the strategic document Communication from the Commission “Europa 2020 - A strategy for smart, sustainable and inclusive growth” of 3 March 2010, which is a part of the “Resource efficient Europe” flagship initiative, it is the European Commission’s aim to enhance a framework for the use of market-based instruments also in the form of revision of energy taxation with a focus on reducing energy and resource consumption. To fulfil the EC’s plan, Member States should seek to shift the tax burden from labour to energy and environmental taxes as part of a “greening” of taxation systems.

The collection of excise duty revenues in the Czech Republic and Slovakia includes the collection of excise duties on mineral oils, tobacco products, ethyl alcohol, beer, wine and intermediate products, natural gas, fuel, and electricity.

Excise duties as a percentage of total tax revenues and as a percentage of GDP is monitored by the Organization for Economic Cooperation and Development (OECD). Both Supreme Audit Institutions used the following criteria for submitting a query on the OECD website <https://stats.oecd.org/Index.aspx?DataSetCode=REV> as at 1 December 2016:

- Level of government → Total
- Tax revenue → 5121 Excises
- Indicator → Tax revenue as % of total taxation

Selection criteria for share of excise duty on GDP:

- Level of government → Total
- Tax revenue → 5121 Excises
- Indicator → Tax revenue as % of GDP

4.1. The collection of excise duties in relation to macroeconomic indicators in the Czech Republic

In the Czech Republic, excise duties as a percentage of total tax revenues and as a percentage of GDP fell slightly according to OECD data.

For conversion of CZK to € as at 31 December of the respective year, the European Central Bank (“ECB”)⁵ exchange rate was used. The nominal CZK/€ exchange rate in 2013 weakened year-on-year by 9.1% (from 25.140 to 27.425). The reason for this was chiefly the foreign exchange intervention policy of the Czech National Bank (“CNB”) Bank Board of 7 November 2013⁶. The resulting excise duty collection, excise duty rates, and per capita revenue in € substantially decreased in response to the exchange rate difference.

Table 1 Development of excise duties in relation to macroeconomic indicators in the Czech Republic

Indicator	2012		2013		2014		2015	
	CR	OECD average	CR	OECD average	CR	OECD average	CR	OECD average
Excise tax revenues as % of GDP	3.7	2.7	3.7	2.6	2.9	2.6	3.4	-
Excise tax revenues as % of total tax revenues	11.1	8.0	10.7	7.8	8.7	7.6	10.1	-
Total excise tax collection per capita (in €)	530.75	-	477.23	-	476.46	-	520.86	-
Population as at 31 Dec. (in thousands)	10,516		10,512		10,538		10,554	

Source: <https://stats.oecd.org/Index.aspx?DataSetCode=REV> as at 1 Dec. 2016, Reports on CA CR Operations for 2012 to 2015, Czech Statistical Office

Note.: GDP – Gross domestic product

A significant decrease in the share of excise duty in 2014 was caused by a one-off failure in collecting revenue from excise duty on tobacco products because of new legislation restricting the sale of tobacco products with an old VAT rate. The share of excise duty is also influenced by an increase in the collection of income taxes, which, as a result of an improvement of the Czech economy, grew substantially.

Table 2 The collection of excise duties in the Czech Republic and their proportion

Indicator	2012			2013			2014			2015		
	1.	2.	3.	1.	2.	3.	1.	2.	3.	1.	2.	3.
Mineral oils	56.2%	3,134	298.05	55.6%	2,791	265.54	57.5%	2,889	274.15	55.7%	3,062	290.15
Tobacco products	33.5%	1,869	177.71	34.0%	1,707	162.38	32.1%	1,612	152.93	34.2%	1,882	178.35
Spirits	4.6%	259	24.61	4.6%	233	22.12	4.8%	243	23.11	4.8%	263	24.94
Beer	3.3%	185	17.60	3.3%	165	15.66	3.3%	165	15.69	3.2%	174	16.51
Wine and intermediate products	0.2%	13	1.21	0.2%	10	0.99	0.2%	11	1.01	0.2%	12	1.12
Natural gas	0.9%	50	4.76	0.9%	46	4.40	0.8%	41	3.89	0.8%	43	4.03
Solid fuel	0.3%	18	1.72	0.3%	17	1.61	0.3%	15	1.38	0.3%	15	1.46
Electricity	1.0%	54	5.09	1.0%	48	4.53	0.9%	45	4.30	0.8%	45	4.30

Source: State final account for 2012-2015, Czech Statistical Office

Legend:

1. Collection of specific excise duty as a percentage of total excise duty revenues
2. Collection of specific excise duty in € millions
3. Collection of specific excise duty in € per capita in the Czech Republic,
Calculation= $\frac{\text{Collection of excise duty of specific commodity}}{\text{Total population of the CR}}$

⁵ <http://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-czk.en.html> as at 14 October 2016

⁶ 2013 CNB Annual Report, 2013 Report on Financial Market Supervision

Excise duty on mineral oils constitutes the biggest percentage of excise duty collection (about 55.7% in 2015); however, despite the marked growth of the economy, it fell compared to 2012. The collection of excise duty on mineral oil in 2013 and 2014 was substantially lower than in 2012 and in 2015, although in 2013, the registration of fuel distributors was introduced as a measure against fraud. The trend toward environmentally friendly cars and support for biofuels have negatively affected tax revenues.

The percentage of duty on natural gas, duty on solid fuels, and duty on electricity on total tax collection is negligible, which, compared to neighbouring countries, is due to the low tax rate, which is close to the minimum rate set by the EU. If rates do not increase in the future, their percentage will fall with regard to the ever increasing energy efficiency of buildings and production processes.

The collection of excise duty on alcohol in 2013 and 2014 was negatively affected by the aftershocks of far-reaching tax fraud consisting of placing untaxed alcohol, alcohol containing methanol, or insufficiently denatured alcohol into circulation in the form of spirits. After adopting numerous measures against such conduct in 2015 and a revival of the spirits market, the collection of excise duty on alcohol exceeded the amount collected in 2012 by € 4,000,000.

The share of duty on tobacco products grew as a result of an increase in rates.

Table 3 Duty rates for the most important commodities in terms of revenue after conversion to €

Commodity	Type	2012 rate			2013 rate			2014 rate			2015 rate		
		EU	CR		EU	CR		EU	CR		EU	CR	
		€	€	CZK	€	€	CZK	€	€	CZK	€	€	CZK
Petrol (1 000 l)	Leaded	421.00	551.09	13,710.00	421.00	546.65	13,710.00	421.00	534.57	13,710.00	421.00	498.51	13,710.00
	Unleaded	359.00	516.12	12,840.00	359.00	511.96	12,840.00	359.00	500.64	12,840.00	359.00	466.88	12,840.00
Diesel (1 000 l)	Motor fuel	330.00	440.15	10,950.00	330.00	436.60	10,950.00	330.00	426.95	10,950.00	330.00	398.15	10,950.00
	Production	21.00	440.15	10,950.00	21.00	436.60	10,950.00	21.00	426.95	10,950.00	21.00	398.15	10,950.00
	Heating	21.00	440.15	10,950.00	21.00	436.60	10,950.00	21.00	426.95	10,950.00	21.00	398.15	10,950.00
Alcohol (hl)	Standard rate	1,000.00	1,145.54	28,500.00	1,000.00	1,136.36	28,500.00	1,000.00	1,111.24	28,500.00	1,000.00	1,036.29	28,500.00
	Reduced rate	max 50%	574.81	14,300.00	max 50%	570.18	14,300.00	max 50%	557.57	14,300.00	max 50%	519.96	14,300.00
Cigarettes (1 000 pcs)	Fixed part (FP)	-	45.02	1,120.00	-	46.25	1,160.00	-	46.40	1,190.00	-	46.91	1,290.00
	Percentage part in % (PERC)	-	28	28	-	27	27	-	27	27	-	27	27

Source: https://ec.europa.eu/taxation_customs/business/excise-duties-alcohol-tobacco-energy/excise-duties-alcohol/excise-duty-rates_en

Legend:

1. EU column – minimum duty rate under EU regulations
2. Exchange rates for conversion of duty rates from CZK to € according to the European Commission document entitled "Excise Duty Tables": from October of the previous year (for 2012 = 24.878, for 2013 = 25.080, for 2014 = 25.647, for 2015 = 27.502).
3. The end consumer price is defined by a price decision pursuant to the Act on Prices (Act No 526/1990 Coll.) as the end consumer price of a unit package intended for direct consumption. Weighted average price is understood as the average price of cigarettes for end consumers, which is set by the Ministry of Finance based on the results of stocktaking of tobacco excise stamps for the previous calendar year. The amount of duty on cigarettes is calculated as the sum of the fixed part and the percentage part of the duty rate. To ascertain the average total duty on cigarettes, the percentage part was calculated as a multiple of the percentage part of the duty rate and the weighted average price divided by one hundred (Section 103 and Section 104 of Act No 353/2003 Coll.). Calculation of the average amount of duty on cigarettes = FP+(PERC*(WAP/100)).

Basic excise duty rates on tobacco products increased between 2012 and 2015. This occurred mainly because of the observance of the Council Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco. Because of the foreign exchange intervention

strategy of the CNB, the actual excise duty rate in Euro fell significantly, apart from the tax on tobacco products, which grew slightly. Indexation⁷ of excise duties is not set in relation to price growth, GDP, or standard of living; therefore, the function of excise duties to regulate socially undesirable activities might not be fulfilled. With the growing Czech economy and the rising standard of living, actual excise duty rates are falling.

4.2. The collection of excise duties in connection with macroeconomic indicators in Slovakia

Current excise duty legislation in Slovakia does not address indexation of excise duty rates based on consumer prices because the rates are fixed.

Table 4 Development of excise duties in connection with macroeconomic indicators in Slovakia

Indicator	2012		2013		2014		2015	
	SR	OECD	SR	OECD	SR	OECD	SR	OECD
Excise duty revenues as % of GDP	2.7	2.7	2.7	2.6	2.7	2.6	2.7	-
Excise duty revenues as % of total tax revenues	9.6	8.0	8.9	7.8	8.5	7.6	8.4	-
Total per capita excise duty collection (in €)	366	-	365	-	371	-	387	-

Source: <https://stats.oecd.org/Index.aspx?DataSetCode=REV> as at 1 Dec. 2016; FD SR; Statistical Office of the Slovak Republic

The full manifestation of the non-indexation of rates could especially be seen in the development of excise duty revenues on a cash basis and the proportion of such revenues to gross domestic product. For the above reason, the proportion of tax revenues to GDP remained constant – without fluctuations or changes – in the audited period. The total proportion of excise duties to total tax revenues appears to be falling, which is caused by the ad valorem method of calculating the rates.

The attained macroeconomic indicators are above average in relation to the OECD average.

Table 5 The collection of specific excise duties in Slovakia and their proportion

Excise duty in SR	2012			2013			2014			2015		
	1.	2.	3.	1.	2.	3.	1.	2.	3.	1.	2.	3.
MO	52.71	1040.2	192.72	52.72	1046.5	193.22	53.27	1073.4	197.99	54.05	1138.9	209.89
TP	32.12	633.7	117.12	31.99	634.7	117.19	31.90	642.7	118.55	31.55	665.3	122.61
ALC	10.07	198.7	36.72	10.27	201.97	37.29	10.01	201.7	37.20	9.71	204.9	37.76
BR	2.86	56.45	10.43	2.79	55.86	10.31	2.76	55.65	10.26	2.72	57.35	10.57
WN	0.21	3.9	0.72	0.21	4.65	0.86	0.21	4.26	0.79	0.21	4.44	0.82
NG	1.14	22.49	4.16	1.13	23.21	4.29	1.13	22.77	4.20	1.10	23.19	4.27
CL	0.05	0.99	0.18	0.04	0.77	0.14	0.02	0.41	0.07	0.02	0.43	0.08
EE	0.84	16.57	3.06	0.85	17.34	3.20	0.70	14.11	2.60	0.64	13.49	2.49

Source: FD SR

Legend:

1. Specific excise duties as % of total excise duty revenues.
2. Collection of excise duties in € millions.
3. Collection of specific excise duties in € per capita in Slovakia.

MO – mineral oil; TP – tobacco products; ALC – alcohol; BR – beer; WN – wine; NG – natural gas; CL – coal; EE – electricity.

⁷ Indexation – automatic adjustment of certain economic variables by inflation, which occurs based on legislation or agreement (in the cases of pensions paid out by the State, it is called valorisation).

Among all excise duties implemented in Slovakia, excise duty on mineral oils forms the largest proportion of annual tax revenues in the state budget. During the entire audited period, its percentage did not fall below 52% of such revenues.

Excise duty on tobacco products constitutes the second biggest share. This duty forms about 32% of total excise duty collection.

Between 2012-2015, the collection of excise duties per capita in Slovakia grew. This process was caused by the growth of excise duty rates on tobacco products, by higher purchasing power, and by bigger consumption of the population in the respective year.

Table 6 Excise duty rates on the most important commodities in terms of revenues in €

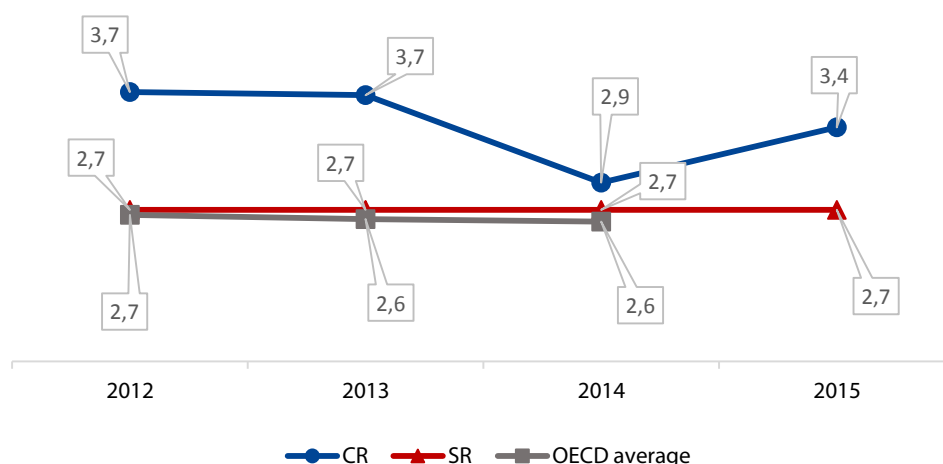
Commodity	Type	2012 rate in €		2013 rate in €		2014 rate in €		2015 rate in €	
		EU	SK	EU	SK	EU	SK	EU	SK
Petrol (1000 l)	Leaded	421	597.49	421	597.49	421	597.49	421	597.49
	Unleaded up to volume	359	550.52	359	550.52	359	550.52	359	550.52
	Unleaded at volume	359	514.50	359	514.50	359	514.50	359	514.50
Diesel (1000 l)	Up to volume	330	386.40	330	386.40	330	386.40	330	386.40
	At volume	330	368.00	330	368.00	330	368.00	330	368.00
Alcohol (hl a.)	Basic rate	1,000	1,080.00	1,000	1,080.00	1,000	1,080.00	1,000	1,080.00
	Reduced rate	max 50%	540.00	max 50%	540.00	max 50%	540.00	max 50%	540.00
Cigarettes (1000 pcs)	Specific part	/	58.00	/	59.50	/	59.50	/	59.50
	Percentage part (%)	/	23.00	/	23.00	/	23.00	/	23.00

Source: https://ec.europa.eu/taxation_customs/business/excise-duties-alcohol-tobacco-energy/excise-duties-alcohol/excise-duty-rates_en

4.3. Comparison and assessment

4.3.1. Comparison

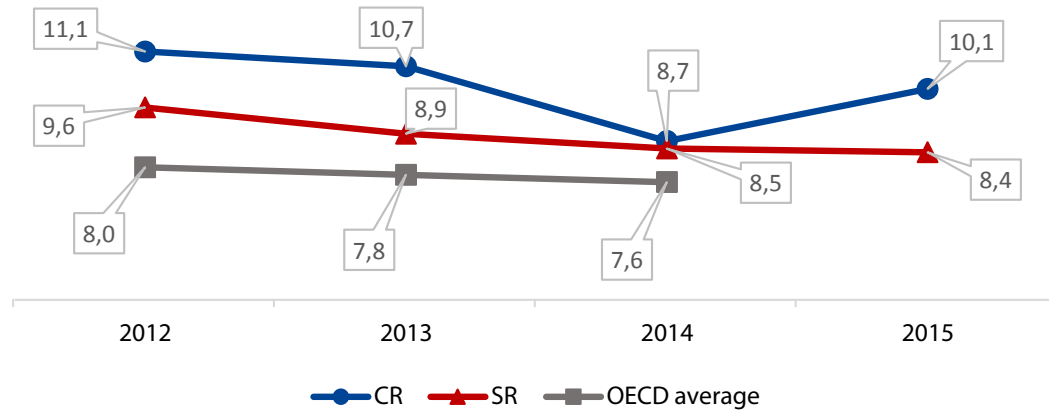
Graph 1 Excise duties as a percentage of gross domestic product (in %)



Source: <https://stats.oecd.org/Index.aspx?DataSetCode=REV> as at 1 December 2016

The proportion of tax revenues to GDP in Slovakia is constant; the non-indexation of excise duty rates is manifested in full. In the Czech Republic, the proportion of tax revenues to GDP fell between 2012 and 2015 because of significant economic growth, the impact of legislative measures on excise duty on tobacco products and the implementation of “green” measures.

Graph 2 Excise duties as a percentage of total tax revenues (in %)

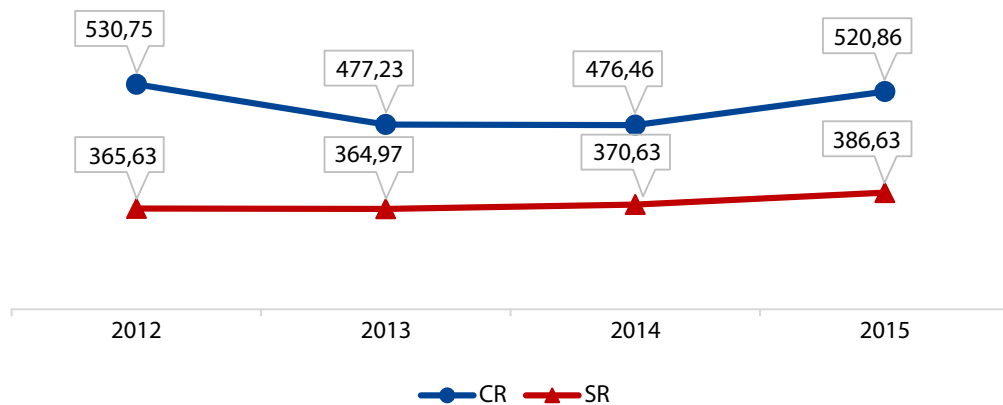


Source: <https://stats.oecd.org/Index.aspx?DataSetCode=REV> as at 1 December 2016

Excise duty revenues as a percentage of total tax revenues in Slovakia fell by 1.2 percentage points despite excise duty revenues growing. This was caused by the faster growth of total tax revenues compared to excise duty revenues.

In the Czech Republic, the proportion of excise duty revenues to total tax revenues fell by about one percentage point between 2012 and 2015, which was influenced by the implementation of measures in the area of excise duties and by the significant growth of the collection of other taxes, especially income taxes.

Graph 3 Per-capita collection of excise duties (in €)



Source: CR Activity Reports for 2012 to 2015, CSO; FD SR, Slovak Statistical office

The growth of the collection of excise duties the per-capita in Slovakia is constant and matches the development of excise duty rates on tobacco products, the population’s greater purchasing power, and consumption in the given year. In the Czech Republic, the drop in per-capita collection of revenues expressed in Euro is influenced by the CNB’s intervention in the CZK/EUR exchange rate.

The difference between the Czech Republic and Slovakia in the total collection of excise duties is caused mainly by the collection of excise duties on mineral oils and tobacco products which are 2.7-2.8 times higher in the Czech Republic. As regards these products, collection per capita in the Czech Republic is higher only by approx. one third. The reason for this is the lower price of these

products in the Czech Republic resulting from lower excise duty rates and the CZK/EUR exchange rate for foreign consumers. In the case of mineral oil duties, the reason is also bigger transit through the Czech Republic and the cross-border purchase. In the case of tobacco products, the effect of growing tourism from abroad to the Czech Republic and the cross-border purchase is not negligible.

Table 7 Comparison of the rates of the fiscally most important selected products

Selected product	Type	2012 rate		2013 rate		2014 rate		2015 rate	
		SR	CR	SR	CR	SR	CR	SR	CR
		€	€	€	€	€	€	€	€
Petrol (1 000 l)	Leaded	597.49	551.09	597.49	546.65	597.49	534.57	597.49	498.51
	Unleaded	550.52	516.12	550.52	511.96	550.52	500.64	550.52	466.88
Diesel (1 000 l)	Motorl fuel	514.50	440.15	514.50	436.60	514.50	426.95	514.50	398.15
	Production	386.40	440.15	386.40	436.60	386.40	426.95	386.40	398.15
	Heating	368.00	440.15	368.00	436.60	368.00	426.95	368.00	398.15
Alcohol (hl)	Standard rate	1 080.00	1 145.54	1 080.00	1 136.36	1 080.00	1 111.24	1 080.00	1 036.29
	Reduced rate	540.00	574.81	540.00	570.18	540.00	557.57	540.00	519.96
Cigarettes (1 000 pcs)	Fixed component (FC)	58.00	45.02	59.50	46.25	59.50	46.40	59.50	46.91
	Percentage component in % (PERC)	23	28	23	27	23	27	23	27

Source: https://ec.europa.eu/taxation_customs/business/excise-duties-alcohol-tobacco-energy/excise-duties-alcohol/excise-duty-rates_en

Note: Exchange rates for converting CZK to € based on the European Commission document "Excise Duty Tables": from October of the previous year (for 2012 = 24.878, for 2013 = 25.080, for 2014 = 25.647, for 2015 = 27.502).

4.3.2. Assessment

Because of the CNB foreign exchange intervention, actual excise duty rates in the Czech Republic fell. Energy taxes in the Czech Republic and in Slovakia as a percentage of total tax revenues is not growing and there is no shift from taxation of labour to taxation of consumption of various products subject to excise duties, which is not in line with EU strategies. The attained values of the share of excise duties are permanently above average compared to the OECD average. The total collection of excise duties is influenced especially by a change in the excise duty rates, development of economic conditions, and behaviour of the population. Future failures of the excise duty collection due to green measures, which the state is subsidising in various forms, will need to be replaced by revenues or by reducing public expenditures.

As indexation of excise duty rates is not implemented in the Czech Republic and in Slovakia, the regulatory function of such rates is reduced and the EU objectives to make Europe less dependent on environmentally unfriendly resources and the objectives in the area of reducing dependencies on alcohol and tobacco are not sufficiently supported.

The higher consumption of various products by foreign consumers, which is influenced by the lower total price of the various products in €, is reflected in the higher per-capita collection of excise duties in the Czech Republic.

5. Administrative costs of excise duty administration

The effectiveness of administrative costs reflects the relationship between the expenditure and revenue associated with the administration of excise duties, i.e., it expresses the amount of expenditure per 100 units of revenue (CZK, €). The higher the resulting amount, the worse the effectiveness of administrative costs is. The effectiveness of an excise duty administrator during excise duty administration is influenced by the excise duty administrator's powers and organisational structure, management of the organisation, legal environment, and level of computerisation of various operations.

Determining the effectiveness of administrative costs of excise duty administration using the conversion coefficient method is based on the number of employees taking part in excise duty administration in a line management structure⁸. In the Czech Republic, the administration of excise duties is carried out by the Customs Administration of the Czech Republic (Czech Customs Administration), which is an independent organizational unit of the state and an accounting entity. In Slovakia, excise duty administration is in the purview of the Financial Administration of the Slovak Republic (Slovak Financial Administration), with customs administration authorities comprising an organisational unit within this body, and costs and income being included in aggregate for the whole unit. To make it possible to compare the effectiveness of excise duty administration, expenditures and revenues of the Czech Financial Administration were also included in the model for calculating the effectiveness of administrative costs.

Calculation procedure:

1) $CC = Exp/Emp$

where:

CC – is the coefficient of expenditure per customs administration and excise duty administration employee

Exp – total expenditure on customs administration and excise duty administration

Emp – average registered number customs administration and excise duty administration employees

⁸ Line management – average converted number of employees within a specific unit of the Czech Customs Administration (department, section). As part of the Czech Customs Administration line management, several management levels are applied to employees, and between these levels there is a direct and clear hierarchical link, with decisions being made top down.

$$2) \quad \text{expED} = \text{PK} \times \text{empED}$$

where:

expED – converted total excise duty expenditure

empED – number of employees directly in charge of the specific agenda (administrative tasks) in the area of excise duties, with employees providing support (i.e., IT), management (top management) and work unrelated to duty administration not being included. Employees doing work important for duty administration – identification of tax entities, including final points of sale; registration and issuance of licences; duty enforcement and assessment; audits of tax entities (on-site inspections and tax audits); record-keeping; distribution of alcohol excise stamps and tobacco excise stamps; checks during transport of various products and imposition of fines; methodology and coordination of duty administration and control activities; and issuance of decisions on appeals – were included.

$$3) \quad \text{AC} = \frac{\text{expED}}{\text{revED}} \times 100$$

where:

AC – effectiveness of administration costs in %

revED – excise duty revenue

5.1. Administrative costs of the excise duty administration in the Czech Republic

Excise duty administration is a set of administrative tasks carried out especially by the Czech Customer Administration. Some control tasks are carried out by other public administration bodies, but they are of negligible importance.

Excise duty administration is performed by these bodies in particular:

General Directorate of Customs:

Department 23 TAXES

- Unit 231 Tax Methodology – monitors and proposes legislative measures, arranges interpretations of legal regulations, methodologically manages and coordinates: execution of the excise duty administration agenda and enforcement of related regulations, especially tax proceedings and related control and supervision activities, administration of the movement of various commodities.
- Unit 232 ELO and Search – performs searches and methodologically manages the control of movement of various commodities and organises international cooperation of ELO and EMCS.
- Unit 233 Tax audits – methodologically manages and coordinates the execution of the tax audit agenda at customs offices.

Department 30 LEGAL

- Unit 301 Legal – is responsible for methodologies in administrative sentencing, administrative procedure, fiscal audit process, registration procedure, discovery procedure, excise payments, fines for late excise declarations, penalties, and interests.
- Unit 302 Administrative Operations – is responsible for making decisions in cases that are in the purview of the GDC, e. g., delegating territorial jurisdiction to another responsible administrator, deciding on attraction, i. e., on taking over the issue by a superior tax administrator, handling appeals against decisions made by customs offices, and investigating

complaints about inactivity in tax and administrative proceedings.

- Unit 303 Revenue Administration and Enforcement – coordinates and executes tasks within international cooperation on enforcement of tax arrears and fulfils tasks in the area of insolvency proceedings.

Department 60 ANALYSIS AND INFORMATION SUPPORT

- Unit 601 Risk and Criminal Analysis – arranges and performs risk analyses and contributes to performance risk management and planning control activities and audits.
- Unit 604 Financial Analysis – carries out financial analysis in customs administration, especially within authorisation procedure.

Customs offices carry out activities under the agendas in various places in the region, and even the agendas are scattered across numerous locations.

- Unit 02 Analysis and Information Support – performs risk analyses, administration of risk profiles and collection and assessment of information from all available information sources.

Department 1 LEGAL

- Unit 11 Legal and Administration Activities – drafts documents, opinions and reports for the appellate body, issues decisions on licences/authorisations in connection with the administration of excise duties and environmental taxes, with the Act on Mandatory Marking of Alcohol and with the Act on Ethyl Alcohol, and decides on the arrangement of payments of tax that is not yet due or has not yet been assessed.

Department 3 – TAX

Unit 31 Tax – carries out the activities of the following agendas:

- Fiscal supervision over tax subject entities, e.g., control of observance of the conditions set out in issued licences, supervision over the functionality and accuracy of manufacturing facilities for the production of ethyl alcohol and ascertainment of amounts and concentrations of ethyl alcohol produced, supervision over the alcohol denaturing process, physical inspections in the area of excise duty administration;
- Non-tax controls in the area of statutory controls indirectly related to excise duties, especially controls of mandatory marking and dyeing of various mineral oils, controls of taxation of various products, controls of labelling tobacco products, controls of whether buyers or sellers are breaching the Act on Prices and other pricing regulations, carries out tasks connected to the Fuel Act, the Act on Mandatory Marking of Alcohol and the Act on Alcohol, and performs tasks related to satisfaction of the obligation of placement of a minimum amount of biofuel in free circulation for transport purposes;
- Registration of economic entities for taxes, registration of persons obliged to label alcohol and of alcohol distributors, and registration of fuel distributors;
- Duty administration, especially conducting tax proceedings in the matter of duty assessment and prescription, or duty refunds, monitoring excise guarantees and use thereof to pay duties, conducting searches.
- Unit 39 Tobacco Excise Stamps – is a unit of the Central Bohemian Customs Office and carries out activities in the area of ordering, manufacturing, distributing, and destroying tobacco excise stamps. Representatives of the customs office and the GDC are present during the destruction of returned/damaged tobacco excise stamps to oversee the destruction process

and draw up a record thereof. In the case of alcohol excise stamps, the director of the customs office appoints, through an internal act of management, a three-member committee for overseeing the shredding of rejected uncollected/returned excise stamps. Once the excise stamps are shredded, the destruction committee chair arranges a record about the excise stamp destruction process to be drawn up.

Department 5 – AUDIT

- Unit 52 Tax audits – carries out tax audits.

Department 6 – SUPERVISION

- Unit 61 Supervision over Entities – carries out supervision over entities at points of sale, e.g., controls of the sale of alcohol and tobacco products.
- Unit 62 Mobile Supervision – performs controls of the transport of various commodities on roads.

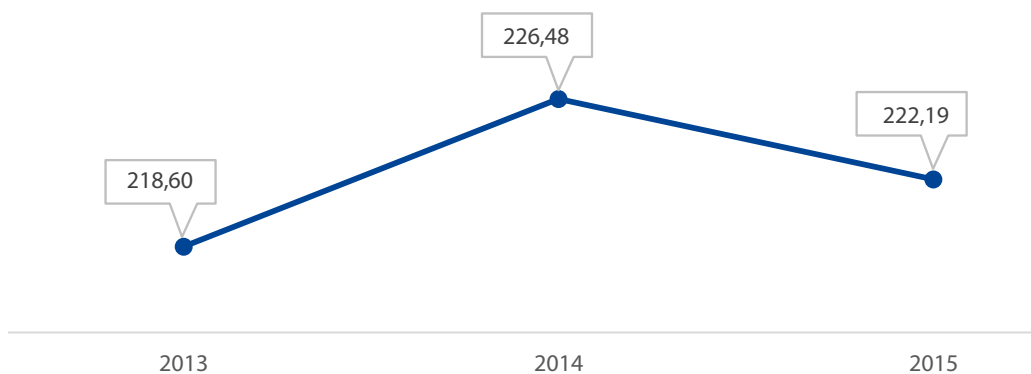
Table 8 Development of expenditures and effectiveness of administrative costs in line management

Total expenditure (Exp) in € mil.	457.76	448.93	505.27
Total average number of employees for record-keeping purposes (Emp)	20,290	20,389	20,649
Expenditures per employee - conversion coefficient (CC) in €	22,560.51	22,018.46	24,469.34
Number of employees involved in excise duty administration (empED)	1,017.24	1,007.10	1,011.21
Expenditure in the field of ED administration (expED) in € mil.	22.95	22.17	24.74
Effectiveness of administrative costs in % (AC)	0.46	0.44	0.45

Source: Final accounts of the MoF heading for 2015, GDC

Legend: ED = Excise Duty

Graph 4 Excise duty revenues per € 1 of expenditure in the field of excise duty



Note: Graph created by SAO, calculation = revED/expED.

In the main agendas, the GDC began measuring the effectiveness of the processes and certain sub-processes that it is responsible for. It measured cost-effectiveness using the full-time equivalent (FTE) of employees who contribute directly or indirectly to the activity and the FTE of employees providing support or management. The effectiveness of administrative costs ascertained in this way expresses the most precise value.

Table 9 Development of expenditures and effectiveness of administrative costs according to FTE

Indicator	2013	2014	2015
ED revenue (revED) in € mil.	5,016.84	5,021.09	5,497.06
Total expenditure (Exp) in € mil.	148.18	148.94	164.16
Total average number of employees for recording-keeping purposes (Emp)	5,371	5,423	5,407
Expenditures per employee - conversion coefficient (CC) in €	27,588.90	27,464.50	30,360.64
Number of employees in the field of ED (empED)	1,234.80	1,302.67	1,320.54
Expenditures in the field of ED (expED) in € mil.	34.07	35.78	40.09
Effectiveness of administrative costs in % (AC)	0.68	0.71	0.73

Source: GDC

Legend: ED = excise duty

5.2. Administrative costs of excise duty administration in Slovakia

Beginning 1 January 2012, the FD SR underwent a demanding transformation in line with the approved UNITAS programme.

The transformation of the FD SR was also reflected in the composition of the employees of the newly created departments of the merged customs and excise duty administrations. In the organisational structure of the FD SR, the activities related to excise duty administration were included in multiple sections and the departments under them:

Financial Directorate of the Slovak Republic:

Customs and Tax Section of the FD SR:

Excise Duty Department (nation-wide jurisdiction):

- Excise Duty Unit – directs and coordinates excise duty administration operations; submits proposals and comments to legislative changes; elaborate expert opinions; issues decisions on delegation of the territorial jurisdiction of tax entities; allocates and cancels offtake registration numbers
- Fiscal Supervision Unit – directs and coordinates fiscal supervision and audit operations; carries out fiscal supervision.
- ELO and Excise Duty Systems Unit – directs and coordinates mutual administrative cooperation in the field of excise duties including information exchange via the SEED and MVS systems; carries out administration and updates in SysNeD and EMCS software
- Excise Stamp Unit – directs excise stamp handling and printing activities; carries out fiscal supervision over the handling and destruction of printing sheets and excise stamps at the printing house.

Section of the Vice-President of the Financial Administration:

Excise and Customs Duty Appeals Department (nation-wide jurisdiction):

- Excise Duty Appeals Unit – reviews decisions by the customs offices based on regular and extraordinary appeals; carries out activities under the second instance appellate procedure.

The Customs Office Section was established in 2012 and is responsible for all nine customs offices, eight of which have jurisdiction over higher territorial divisions and one of which oversees tasks related to the external border of the EU.

Customs Offices:

- Excise Duty Department – executes methodological activities related to the customs office branches; in the case of certain entities, it carries out excise duty administration tasks directly, specifically it makes decisions on registration applications (tax warehouse, authorised consignee, registered consignor), excise bond amounts and tax refunds; carries out supervision and tax audits; makes decisions on excise bond waivers; makes decisions on waivers of the obligations to ensure the presence of a customs officer at the alcohol warehouse.
- Legal Department – makes decisions on violations of excise regulations; performs activities related to regular and extraordinary remedies; conducts excise execution procedures.
- Customs Office Branch – decides on registrations (other than with regard to tax warehouses, authorised consignees and registered consignors) and excise guarantees amounts; imposes and refunds duties; carries out excise duty supervision and audits; decides on the seizure and forfeiture of goods.
- Customs Office Station – carries out excise duty supervision over the holding and movement of excisable goods; provides constant fiscal supervision at alcohol warehouses; decides on the seizure and forfeiture of goods.

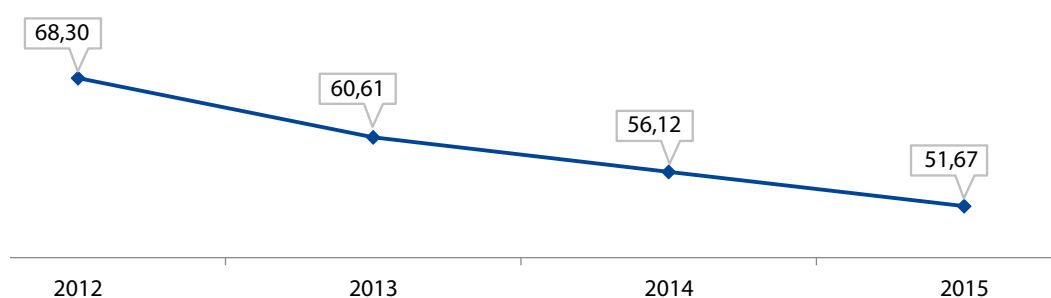
Table 10 Development of administrative costs of excise duty administration in Slovakia

Indicator	Unit	2012	2013	2014	2015
ED administrative costs	%	1.46	1.65	1.78	1.94
of which:					
ED expenditure converted	€	28,888,805.33	32,747,935.16	35,907,460.20	40,801,463.37,
Number of employees performing ED administration	Person	1,309	1,324	1,318	1,317
Expenditure coefficient per Financial Administration employee	€	22,069.37	24,734.09	27,243.90	30,980.61
ED revenues	€ mil.	1,973	1,985	2,015	2,108

Source: FD SR

Administrative costs expended on excise duty administration show a long-term growth trend. The rise in administrative costs is caused by the general growth of salaries in financial administration and of IT investments.

Graph 5 Excise duty revenues per € 1 of expenditure



Source: FD SR

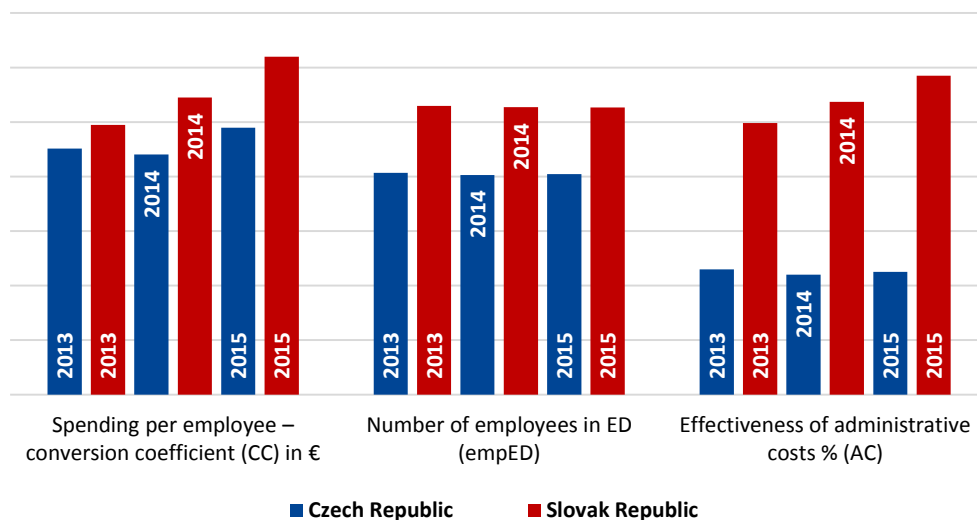
A comparison of the excise duties collected per € 1 of converted excise duty administration expenditure shows a permanent decline, which is caused by expenditure growing faster than the total excise duty collection.

5.3. Comparison and assessment

5.3.1. Comparison

Administrative costs expended on excise duty administration show a long-term growth trend in both the Czech Republic and in Slovakia.

Graph 6 Development of expenditures and administrations costs in Slovakia and in the Czech Republic



Source: Czech SAO and Slovak SAO

Legend.: ED – excise duties

The expenditures of the Slovak Financial Administration on excise duty administration are constantly growing, because in addition to rising wages, investment into the effectiveness of excise duty administration and computerisation of financial administration is also growing. Although revenues from excise duties grew, spending grew faster because of IT modification related to the UNITAS project. Payroll expenses in Slovakia are affected substantially by the practice of constant fiscal supervision at alcohol warehouses, a system that is not applied in the Czech Republic.

The expenditures of the Czech Customs Administration on excise duty administration between 2012 and 2015 grew more substantially in 2015. This rise was caused chiefly by growing payroll expenses and spending on technical support. In the Czech Republic, excise tax revenues grew roughly at the same rate. Compared to Slovakia, payroll expenses in the Czech Republic are positively effected by the broader powers of the customs administration, e.g., weighing trucks, checking fulfilment of road toll obligations.

The effectiveness of administrative costs in Slovakia is deteriorating year-on-year. Employee numbers have not changed substantially, but spending per employee has grown. In the Czech Republic, employee numbers have also not changed substantially, but spending per employee compared to Slovakia has not grown as fast.

5.3.2. Assessment

In the Czech Republic and in Slovakia, wage growth is an important factor behind the deteriorating effectiveness of administrative spending. This development can be seen as natural. In both countries, the fact that excise duty administration continues to be highly demanding administratively is a negative factor, which is confirmed by the fact that the number of employees involved in excise duty administration is not falling. In Slovakia, however, in light of lower incomes, excise duty administration is more demanding in terms of staffing.

»» 6. Performance indicators for excise duty administration

Excise duty administration is a set of activities with the objective of accurately establishing, assessing, and enforcing payment of duties. The main processes in excise duty administration are duty assessment, activity authorisation and registration, supervision of movement, audits and identification of tax entities. The number of administrative tasks and entities under administration are indicators of the effectiveness of duty administration. The mutual relationship between the monitored indicator and the number of excise duty administrators expresses the effectiveness of excise duty administration and defines the cost-effectiveness of the specific activity.

To handle certain products for business purposes and move them under duty suspension, it is necessary to apply for the respective **authorisation and registration**. The excise duty administrator is obliged to carry out systematic administration of authorised or registered entities, with a focus on supervision of fulfilment of legal regulations and the conditions stipulated by the excise duty administrator, for which there has to be adequate staffing.

The numbers of authorisation or registrations as at 31 Dec. of the years concerned were the monitored indicators. The number of issued authorisations or registrations is not the same as the number of tax entities.

Administrative tasks are the specific administrative acts performed in connection with a specific matter. The frequency of the excise duty administrator's most important tasks (duty assessments, administration of movement in EMCS) or activities which are a series of tasks ending with a report or decision are monitored.

6.1. Performance indicators in CR

6.1.1. Authorisation and registration for activity in the Czech Republic

Table 11 Authorised and registered activities as at 31 December of the years concerned

			2012		2013		2014		2015	
Number of duty administration officers in line management			-		1017.24		1007.1		1011.21	
Spending on excise duty administration in €			-		22 949 453		22 174 791		24 743 641	
Authorised or registered activities	EU legislation	Czech legislation	1.	2.	1.	2.	1.	2.	1.	2.
Tax warehouse	2008/118/EC Art. 4(10) and (11)	Sections 3(j), 19a and 19c of Act No. 353/2003 Coll.	654	-	696	0.68	746	0.74	764	0.76
Authorised consignee	2008/118/EC Art. 4 (9)	Sections 39(f) and 22 of Act No. 353/2003 Coll.	687	-	739	0.73	727	0.72	627	0.62
Grower distilleries	92/83/EEC Art. 22	Sections 2 and 4 of Act No. 61/1997 Coll.	512	-	521	0.51	535	0.53	550	0.54
Authorised user of certain duty-exempt products	2011/64/EC Art. 17, 92/83/EC Art. 27, 2003/96/EC Art. 15	Sections 3(i) and 13 of Act No. 353/2003 Coll., Section 9, parts 45, 46 and 47 of Act No. 261/2007 Coll.	2,762	-	2,506	2.46	2,683	2.66	2,524	2.50
Temporary authorised consignee	2008/118/EC Art. 4(9)	Sections 3(f) and 23 of Act No. 353/2003 Coll.	523	-	537	0.53	496	0.49	327	0.32
Alcohol distributor		Section 44 of Act No. 307/2013 Coll.	-	-	17	0.02	142	0.14	152	0.15
Raw tobacco warehousekeeper		Section 134zh of Act No. 353/2003 Coll.	-	-	-	-	-	-	3	0.00
Person handling special MO		Section 134x of Act No. 353/2003 Coll.	-	-	-	-	-	-	45	0.04
Fuel distributor		Section 6e of Act No. 311/2006 Coll.	1,485	-	156	0.15	154	0.15	152	0.15
TOTAL			6,623	-	5,172	5.08	5,483	5.44	5,144	5.09

Source: GDC, Czech Customs Administration website

Notes:

1. – Number of authorisations or registrations for certain activities
2. – Number of authorisations or registrations for certain activities per excise duty administration officer

Calculation = $\frac{\text{Number of valid authorisations or registrations for certain activities}}{\text{empED}}$

where:

empED – number of employees involved in excise duty administration (carrying out administrative tasks)

MO – mineral oil

Expenditures and employee numbers according to line management, excluding management and support

Tax warehouse: Producing, processing, storing, accepting, or dispatching certain products can only be carried out based on a tax warehouse operation authorisation from the excise duty administrator. If a warehouse keeper operates several warehouses, a separate permit is issued for each warehouse and a separate excise guarantee is also required for each warehouse. An excise guarantee is not required in the case of distilleries under constant supervision by an excise duty administrator (i.e., the physical presence of an official and facilities secured by an excise duty administrator seal). In the Czech Republic, the practice of constant supervision is not applied. A warehouse keeper registers for tax under Section 125 of Act No 280/2009 Coll. The authorisation to operate a tax warehouse is required to move certain goods under duty suspension from the

point of import to the tax warehouse, to an authorised consignee in a different Member State, to the point of export in a different Member State or to a consignee in a different Member State [replaces the status of registered consignor under Article 4(10) of Council Directive No 2008/118/EU]. Tax warehouse statistics do not include authorisations to purchase electricity, natural gas, and solid fuels without duty, which by analogy are the same as a tax warehouse authorisation.

Growers' distilleries producing spirits with a 50% reduced duty rate (CZK 14 300/hl of ethyl alcohol) – fruit brandy for fruit growers, are not tax warehouses, and operating permits are issued by the Ministry of Agriculture. A reduced duty rate can be applied to 30 litres of pure ethyl alcohol per grower's household for personal consumption during the production period (July – June). Records of distillation by growers is kept by the distillery operators, who provide excise duty administrators with access to these records. These records have to contain information about the grower, the basic ingredient, origin of the fruit, and production of the distillate.

Authorised consignees and temporary authorised consignees are, based on authorisation from the excise duty administrator and the stipulated conditions, entitled to receive once or repeatedly various products moved under the duty suspension from a different Member State. Authorised consignees are not warehouse keepers and, thus, may not store or dispatch certain products under duty suspension.

Users of certain duty-exempt products are legal or natural persons who accept and use or, pursuant to Section 52a or 53 of Act No 353/2003 Coll., sell duty-exempt products to other users; users are tax entities without the obligation to register for tax. Certain tax exempt products can only be received or used based on a valid authorisation (licence) and from the supplier indicated on the authorisation. Based on the authorisation, duty exempt mineral oil can be sold to a different authorisation holder for use or to a user who is entitled to use the mineral oil without authorisation. It is possible to sell duty-exempt mineral oil without authorisation under specific situations laid down in the law, e.g.:

- Less than 10 000 litres of waste oil per calendar year, provided that the user produced it himself or it is a product of his operations;
- Various duty-free mineral oils in packaging not exceeding 20 litres, intended for purposes other than engine propulsion or heat generation for the purpose of selling to end users.

It is possible to move various duty-exempt products with a duty-exemption document.

Distributors of consumer packaged alcohol are authorised, upon mandatory registration with the excise duty administrator, to sell or otherwise move alcohol placed in free circulation.

Raw tobacco warehouse keepers are authorised, upon registration with the excise duty administrator, to store raw tobacco for purposes other than the production of tobacco products.

Persons handling special mineral oils are authorised, based on certain conditions, to purchase, sell, or otherwise move special mineral oils that are stored in bulk or in packaging exceeding 220 litres.

Fuel distributors are authorised, based on a concession (licence) and registration with an excise duty administrator and under certain conditions, to sell fuel in the Czech Republic, apart from fuel from service stations. Movement of fuel has to be accompanied by a tax document, bill of sale or contract of carriage (shipping document) or, as the case may be, distribution schedule and fuel offtake receipts. These documents may be substituted with electronic documents sent to the excise duty administrator prior to moving the goods. **Service station operators** are the owners of the fuel sold at service stations. Service stations are sites where fuel is issued and sold, usually into a fuel tank, based on a permit from the building authorities.

The Ministry of Industry and Trade keeps a register of service stations and their operators, under the following classification:

- Registered – regular sale or dispatch of fuel, usually into vehicle fuel tanks

- With defined access – operated usually on the company grounds (e.g., quarries, sawmills, agricultural farms, transport companies, construction yards); sales to other parties is restricted based on specific contractual relationships
- Private – refuelling sites only for the operator’s own needs.

A structure or operating tank located in a plant (e.g., on a chassis) is not deemed a service station if the fuel is available for own use only. Operating tanks are not subject to a permit from the excise duty administrator and are not registered. Natural and legal persons can purchase, receive and sell liquid petroleum gas in free circulation for further sale based on authorisation from the excise duty administrator. Such persons also need authorisation if they purchase or receive liquid petroleum gas exceeding 20 tonnes per calendar year for their own use.

6.1.2. Administrative tasks in the Czech Republic

Table 12 Administrative tasks

			2012		2013		2014		2015	
Expenditures on excise tax administration in line management in €			-		22 949 453		22 174 791		24 743 641	
Number of tax administration officials in line management			-		1017.24		1007.1		1011.21	
Administrative task	EU legislation	Czech legislation	1.	2.	1.	2.	1.	2.	1.	2.
Tax audits		Section 85 of Act No. 280/2009 Coll.	333	-	322	0.32	364	0.36	322	0.32
On-site inspections		Section 80 of Act No. 280/2009 Coll.	21,401	-	18,706	18.39	20,819	20.67	20,897	20.67
Alcohol excise stamp orders	2008/118/EC Art. 39	Section 30 of Act No. 307/2013 Coll.	4,336	-	4,643	4.56	6,548	6.50	6,373	6.30
Tobacco excise stamp orders	2008/118/EC Art. 39	Section 118 of Act No. 353/2003 Coll.	2,426	-	2,518	2.48	2,580	2.56	3,245	3.21
Tax declarations	2008/118/EC Art. 7	Sections 18 and 116 of Act No. 353/2003 Coll.	35,509	-	35,947	35.34	38,086	37.82	41,149	40.69
Imposition of fines		Act No. 353/2003 Coll. and related laws	1,857	-	1,411	1.39	2,087	2.07	3,908	3.86
International exchange of information about tax entities (ELO)	389/2012/EU		975	-	1,791	1.76	1,944	1.93	2,483	2.46
Movement in EMCS	2008/118/EC Art. 21	Sections 24 - 31 of Act No. 353/2003 Coll.	138,779	-	143,409	140.98	145,628	144.60	168,135	166.27
Total			205,616	-	208,747	205.21	218,056	216.52	246,512	243.78

Source: GDC, Czech Customs Administration website

Note:

1. – number of administrative tasks
2. – number of administrative tasks per excise duty administration official

$$\text{Calculation} = \frac{\text{Number of administrative tasks}}{\text{empED}}$$

where:

empED – number of employees directly involved in the respective agendas (administrative tasks) in the area of excise duties
TE – tax entity

Expenditures and number of employees according to line management, excluding management and support.

A tax audit is a set of tasks that includes examination of tax obligations, claims made by a tax entity, or other circumstances required to duly ascertain and assess tax relating to one tax proceeding. A tax audit can be performed jointly for several tax proceedings pertaining to one tax entity. A tax audit can be repeated only under conditions and reasons laid down in law at the time of commencement of the audit. A tax audit is performed within a tax assessment period,

which constitutes three years. Under conditions laid down in law, this period may be extended by one year (e.g., submission of a supplementary declaration related to the duty in question, commencement of criminal proceedings related to the duty in question) or suspended (court proceedings, international cooperation). This period, under conditions laid down in law, ends no later than upon the elapse of the ten years that follow expiration of the deadline for filing a regular tax declaration. Tax administrators are not obliged to perform an audit of every tax entity. The commencement of a tax audit suspends deadlines for the possibility of submitting supplementary declarations or supplementary accounting by the tax entity (Section 141 Act No 280/2009 Coll.) and restarts regular deadlines for assessing tax (Section 148 of Act No 280/2009 Coll.). Based on the results of the audit, additional tax may be assessed ex officio.

An on-site inspection is a separate, time-restricted task (one day) during which the excise duty administrator looks for evidence and searches the premises, goods, documents, records, transport means and packaging of tax subjects and other persons involved in excise duty administration outside the excise duty administrator's premises (e.g., at the tax entity's premises, on the road when the goods are being moved). The tax administrator is authorised to take temporary possession of documents and items, take samples thereof, or seize them. Taxes cannot be assessed based on the on-site inspection alone, but the tax entity can be asked to file a supplementary declaration [Section 145(2) of Act No 280/2009 Coll.]. A review of movement-related data in EMCS is not considered as an on-site inspection.

An order of alcohol excise stamps at the locally pertinent tax administrator may be made only by a registered person having the duty to label alcohol and such activity is carried out via intelligent forms that are imported automatically into the Alcohol Labeller Register. The excise duty administrator processes the order, assesses the adequacy of the amount of excise stamps ordered and orders production. It does not oversee the production of excise stamps. Production is provided by the state enterprise Státní tiskárna cenin, státní podnik (government printing works). The recipient of the excise stamps collects the excise stamps from the tax administrator with jurisdiction over the labelling site.

An order for tobacco excise stamps for labelling cigarettes, cigarillos, cigars, and smoking tobacco serves as an excise duty declaration. The value of the tobacco excise stamps corresponds to the duty obligation, with the user of the tobacco excise stamps being obliged to pay for them within 60 days of collecting them from the tax administrator. The user is obliged to calculate the duty obligation arising from the tobacco excise stamp order. This deadline applies only if the value of the tobacco excise stamps is secured by a guarantee. The tobacco excise stamp order is submitted in writing on a form specified by the Ministry of Finance or through a data box with intelligent forms being available. The production of tobacco excise stamps is provided by the state enterprise Státní tiskárna cenin, státní podnik (government printing works). The authorised tax administrator is the Central Bohemian Customs Office (Kutná Hora branch), which arranges the purchase and transport of tobacco excise stamps to the tax administrator, who then distributes them and keeps track of their movement, storage and use at the users.

Excise declarations includes regular excise declarations, supplementary excise declarations, and amended excise declarations, including tobacco excise stamp orders, submitted by tax entities. Excise declarations do not include tax declarations in customs proceedings based on customs declarations and tax refund claims pertaining to:

- Mineral oils used for heating
- Other petrol used in business in other way than for heating and engine propulsion
- Mineral oil used for primary agricultural production

Imposition of penalties includes administrative proceedings concerning violations of legal regulations and is a set of successive tasks.

The international exchange of information about tax entities (Excise Liaison Office – ELO) in accordance with Council Regulation (EU) No 389/2012 takes place in the form of:

- an application for administrative cooperation;
- a response to the application for administrative cooperation;
- spontaneous information;
- reports of events;
- reports on controls.

Movement in the duty suspension regime between the Czech Republic and Member States of the European Union, where the Czech customs office is the excise duty administrator of the tax warehouse of receipt or dispatch or of the authorised consignee.

6.2. Performance indicators in the Slovak Republic

Excise duty administration in Slovakia is in the purview of the customs authorities and the Excise Department of the Customs and Tax Section of the FD SR, where the excise duty administration procedure is regulated by various excise duty laws and the Tax Procedure Code.

These laws lay down not only the scope of power of the customs offices and FD SR in excise duty administration, but also the rights and obligations of tax entities in relation to registration for or payment of excise duties.

6.2.1. Authorisation and registration for activities in Slovakia

Table 13 Authorisation and registration for excise duties as at 31 December of the respective calendar year

Authorised or registered activity	EU legislation	Legislation	Slovak Republic							
			Numbers							
			2012		2013		2014		2015	
			1.	2.	1.	2.	1.	2.	1.	2.
Tax warehouse + registered consignor	2008/118/EC Art. 4(10) and (11)	Sections 19, 20 and 26 of Act No 98/2004 Coll., Sections 17, 18 and 24 of Act No 106/2004 Coll., Sections 15, 20, 43, 46, 61, 62, 67 and 68 of Act No 530/2011 Coll.	71	0.05	180	0,13	189	0.14	201	0.15
Registered consignee	2008/118/EC Art. 4(9)	Section 19 of Act No 530/2011 Coll., Section 23 of Act No 106/2004 Coll., Section 25 of Act No 98/2004 Coll.	140	0.11	707	0.53	748	0.57	770	0.58
Fruit growers' distillery	92/83/EEC Art. 22	Section 49 of Act No 530/2011 Coll.	162	0.12	168	0.13	178	0.14	190	0.14
User undertaking		Sections 9, 40, 60, 65 of Act No 530/2011 Coll.,	118	0.09	810	0.61	608	0.46	435	0.33
Temporary registered consignee	2008/118/EEC Art. 4(9)	Section 19 of Act No 530/2011 Coll., Section 23 of Act No 106/2004 Coll., Section 25 of Act No 98/2004 Coll.	9	0.01	90	0.07	88	0.07	91	0.07
Holder of authorisation to distribute consumer packaged alcohol		Section 54 (9) of Act No 530/2011 Coll.	393	0.30	403	0.30	392	0.30	370	0.28
Raw tobacco merchant		Section 19a of Act No 106/2004 Coll.	0	0	0	0	16	0.01	17	0.01
Merchant of certain mineral oils		Section 25a of Act No 98/2004 Coll.	0	0	631	0.48	718	0.54	854	0.65
Fuel distributor		Section 25b (1) of Act No 98/2004 Coll.	0	0	0	0	303	0.23	407	0.31
TOTAL			893	0.68	2,989	2.26	3,240	2.46	3,335	2.53

Source: FD SR

Notes:

1. Number of authorisations or registrations
2. Number of authorisations or registrations per official

The biggest year-on-year increase in tax entities was registered between 2012 and 2013 and amounted to 234%. This rise was caused by an increase in the number of issued tax warehouse authorisations, increase in registrations of authorised consignees, and registration of a larger number of user undertakings.

Legislation specified the movement of certain bulk mineral oils as well as the notification obligations for moving minerals oils in bulk or in containers exceeding 150 litres or 230 litres, as the case may

be, and expanded the list of mineral oils subject to control and transporting procedures to include anti-knock preparations, oxidation inhibitors, feldspathic inhibitors, viscosity improvers, and anti-corrosive preparations. In respect of lubricating oils, the obligation to indicate their kinematic viscosity was imposed.

The sections below discuss the registration process for certain tax entities under Slovak law in more detail.

Tax warehouse keeper

In connection with registration of tax warehouse keepers under Slovak national legislation, a person who wishes to operate a tax warehouse has to register as well as apply for a tax warehouse operating permit for each type of excisable commodity.

The resulting decision in the registration procedure is a certificate of registration for the respective excise duty through which the warehouse keeper acquires legal subjectivity for all warehouses.

At the same time, the customs office issues a tax warehouse operating licence which authorises the warehouse keeper to produce, process, receive, or dispatch excisable goods under duty suspension. If a warehouse keeper has a warehouse in several locations, the excise duty administrator will issue a separate warehouse operating licence for each tax warehouse.

The movement of excisable goods under duty suspension are monitored electronically via EMCS.

For each movement, a unique reference code, called an ARC code, is generated. It is possible to use this code to monitor the movement on-line, i.e., in real time.

If the tax warehouse keeper is also an authorised alcohol distributor, he is obliged to notify the customs office electronically about the name of the consumer packaged alcohol, the volume of ethyl alcohol and ethyl alcohol concentration by volume in the consumer packaged alcohol, and the EU barcode for each new type of consumer packaging that he is placing into free circulation no later than on the day of placing the alcohol into free circulation.

Registered consignor

A registered consignor is a unique type of tax entity that cannot at the same time be registered as a tax warehouse keeper even if he places excisable goods into free circulation after releasing them from duty suspension regime.

In connection with the registration of registered consignors under Slovak national legislation, a person who wishes to dispatch excisable items under duty suspension after releasing them into free tax circulation has to request the customs office at the same time for registration and authorisation to dispatch excisable items under duty suspension.

The customs office issues a certificate of registration for the respective excise duty and, at the same time, issues an authorisation (licence) to dispatch excisable items under duty suspension upon being released into free circulation.

Fruit growers' distilleries

To operate a fruit growers' distillery, at first it is necessary to obtain a permit to produce ethyl alcohol at a distillery from the Ministry of Agriculture and Rural Development of the Slovak Republic. The permit alone does not authorise the holder to operate a growers' distillery, however.

To be allowed to operate a growers' distillery, a person must register at the customs office as a fruit growers' distillery operator and request issuance of the respective registration certificate.

The customs office issues the registration certificate for the respective excise duty, which also authorises the growers' distillery operator to produce ethyl alcohol in the growers' distillery. The

purpose of a growers' distillery is to provide a service for fruit growers. A growers' distillery cannot operate as a tax warehouse.

Legislators have allowed alcohol produced in a growers' distillery to employ a 50% deduction on the basic duty rate, i.e., € 540/hl of alcohol. The reduced duty rate applies to ethyl alcohol produced in a growers' distillery up to 43l. of alcohol per grower and his household during one production period in the fiscal territory.

The production period is from 1 July of the current year to 30 June of the following year. As a production year is not the same as a calendar year, it is possible to apply the reduced duty rate on the ethyl alcohol produced several times within a single calendar year, even though the ethyl alcohol in question is produced over two production periods. Ethyl alcohol is produced outside the duty suspension regime, which means that the produced ethyl alcohol is in free tax circulation.

The grower pays the growers' distillery not only the excise duty and value added tax, but also a fee for the services provided. The growers' distillery provides the growers with the delivery order, which is a document that proves not only the origin of the ethyl alcohol and how it was acquired, but also the payment of excise duty. The movement of such ethyl alcohol is not subject to monitoring by the excise duty administrator.

Importer of consumer packaged goods

National legislation allows persons who, as part of their business, wish to import consumer packaged alcohol or cigarettes from a third country and place these commodities into free tax circulation in the fiscal territory, to request the customs office to be registered in the register of importers of consumer packaged goods.

An importer of consumer packaged goods does not register himself for the respective excise duty, but the customs office issues confirmation of inclusion in the register of importers of consumer packaged goods. This confirmation authorises the importer to import consumer packaged alcohol or cigarettes from third countries.

At the same time, before excise stamps are issued, the importer has to pay a guarantee up to the amount of the duty applicable to the amount of the ethyl alcohol or cigarettes that he wishes to place into free circulation.

The importer of consumer packaged goods may place into free circulation only such consumer packaged goods that have excise stamps affixed to them. For this reason, he must present the number and identification number of the excise stamps exported to a third country to the export customs office.

When importing, the importer is obliged to confirm to the import customs office the number of excise stamps imported from a third country. When importing consumer packaged goods, the importer observes customs regulations according to which excise duty is part of the customs debt. If the consumer packaged goods is released into free circulation, the paid guarantee will be refunded to the importer or it can be used to settle the customs debt. An importer of consumer packaged goods is not a tax warehouse.

If the importer of consumer packaged alcohol is at the same time a person authorised to distribute ethyl alcohol, he is obliged to inform the customs office electronically about the name of the consumer packaged alcohol, amount and concentration of ethyl alcohol by volume in the consumer packaged alcohol, and the EAN bar code for each new type of consumer packaged alcohol that he is placing into free tax circulation no later than on the day of placing the packaged goods into free circulation.

Merchant of consumer packaged alcohol in free circulation

For the purpose of monitoring ethyl alcohol in free circulation and eliminating tax evasion, legislators have introduced the concept of merchant of consumer packaged alcohol.

A person who wishes to be a holder of a sales permit has to request the customs office for the permit and satisfy statutory conditions (trade licence to sell goods, no record of intentional economic crimes, no revocation of his trade licence in the last ten years, being not in liquidation or in bankruptcy).

As consumer packaged alcohol is in free circulation, no accompanying document is required during the movement of this commodity. An invoice containing the number of the distribution licence holder is sufficient to demonstrate how the consumer packaged alcohol was acquired.

For each establishment, the authorisation holder is obliged to keep for each calendar month: a record of the number of pieces of consumer packaged alcohol received, the number of pieces of consumer packaged alcohol dispatched, the state of inventory of consumer packaged alcohol as at the last day of the month, and a record of shortage or surpluses in the number of pieces of received and dispatched consumer packaged goods.

The authorisation holder also has the obligation to purchase or otherwise take off consumer packaged alcohol only from a person authorised to distribute it.

Distributor of consumer packaged alcohol

For the purpose of monitoring the movement of ethyl alcohol in free tax circulation and eliminating tax evasion, legislators have introduced the concept of distributor of consumer packaged alcohol.

A person who wishes to become a distribution licence holder has to apply to the customs office for a distribution licence. The applicant has to fulfil the statutory conditions (trade licence to sell goods, storage area of more than 200m², annual turnover from the sale of consumer packaged alcohol of at least € 100,000 or paid up registered capital of at least € 100,000, at least 10 employees, no arrears payable to the customs office, no arrears on mandatory payments, no record of economic crime, no revocation of his licence in the last ten years, and being not in liquidation or bankruptcy).

As the consumer packaged alcohol is in free circulation, no accompanying document is required during movement of this commodity. An invoice containing the number of the distribution licence holder is sufficient to demonstrate how the consumer packaged alcohol was acquired.

For each establishment, the authorisation holder is obliged to keep for each calendar year: a record of the number of pieces of consumer packaged alcohol received, the number of pieces of consumer packaged alcohol dispatched, the inventory of consumer packaged alcohol as at the last day of the month, and a record of shortages or surpluses in the number of pieces of received and dispatched consumer packaged goods.

The distribution licence holder also has the obligation to purchase or otherwise take off consumer packaged alcohol only from another person authorised to distribute it. A distribution licence holder reports data for each calendar month electronically by the 25th day of the following calendar month.

Motor fuel merchant

To monitor motor fuels in free tax circulation and to eliminate tax evasion, a new type of tax entity was introduced: motor fuel merchant.

The Slovak Republic has no a special regulation on service stations. For this reason, service stations are treated as motor fuel merchants under Slovak legislation.

A person who wishes to sell petrol, diesel, or LPG to end users as part of his business activities in the respective fiscal territory has to obtain a sales licence from the customs office first and present a document showing that the storage facility is certified and equipped with a suitable, certified metering device for measuring the amount of mineral oil received and dispatched. The storage tank also has to meet technical standards.

If the motor fuel merchant is also a warehouse keeper, authorised consignee, or authorised consigner, the customs office automatically also issues him a licence to sell motor fuels.

A motor fuel merchant is also obliged to keep a record of purchased and sold petrol, diesel, or LPG for each calendar month and to report any new motor fuel supplier (distributor) to the customs office.

A motor fuel merchant has the legal obligations to purchase or otherwise take off motor fuel only from motor fuel distributors or registered persons. As the motor fuel is in free circulation, no accompanying document is required during its movement.

However, if motor fuel is being supplied using tank trucks, distributors will print out a delivery receipt from the metering device built into the tank truck for the merchant. This document contains the amount of motor fuel delivered, date and time of delivery, and the registration number allocated to the fuel truck by the Road Traffic Inspectorate.

An invoice containing the motor fuel distributor's number allocated to him by the excise duty administrator is also sufficient proof of the method of acquisition of motor fuels.

During their supervision over mineral oils, excise duty administrators in the Slovak Republic have encountered tax evasion related to the movement of these commodities.

Such evasion pertains chiefly to efforts to avoid road checks during transport, with carriers using secondary roads and bypassing the toll system due to movements being monitored more strictly. The same holds true for transport of mineral oils in tank trucks that have been modified to have a false bottom. Often, illegal transport takes place using two vehicles, with the first reporting any mobile patrols so that an alternative route can be found to avoid checks. In addition, light heating oils or waste oils are often mixed with motor fuels.

Motor fuel distributor

To monitor motor fuels in free tax circulation and eliminate tax evasion, a new type of tax entity was introduced: motor fuel distributor.

A person who wishes to distribute petrol, diesel, or LPG in the fiscal territory must first submit a document showing that his storage facilities are certified and equipped with a suitable certified metering device and a list of suppliers and clients.

In addition to other legal obligations, a motor fuel distributor is also obliged to keep a separate record for each establishment showing the petrol, diesel, or LPG sold in each calendar month. A motor fuel distributor has the legal obligation to purchase or otherwise take off motor fuels from other motor fuel distributors or registered persons only. In the respective fiscal territory, a motor fuel distributor can only sell fuel to another motor fuel distributor, registered person, or motor fuel consumer.

However, if motor fuel is being supplied using tank trucks, the distributor will print out for the merchant a delivery receipt from the metering device built into the tank truck. This document contains the amount of motor fuel delivered, date and time of delivery, and the registration number allocated to the fuel truck by the Road Traffic Inspectorate.

As the motor fuel is in free circulation, no accompanying document is required during its movement. An invoice containing the motor fuel distributor's or registered person's number allocated by the excise duty administrator is also sufficient proof of the method of acquisition of motor fuels.

Motor fuel consumer

Motor fuel consumers have a special status under national legislation. A person who purchases petrol, diesel, or LPG in the fiscal territory for his own use and stores this mineral oil in a storage facility able to hold 15,000 litres or more is obliged to report this to the customs office at the latest before using the storage facility for this first time.

The customs office will include the motor fuel consumer in a registry. In addition to the statutory particulars, the motor fuel consumer is obliged to state the address where the storage facility is located. In practice, motor fuel consumers constitute major carriers, cooperatives, bus lines, road construction companies, and other entities.

The storage facilities have to be certified and equipped with a metering device that measures the amount of motor fuel off-taken and used (level indicator, gauge rod). The tank must meet technical standards.

A motor fuel consumer may only purchase motor fuel from a motor fuel distributor or from a registered person. As the motor fuel is in free circulation, no accompanying document is required during its movement.

However, if motor fuel is being supplied using tank trucks, distributors will print out for the consumer a delivery receipt from the metering device built into the tank truck. This document contains the amount of motor fuel delivered, date and time of delivery, and the registration number allocated to fuel truck by the Road Traffic Inspectorate. An invoice containing the motor fuel distributor's or registered person's number allocated to it by the excise duty administrator is also sufficient proof of the method of acquisition of motor fuels.

During their supervision over mineral oils, excise duty administrators in the Slovak Republic registers duty evasion related to the movement of these commodities.

Small independent brewery

A small independent brewery operator is a person who brews beer as a business and fulfils certain statutory conditions. Assuming the fulfilment of certain statutory conditions, a small independent brewery can apply a reduced duty rate of €2.652 per hl/percent of actual ethyl alcohol by volume. Annual beer production is limited to 200,000 hl of beer.

As beer production is outside the duty suspension regime, an accompanying document is not required during movement because the beer is in free circulation. A small independent brewery cannot be a tax warehouse. In practice, such breweries are small family enterprises that also operate a restaurant or pub where they offer beer that they have brewed themselves.

6.2.2. Administrative tasks in Slovakia

Excise duty supervision over certain tax entities is divided up under Slovak law as follows.

Table 14 Number of comparable administrative tasks

Administrative task	EU legislation	Slovak Republic Legislation	Numbers							
			2012		2013		2014		2015	
			1.	2.	1.	2.	1.	2.	1.	2.
Tax audits		Individual provisions of Acts Nos. 98/2004 Coll., 106/2004 Coll., 530/2011 Coll.	4,785	3.66	4,272	3.23	3,860	2.93	3,878	2.94
On-site inspections		Individual provisions of Acts Nos. 98/2004 Coll., 106/2004 Coll., 530/2011 Coll., 563/2009 Coll.	13,602	10.39	11,183	8.45	11,112	8.43	15,799	12.00
ALCOHOL – Issuance of vouchers for collection of excise stamps	2008/118/EC Art. 39	Section 51 of Act No 530/2011 Coll.	1,146	0.88	1,360	1.03	1,869	1.42	0	0
TOBACCO PRODUCTS – Issuance of vouchers for collection of excise stamps	2008/118/EC Art. 39	Section 9 Act No 106/2004 Coll.	21	0.02	15	0.01	105	0.08	0	0
Excise declarations, supplementary excise declarations	2008/118/EC Art. 7	Individual provisions of Acts Nos. 98/2004 Coll., 106/2004 Coll., 530/2011 Coll.	28,936	22.11	29,289	22.12	19,436	14.75	19,881	15.10
Fines		Individual provisions of Acts Nos. 98/2004 Coll., 106/2004 Coll., 530/2011 Coll.	2,720	2.08	2,632	1.99	2,597	1.97	2,671	2.03
Administrative cooperation between EU Member States - ELO	389/2012/EC		729	0.56	1,485	1.12	1,447	1.1	1,521	1.15
Number of movements under duty suspension regime in EMCS	2008/118/EC Art. 21		138,772	106.02	150,494	113.67	151,753	115.14	168,036	127.59
TOTAL:			190,711	145.69	200,730	151.61	192,179	145.81	211,786	160.81

Source: FD SR

Notes:

1. Number of administrative tasks
2. Number of administrative tasks per official

The greatest increase in administrative tasks, i.e., by 5.3%, was registered in 2012 and 2013. This was caused by the greater number of movements executed in EMCS. Conversely, the greatest year-on-year drop was registered in 2013 and 2014, specifically by 4.3%, which was caused by a smaller number of completed tax audits as well as a smaller number of submitted tax declarations. The drop was due in part to changes in legislation.

Tax audits

Tax audits performed by the customs office aim to discover or examine facts required for the proper assessment of duties. When performing tax audits, customs office employees present a tax audit authorisation to identify themselves. This authorisation contains information about the purpose and subject of the audit and periods covered by the audit. In practice, this means that the audited period can be as short as one month or even as long as a number of taxation periods. The scope of the audited periods is determined by the customs office.

A tax audit begins with a tax audit commencement report being drawn up. Documents received or taken by the customs office are confirmed by a receipt. The customs office is obliged to return any borrowed documents within 30 days of the end of a tax audit. A customs office employee draws up a tax audit report.

If the tax audit finds a difference in the amount that the auditee was to pay, to report, or claimed as a duty refund, the customs shall send, along with the audit report, a request for a response to the report results. The tax audit ends on the day of delivery of the report. The deadline for performing the tax audit is one year from the date of its commencement. A tax audit of registered persons and of certain listed persons is carried out as necessary, but at least once by the date of expiration of the right to levy tax, which is five years. The FD SR issued an internal regulation governing such deadline to unify the excise duty administration procedures in Slovakia.

On-site inspections

On-site inspections are performed by the excise duty administrator to find evidence and to examine and ascertain facts that are required for excise duty administration. A customs office employee draws up a record of the on-site inspection and provides the tax entity with a copy. When carrying out an on-site inspection, the custom office employee has unrestricted access to the tax entity's land, operating facilities, rooms and premises, including transport vehicles, transport packaging, and accounting documents.

Clearance of the amount of ethyl alcohol produced is examined through on-site inspections. The findings form the basis for a tax audit. During an on-site inspection, the customs office is entitled to take samples and seize items. The FD SR issued an internal regulation governing fiscal supervision and on-site inspections for individual excisable goods to unify excise duty administration procedures in Slovakia.

Constant fiscal supervision in alcohol warehouses

When the Slovak Republic acceded to the European Union on 1 May 2004, a change in the area of excise duty administration occurred. The need for more effective spending of resources from the state budget in connection with the administration of excise duty on ethyl alcohol, improving the business environment in the respective area and implementing legislative tools for more effective suppression of the grey economy in the respective area resulted in new legislation being adopted in 2004 in connection with excise duty administration.

One of the measures introduced by the new legislation was not only the transfer of excise duty administration duties performed by tax offices to the customs offices, but also the need for the presence of an excise duty administrator in tax warehouses for ethyl alcohol.

In Slovakia, national legislation stipulates that receiving, dispatching, producing, or processing ethyl alcohol in a tax warehouse is possible only in the presence of a customs office employee. The above does not apply to tax warehouses that receive, store, or dispatch consumer packaged alcohol only. The customs office is also obliged to ensure that the employee in the tax warehouse does not hinder the receipt, dispatch, production, or processing of ethyl alcohol. The tax warehouse keeper is obliged to ensure that the customs office employee has suitable working conditions at the warehouse. The tax warehouse keeper then charges the customs office for the space set up for the customs office employee on a monthly basis based on an agreement concluded with the FD SR.

When producing, processing, or storing ethyl alcohol at a tax warehouse, the ethyl alcohol production and storage facilities have to be set up to ensure that it is possible to ascertain at any time the amount of ethyl alcohol produced, processed, and stored. The amount of spirits on stock and the ethyl alcohol content thereof must also be ascertainable at any time.

If a tax warehouse does not receive, dispatch, produce, or process ethyl alcohol, the customs office can waive the obligation to arrange the continuous presence of a customs officer. The premises, however, must be sealed off by the customs office.

This option is not often used in practice because tax warehouse keepers find the continuous presence of a customs officer beneficial. Some tax warehouse keepers make use of the possibility under Act No 467/2002 Coll., on the production of ethyl alcohol and its placement on the market, and use ethyl alcohol production facilities and equipment in fruit growers' distilleries also for the purposes of a distillery of spirits which has to be a tax warehouse.

Table No 15 Number of alcohol tax warehouses associated with constant fiscal supervision between 2012 and 2015

Customs office Constant fiscal supervision	Constant fiscal supervision			
	2012	2013	2014	2015
Number of alcohol tax warehouses where constant fiscal supervision is provided	29	71	91	114

Source: FD SR

Constant fiscal supervision in alcohol tax warehouses is provided by about 250 customs officers.

Issuance of vouchers for the collection of alcohol excise stamps

To be able to take off excise stamps, a request has to be submitted to the customs office for allocation of a registration number and issuance of a voucher for the collection of alcohol excise stamps.

An alcoholic beverage that is ethyl alcohol is understood as a goods under the combined nomenclature of 2207 and 2208 with actual ethyl alcohol by volume exceeding 1.2%. The excise stamp is intended to label consumer packaged alcohol. Consumer packaged alcohol is deemed to be a sealed consumer package filled with alcohol intended for direct human consumption. Consumer packaged alcohol with a combined nomenclature code of 2207 and 2208 can be placed into free circulation in the fiscal territory only if an excise stamp is affixed to it.

Only tax warehouse keepers, authorised consignees, and importers of consumer packaged goods placing consumer packaged alcohol into free tax circulation may label consumer packaged alcohol.

The excise stamp contains among others a 14-digit identification number which consists of the registration number (digits in 1st-6th place), volume of ethyl alcohol (digits in 7th-11th place), and concentration of ethyl alcohol by volume in the consumer packaged alcohol (digits in the 12th-14th place).

Original design of alcohol excise stamp:



The customs office allocates a unique registration number to each excise stamp user.

Only an excise stamp with an identification number corresponding to the volume of the consumer packaged alcohol, ethyl alcohol concentration by volume in the consumer packaged alcohol, and excise stamp user can be used to label consumer packaged alcohol.

At the end of 2014, national legislation introduced a new excise stamp information system. The objective of this new system was to facilitate and computerise the system for ordering, assessing, printing, distributing, and using excise stamps intended for labelling consumer packaged alcohol.

Only tax warehouse keepers, authorised consignees, importers of consumer packaged alcohol, and consignees (customers) of ethyl alcohol may label consumer packaged alcohol. Excise stamp users who wish to take off excise stamps according to the “new system” have to file a request with the customs office to have excise stamps issued electronically.

Excise stamp users has to use the electronic excise stamp system not only to request that excise stamps be issued electronically, but also to report data required under Slovak national legislation and to keep a record of excise stamps.

No fewer than 500 excise stamps, or a multiple thereof, may be ordered.

In the same way, the excise duty administrator will communicate with excise stamp users through the electronic excise stamp system, especially when notifying them about the number of excise stamps they will be able to take off or when stipulating the deadline for collecting the excise stamps at the printing house.

Before collecting the excise stamps, the excise stamp user is obliged to deposit on the excise duty administrator’s account funds corresponding to the price of the excise stamps that he can take off and that the customs office notifies him about. The price of the excise stamps takes into account printing fees but does not cover excise duty. Excise stamps may only be printed by the state enterprise Mincovňa Kremnica, štátny podnik (the Kremnica Mint).

The FD SR performs fiscal supervision over the handing of excise stamps and their destruction at the printing house. The FD SR is obliged to arrange the presence of one of its employee at the printing house during the handling of excise stamps. The FD SR arranges the sale of excise stamps to excise stamp users at the printing house. It is possible to take off excise stamps only from the Financial Directorate employee at the printing house.

Issuance of vouchers for the collection of tobacco excise stamps

An excise stamp user has to request the customs office for allocation of a user registration number and permit for the offtake of excise stamps.

Consumer packaged cigarettes can be placed into free circulation only if an excise stamp is affixed to them. Only a cigarette manufacturing company can affix excise stamps to consumer packaged cigarettes. Only a tax warehouse keeper, authorised consignee, or tobacco product importer who wishes to place tobacco products into free circulation in the fiscal territory can be an excise stamp user. Only an excise stamp that contains information corresponding to the respective price of the cigarettes, number of cigarettes in the package, length of the cigarettes, valid tax rate symbol, and the offtake registration number can be used to label consumer packaged cigarettes. It is possible

to sell the consumer packaged cigarettes to end consumers only for the price given in the excise stamp.

At the end of 2014, national legislation introduced a new excise stamp information system. The objective of this new system was to facilitate and computerise the system for ordering, assessing, printing, distributing, and using excise stamps intended for labelling consumer packaged tobacco, cigars, cigarillos, and cigarettes.

Excise stamp users who wish to take off excise stamps according to the “new system” have to file a request with the customs office to have excise stamps issued electronically. Excise stamp users have to use the electronic excise stamp system not only to request that excise stamps be issued electronically, but also to report data required under Slovak national legislation and to keep a record of excise stamps. Excise stamps may only be printed by the state enterprise Mincovňa Kremnica, štátny podnik (the Kremnica Mint).

The FD SR performs fiscal supervision over the handling of excise stamps and their destruction at the printing house. The FD SR is obliged to arrange for the presence of one of its employee at the printing house during handling of the excise stamps. The FD SR arranges the sale of excise stamps to excise stamp users at the printing house. It is possible to take off excise stamps only from the Financial Directorate employee at the printing house.

Tax warehouse keepers or tobacco product importers can affix excise stamps to consumer packaged tobacco. Tax warehouse keepers, tobacco product importers, or authorised consignees can affix excise stamps to consumer packaged cigars or cigarillos. Only an excise stamp with the symbol indicating the valid excise duty rate can be used to label consumer packaged tobacco, cigars, and cigarillos. Labelling of consumer packaged cigarettes with excise stamps may only be carried out by the company that manufactured the cigarettes.

No fewer than 500 excise stamps, or a multiple thereof, may be ordered.

The customs office will notify the excise stamp user electronically about the number of excise stamps that he may collect, the price of the excise stamps, and the bank account number of the FD SR no later than within three working days.

The customs office may reduce the number of ordered excise stamps if circumstances arise based on which it can be reasonable assumed that a breach of legal regulations might occur. The FD SR determines the deadline for the excise stamp user to collect the stamps, but no later than within 10 working days. The FD SR will inform the excise stamp user through the electronic excise stamp system about the deadline for collecting the excise stamps. The FD SR hands over the excise stamps to excise stamp users only at the printing house against receipt of the funds corresponding to the price of the stamps specified in the electronic notification from the customs office.

Excise stamp users are obliged to keep record of excise stamps in the electronic excise stamp system separately for cigarettes, cigars, cigarillos, and tobacco.

Administrative cooperation between EU Member States (ELO)

In accordance with Council Regulation (EU) No 389/2012, the ELO and Excise Duty System Department of the Excise Duty Section of the Financial Directorate is responsible for arranging the exchange of information based on requests for administrative cooperation between EU Member States and the respective financial administration bodies.

Such requests pertain chiefly to verifying entities in connection with excise duty administration, obtaining information regarding excise duty administration, and confirming information from the SEED database. Information is exchanged electronically through EMCS.

The following is included in administrative cooperation with EU Member States:

- Requesting administrative cooperation (request for verification, request for information on excise duty administration, request for confirmation of registration in SEED);
- Responding to requests for administrative cooperation;
- Spontaneous information;
- Reports of events;
- Reports on controls.

6.3. Comparison and assessment

6.3.1. Comparison

Authorisation and registration

In Slovakia, constant fiscal supervision is applied to alcohol tax warehouses; in the Czech Republic, this supervision is substituted by constant supervision by the excise duty administrator through a camera surveillance system. In the Czech Republic, small independent breweries are tax warehouses; in Slovakia, the excise duty administrator only registers them. Slovakia has the concept of registered consignor; in the Czech Republic, it is included among tax warehouses.

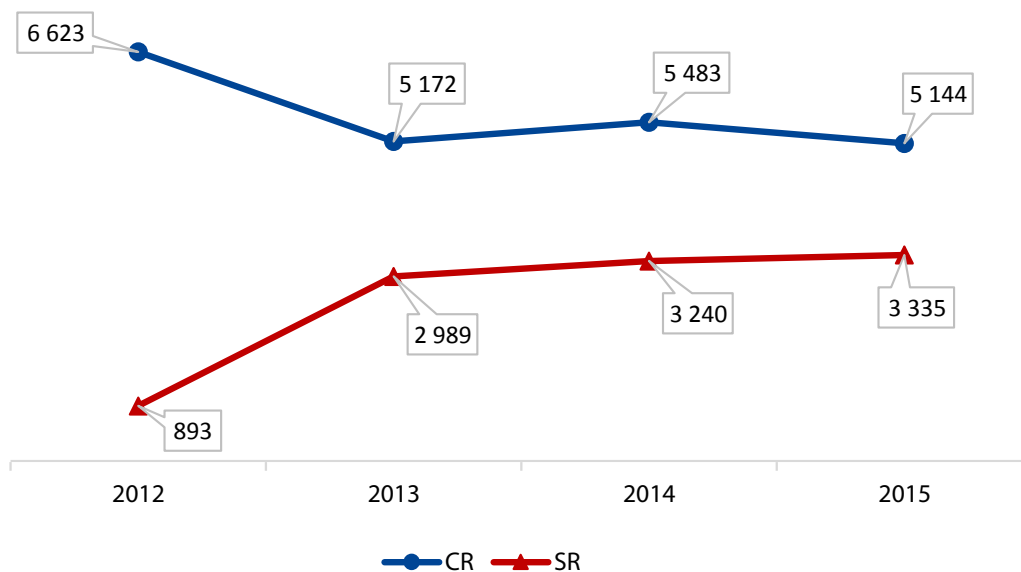
In Slovakia, it is possible to distil up to 43l of ethyl alcohol at the reduced excise duty rate in the case of fruit growers' distillation. In comparison, the Czech Republic allows only 30 l of ethyl alcohol. Growers' distilleries in Slovakia must have a permit not only from the Slovak Ministry of Agriculture and Rural Development, but also from the excise duty administrator. In the Czech Republic, growers' distilleries only need a permit from the Ministry of Agriculture.

In Slovakia, consumer packaged alcohol can only be imported⁹ by tax warehouse keepers and importers of consumer packaged alcohol. An importer permit is conditional upon registration of the applicant with the excise duty administrator. In the Czech Republic, importing⁹ consumer packaged alcohol needs no special permit from the excise duty administrator. In Slovakia, the sale of consumer packaged alcohol requires a sales permit issued by the excise duty administrator. Sellers of consumer packaged alcohol have the legal obligation to keep a record of purchases and sales. In the Czech Republic, the excise duty administrator does not issue any permits to final sellers of consumer packaged alcohol: it is sufficient for them to have a licence to sell alcohol from the Trade Licensing Office. The final seller keeps no special records.

In Slovakia, motor fuel merchants must have the respective sales permit from the excise duty administrator. Slovak law has no special regulation governing service stations. All activities pertaining to service stations are only regulated in the Act on Excise Duty on Mineral Oils. In the Czech Republic, service stations are regulated by the Act on Motor Fuels. The excise duty administrator, however, issues no licences to sell motor fuels. Service stations are registered and the Ministry of Industry and Trade publishes their list. In Slovakia, it is not technically possible to obtain a list of service stations from the financial administration system.

⁹ In accordance with Article 4 of Council Directive 2008/118/EC "importation of excise goods" means the entry into the territory of the Community of excise goods unless the goods upon their entry into the Community are placed under a customs suspensive procedure or arrangement, as well as their release from a customs suspensive procedure or arrangement.

Graph 7 Number of comparable authorisations or registration of tax entities as at 31 December

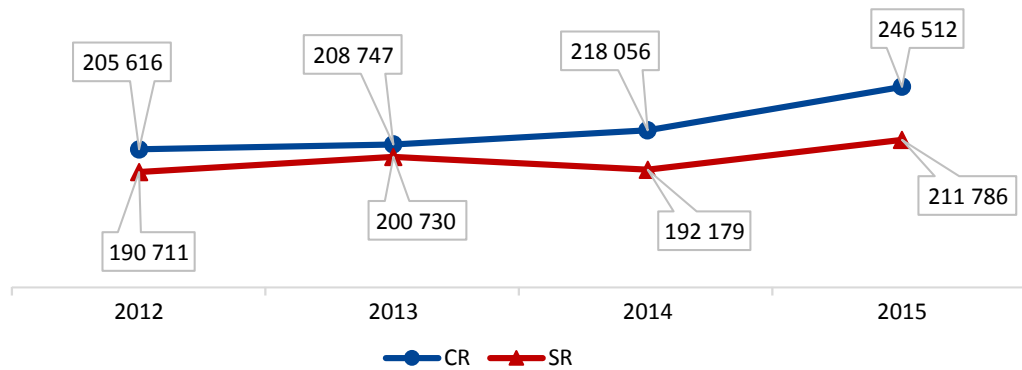


Source: FD SR and GDC

In Slovakia, there has been a sharp rise in the number of various permits or registrations of tax entities since 2012. This increase was caused by a legislative change in the mentioned period. In the Czech Republic, however, the number of permits fell substantially in 2013 due to the introduction of a guarantee for motor fuel distributors.

Administrative tasks

In Slovakia, substantive law regulations lay down the obligation to perform tax audits at various tax entities. This issue is addressed in more detail by the internal regulation issued by the FD SR to unify the excise duty administration procedure in Slovakia. In the Czech Republic, substantive law regulations do not regulate the obligation to perform tax audits; procedural regulations only state the possibility to perform a tax audit no later than by the duty assessment deadline. The reason for the major difference in the number of conducted tax audits and on-site inspections in Slovakia and in the Czech Republic is the fact that the internal regulation of the FD SR stipulates the cases where the excise duty administrator has to perform a tax audit and the respective deadlines, whereas in the Czech Republic, on-site inspections are the main tools used to check the accuracy of excise declarations or excise duty refund claims.

Graph 8 Number of comparable administrative tasks

Source: FD SR and GDC

The number of comparable administrative tasks in the Czech Republic grew in 2012 as a result of an increase in the number of movements in EMCS and in the number of tax declarations filed. In Slovakia, the number of administrative tasks between 2012 and 2015 grew slightly, a trend that was influenced by the growing number of movements in EMCS and a concurrent decrease in the number of excise returns filed.

6.3.2. Assessment

Different legal regulations resulted in major differences in the number of comparable authorisations and registrations of tax entities. The number of comparable administrative tasks by excise duty administrators in Slovakia and in the Czech Republic were similar in each of the audited years.

In Slovakia, the total number of comparable tax entities, of which there is one-third fewer than in the Czech Republic, shares almost the same number of administrative tasks. Based on the above, it can be said that Slovakia is focused more on excise duty administrators carrying out administrative tasks, such as physical fiscal supervision. In the Czech Republic, greater emphasis is placed on remote supervision, e.g., through camera surveillance systems, immediate dispatch of data through a web interface, and a risk analysis.

7. Computerisation of administrative tasks

7.1. Computerisation of administrative tasks in the Czech Republic

The excise declaration can be filed via data box. The Czech Customs Administration introduced interactive excise declaration forms, which, however cannot be further processed by computer. Furthermore, the data has to be rewritten to the tax entity's tax account. The benefit of this system is a reduction of errors in filed excise declarations, which reduces the number of tasks that need to be performed by excise duty administrators to manage errors in incorrectly filed excise declarations. The GDC is working on a new application for computerising the excise declaration processing.

Through the intelligent forms, it is also possible to:

- file excise duty or registration applications or notifications of changes to data;
- file excise duty refund claims;
- satisfy the notification requirement related to handling special mineral oils, handling raw tobacco, and satisfying biofuel-related obligations.

Handling excise stamps is recorded by tax entities in the ORO WebKlient information system, which is available to registered tax entities to enter data required by the excise duty administrator.

Products under duty suspension can be moved in the Czech Republic based on an electronic accompanying document, which, in the Czech Republic, is implemented as a national functionality in the electronic excise movement and control system (EMCS).

Products in free circulation can move around the fiscal territory of the Czech Republic accompanied by a document proving their taxation, a duty exemption document, a customs office decision on release of products into the customs regime, a simplified accompanying document, or other decision on excise duty assessment. The required content of the data is laid down in legal regulations. To facilitate the satisfaction of these obligations, the Czech Republic implemented a **voluntary electronic system for issuing alternative documents** (Sections 5 and 6 of Act No 353/2003 Coll.). This system allows paper documents to be replaced or supplemented with electronically issued documents that are sent via the Czech Customs Administration web interface to a data repository, where a unique 12-digit identification code (UIC) is allocated. The UIC is used by the customs authorities for control purposes on the road and makes it impossible for goods to be moved again using the same document. The Czech Customs Administration has online access to the electronic recordkeeping system of the biggest warehouse keeper for motor fuel in the Czech Republic, who places about half of the total volume of motor fuel into free circulation and who automatically enters the issued tax documents into this system.

The Czech Customs Administration is considering implementing e-VDO, i.e., an electronic system for recording and monitoring the movement of various products in free circulation. This system should make use of 70% of existing EMCS functional specifications. A benefit of this system will be a user-friendly environment for declarants and customs officers. It will also be connected to the guarantee management system, the Tax Entities Register, and the risk analysis system (ERIAN). The system should provide an overview of movements in free circulation between Member States, which at present is functioning based on paper documents without a record or exchange of the reference numbers of the simplified accompanying documents.

Misuse of the simplified accompanying document, repeated use of a single document, and illegal transport without any documents are the main risks of the current approach to recording the movements of products in free circulation.

7.2. Computerisation of administrative tasks in Slovakia

During excise duty administration, the Slovak Financial Administration uses electronic communication to monitor the movement of goods under duty suspension in EMCS, excise stamps, and the submission of excise declarations, and to register and record tax entities.

In 2014, one-way communication of tax entities with the excise duty administrator was also introduced and then, in 2016, expanded to allow two-way communication. Under this electronic communication system, a tax entity, after entering login data, has access to its personal web zone, called a personal electronic mailbox, which is intended for communication with the financial administration. In this zone, a tax entity has access to an electronic mailroom, through which it sends requests, notifications, tax declarations, and other documents pertaining to excise duty administration.

Electronic communication via the personal web zone does not involve all tax entities. National legislation defines the tax entities that are obliged to communicate with the excise duty administrator electronically. This pertains mainly to VAT payers, tax advisors representing tax entities, and lawyers representing tax entities.

During the audit, the Slovak SAO also addressed the questions of the computerisation extent of excise duty administration. This pertained also to full computerisation of tasks – excise declarations and electronic communication within ELO.

Apart from movements in EMCS, there was an increase in computerisation of various comparable administrative tasks, which is also a requirement of modern excise duty administration.

7.3. Comparison and assessment

7.3.1. Comparison

In Slovakia, the excise declaration procedure is fully computerised from the submission of the excise declaration to the recording of the excise obligation. In the Czech Republic, a computerised excise declaration procedure is not available.

In the Czech Republic, tax entities may upload mandatory documents for each movement in free circulation onto a website. Notifications of movements in free circulation in the form and on the basis of EMCS are being prepared.

7.3.2. Assessment

The system for reporting movements in free circulation in the Czech Republic contributes to fiscal supervision, thereby eliminating the movement of certain products for which excise duty has not been paid. This can be recommended as a good practice.

Computerisation of the excise declaration procedure has shown to be a good practice in Slovakia. The Slovak SAO and the Czech SAO therefore recommend completion of the computerisation of the excise declaration procedure in the Czech Republic.



8. Analysis of changes to the organisational structure and staffing in the area of excise duties

The organisational structure of the Czech Customs Administration and the Slovak Financial Administration has undergone fundamental changes.

8.1. Organisational structure of the Czech Customs Administration

Effective of 1 January 2013, the Czech Customs Administration comprises the General Directorate of Customs and the customs offices, which are administrative authorities and branches of the government. The Czech Customs Administration is the accounting entity for the entire customs administration.

The Czech Customs Administration has conducted comprehensive excise duty administration since 2004 as one of its many responsibilities. The Czech Customs Administration is also responsible for the following areas¹⁰:

a) Audits and inspections:

- Road transport (weighing of freight vehicles, payment of road tolls, fulfilment of conditions for transporting hazardous goods, expert supervision of vehicle crews in international road freight transport, and in matters pertaining to international passenger transport);
- Handling of waste and packaging material;
- Safety of imported food;
- Consumer protection and protection of intellectual property rights;
- Employment of foreigners.

b) Customs administration – comprehensive application of customs regulations, commercial policy measures, and formalities in connection with importing and exporting goods

c) Collection and enforcement of monetary obligations imposed by other public authorities as part of shared administration

¹⁰ Effective of 1 December 2016, the Czech Customs Administration has been also responsible for verifying fulfilment of obligations connected to registration of sales [Section 2(2) of Act No 112/2016 Coll., on the registration of sales], and, effective of 1 January 2017, for overseeing observance of the law and conditions for operating games of chance, including the imposition of fines (Section 116 of Act No 186/2016 Coll, on games of chance)

d) Activities of the police authorities (authorised customs authorities) in criminal proceedings related to violation of customs and related regulations and tax regulations when the Czech Customs Administration is the excise duty administrator.

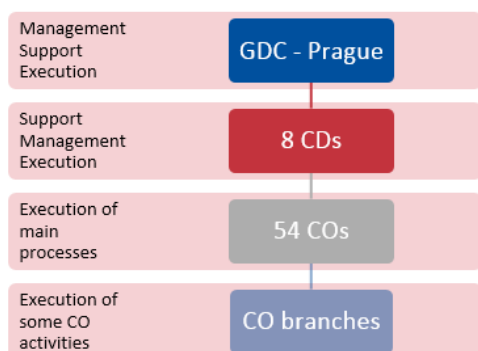
Although the range of competencies (combination of control activities) increases spending for the Czech Customs Administration, savings are incurred on the scope, as public administration does not need to expend costs on creating control teams for each subject of control. At the same time, the administrative burden for inspected parties subject to re-audit is being reduced.

As part of the *Modernisation of the Czech Customs Administration* project, on 1 January 2013, the Czech Customs Administration changed from a three-level structure to a two-level one, eliminating the middle level (customs directorates). The GDC spent about CZK 51,000,000 (about € 2,031,000) on the project¹¹.

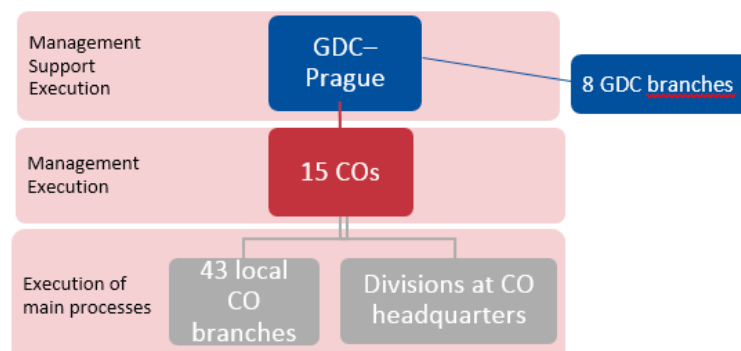
As of 1 January 2013, the Czech Customs Administration has comprised the General Directorate of Customs and the regional customs offices, which are administrative authorities and branches of the government. The customs offices and their responsibilities are laid down in the law, and all customs offices through their departments and local branches carry out excise duty administration.

Local branches are the internal organisational units of the customs offices. Establishing and winding up local branches and determining their responsibilities is in the remit of the Ministry of Finance, which issues decrees in this regard. Legal regulations do not lay down any responsibilities on the local branches – they act in the name and on behalf of the customs offices.

Organisational structure until 31 Dec. 2012



Organisational structure since 1 January 2013



Until 31 December 2012, excise duty administration was performed by the General Directorate of Customs, 8 customs directorates and 58 customs office departments (including branches), i.e., a total of 67 divisions and departments. On 1 January 2016, excise duty administration was carried out by the General Directorate of Customs and 51 departments of the customs offices and their local branches, 8 offices of the Legal Section of the General Directorate of Customs, and customs office divisions providing mobile supervision, i.e., about 60 locations.

Spending by the Czech Customs Administration is affected most by payroll expenses. Due to the reorganisation of the Czech Customs Administration, there were no savings on human resources. Most of the work is undertaken by customs officers employed under the Act on the Service of Security Force Members. The possibility to reduce the numbers of these officers is very limited in the Czech Republic, as pursuant to Section 42(1) of Act No 361/2003 Coll., on the service of members of the security forces, it is possible to dismiss an officer only under certain conditions. The law provides an exhaustive list of these conditions. The reduction of positions due to organisation changes in security forces is not a reason to dismiss officers, and the employer is obliged to transfer them to corresponding positions within the forces or arrange positions at other security forces (e.g., the Czech Police, Czech Prison Service); alternatively, they are made

¹¹ ECB exchange rate as at 31 Dec. 2010, when the MoF approved funds for the modernisation of the Czech Customs Administration by a budgetary measure dated 28 June 2010.

temporary reserve officers during which time they collect in accordance with law 80% of their average service income.

Table 16 Management at the General Directorate of Customs and Customs Directorates (or customs offices) as at 31 December, 2011 to 2015

Numberm of mployees per manager					
	as of 31. 12. 2011	as of 31. 12. 2012	as of 31. 12. 2013	as of 31. 12. 2014	as of 31. 12. 20115
GDC	3.39	10.85	10.98	11.06	11.38
CD (CO)	8.98	9.16	8.83	8.84	8.88
Total	9.02	9.42	9.24	9.27	9.36

Source: General Directorate of Customs

Note.: The table shows the number of staff converted to full time positions (customs officers + civilian staff)

8.2. Organisational structure of excise duty administration in Slovakia

As part of its Policy Statement for 2012 to 2016, the Slovak Government listed as one of its priorities the completion of excise duty administration reforms through the UNITAS programme, and by unifying the collection of tax, customs, and levies and supressing tax evasion, it will obtain sufficient budgetary resources. In this context, the tax reform took place on the central level, which resulted in the merger of the Slovak Tax Directorate and the Slovak Customs Directorate into the FD SR and the creation of the financial administration.

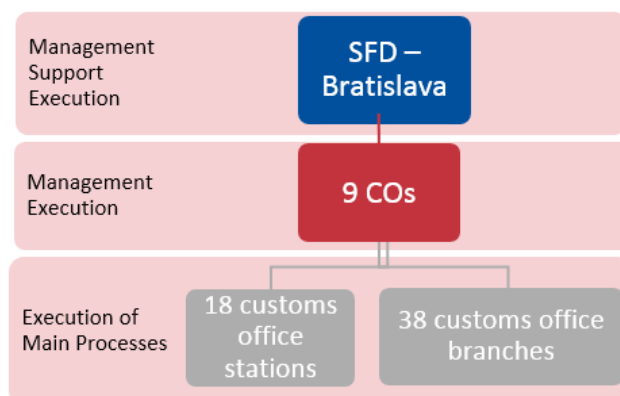
On 1 January 2012, Act No 333/2011 Coll., on governmental agencies for taxes, fees and customs, as amended, established the FD SR as a state-funded organisation with its registered office in Banská Bystrica. It is included in the state budget through the budgetary heading of the Slovak Ministry of Finance.

The FD SR, the customs offices, and the Financial Administration Criminal Office are, pursuant to Act No 199/2004 Coll., on customs and on amendment to certain acts, as amended, customs authorities who fulfil their tasks according to customs regulations. In accordance with Act No 333/2011 Coll., on governmental agencies for taxes and fees and customs, as amended, they constitute the financial administration along with the tax offices.

As of 1 January 2012, the new organisational structure has comprised the FD SR, the Financial Administration Criminal Office, the Financial Operations Competence Centre, the tax offices, the Specialised Tax Office, tax office branches, tax office contact points, customs offices, customs office branches (CO tax branch, CO combined branch, CO customs branch) and customs office stations.

The FD SR's mission is the effective collection and administration of taxes and customs, i.e., including excise duties, to fulfil the revenue portion of the state budget and protect the economic interests of the state.

The President of the Financial Administration of Slovakia, who is appointed and recalled by the Slovak Minister of Finance, is the governing body of the FD SR. The President of the Financial Administration is responsible to the Minister of Finance for all financial administration operations and, thereby, even for the activities of the FD SR, which he manages and represents in full.

The short form of the organisational structure as at 1 January 2012:

Excise duty administration activities and processes in Slovakia are the responsibility of the customs office branches (38 branches), customs office stations (18 stations), the excise duty departments (9 departments) and legal support departments (9 departments).

Table 17 Number of employees in the financial administration organisational units broken down according to managers and employees between 2012 and 2015

Name of financial administration unit	2012			2013			2014			2015		
	M	E	Σ	M	E	Σ	M	E	Σ	M	E	Σ
SFD	5	24	29	5	23	28	6	31	37	6	29	35
CO total	112	1,168	1,280	119	1,177	1,296	116	1,165	1,281	117	1,165	1,282
FA total	117	1,192	1,309	124	1,200	1,324	122	1,196	1,318	123	1,194	1,317

Source: FD SR

Comparison of the total number of financial administration employees involved in excise duty administration shows a slight downward trend in the number of such employees.

Employee numbers differ not only between units, but also year-on-year. This is mainly due to the number of systemised positions per organisational unit and due to the number of excise duty administrations managing the individual customs offices.

The number of managers in financial administration is based on service requirements, especially in connection with the creation of new organisational units.

8.3. Comparison and assessment

8.3.1. Comparison

Within the organisational structure of the Slovak Financial Administration, the FD SR and 74 organisational units with a total of 1,300 employees administrating almost 48,000 tax entities were involved in excise duty administration in 2015.

Within the organisational structure of the Czech Customs Administration, close to 60 organisational units with a total of 1,011 employees administrating about 114,000 tax entities were involved in excise duty administration in 2015.

In the Czech Republic, activities related to excise duty administration are divided up across several units that are independent of each other in terms of staffing. Middle management and top management oversee their mutual coordination and cooperation.

In Slovakia, activities related to excise duty administration (registration, excise declarations, tax audits) are divided between the excise duty departments and the customs office branches, where often it is the same excise duty administration employees who deal with the agenda.

8.3.2. Assessment

In Slovakia, there are about two-third fewer tax entities falling on the total number of employee involved in excise duty administration than in the Czech Republic. The greater number of employees does not appear to have an affect on the effectiveness of excise duty administration.

9. EMCS system

According to the preamble of the Decision No 1152/2003/EC of the European Parliament and of the Council of 16 June 2003 on computerising the movement and surveillance of excisable products, the aim of setting up a computerised system for monitoring the movement of excisable goods is to allow Member States to obtain real-time information on those movements and to carry out the requisite checks, including checks during movement of products, and allow the intra-Community movement of goods under suspension of excise duties to be simplified. When implementing this system, Member States should allow the economic operators, especially the small and medium-sized enterprises active in this sector, to use these national components at the lowest possible cost. Article three of the mentioned Decision allows national specifications, the national databases forming part of the system, and any software or equipment which a Member State considers necessary to ensure full use of the system throughout its administration to be included in EMCS.

9.1. EMCS in the Czech Republic

9.1.1. Development and functionality of EMCS

In the Czech Republic, EMCS was preceded by the Registry of Selected Products (“Evidence vybraných výrobků” - EVV), which was in operation from May 2004 to the end of March 2010. EMCS has been fully operational in the Czech Republic since 1 April 2010 and supplemented regularly by European and national functionalities (see Annex 5). In the Czech Republic, a so-called customs module and declarant module have been implemented.

The customs module contains several national functionalities. Going beyond the Community system, the Czech Republic monitors through EMCS movements of goods under suspension of excise duties that start and end in the Czech Republic. Upon approval of the notice of receipt of a consignment intended for an authorised consignee for one-off acceptance, the system ensures the automatic dispatch of the information to the Tax Entities Register with subsequent invalidation of the permit. The administration of received and sent requests for international cooperation and spontaneous information from ELO, including responses sent with attachments of any format, and translations are fully provided through the system. It is also possible to receive reports on the manual termination of exports in ECS (in the EU, only assignment of automatically created reports is implemented).

Risk profiles for outgoing or incoming consignments are set up according to actually required criteria. EMCS does not allow approval of e-AD or receipt notification without a response to the risk profile from the respective customs authority (it is not possible to ignore a risk profile).

The declarant module is available to tax entities for free in the form of a web application that users sign into using their user name and password (coordinates), which are allocated to them upon registration with the Czech Customs Administration. Each action pertaining to an EMCS customs module has to bear a valid electronic signature in the EMCS declarant module. The declarant module allows tax entities to enter data on commencement and termination of movements of goods under duty suspension directly; tax entities thus do not have to spend funds on purchasing a system.

The national functionalities of the declarant module allow data to be opened and stored off-line (saves time in the case of frequently used data), data about recipients to be filled in based on SEED ID checks and requests for filling in data that are voluntary on the EU level (maximum data for risk analysis). The system also allows the excise guarantee in the corresponding amount to be held in respect of every consignment until its movement ends. The amount of the guarantee is calculated by EMCS automatically. Without a sufficient guarantee, it is not possible to send an e-AD proposal from the EMCS declarant module to the customs office for approval. Each guarantee has a unique number and contains the ARC of the movement (including the amount of the blocked bond) for which it was used. The tax entity can manage its guarantees in the EMCS declarant module, where it can see the current amount of the blocked and unblocked excise guarantees.

Table 18 Number of tax entities/EMCS users who have been issued parameters for communication with EMCS

	2012	2013	2014	2015
Number of tax entities – users	2,005	2,122	2,169	1,960

Source: General Directorate of Customs

9.1.2. Expenditure on implementing and using EMCS

EMCS development was executed based on eight agreements between 2006 and 2017 worth CZK 46,791,924.60 (i.e., € 1,761,412.56)¹², excluding VAT, in total. In line with the agreements, the contractor issued invoices totalling CZK 43,577,255.19 (i.e., € 1,640,401.10),⁵ excluding VAT, between 2006 and the end of 2015. In the audited period, CZK 14,545,454 excluding VAT (i.e., € 547,438.99), was spent upgrading EMCS.

The amount spent on upgrading EMCS in the audited period converted to one movement entered into EMCS amounts on average to CZK 16.49 (i.e., € 0.62); without national movements, spending per movement between the Czech Republic and EU Member States amounted to CZK 24.40 (i.e., € 0.92).

¹² Average CZK/€ exchange rate for 2006 to 2015 (exchange rate according to ECB as at 31 Dec. of the respective year), which was CZK 26.565 CZK/€.

Table 19 EMCS upgrading expenditure per movement in EMCS

Czech Republic	2012	2013	2014	2015
EMCS upgrade in CZK	4,000,000.00	4,750,000.00	2,737,603.00	3,057,851.00
EMCS upgrade in €	150,545.73	178,773.05	103,033.61	115,086.60
Number of movements in EMCS	199,348	208,832	223,343	250,649
Number of movement in EMCS without national movements	138,779	143,409	145,628	168,135
CZK/movement in EMCS	20.07	22.75	12.26	12.20
CZK/movement in EMCS without national movements	28.82	33.12	18.80	18.19
€/movement in EMCS	0.76	0.86	0.46	0.46
€/movement in EMCS without national movements	1.08	1.25	0.71	0.68

Source: Invoices issued by AQUASOFT, spol. s r.o. for technical system support, Generate Directorate of Customs

Note: the exchange rate of CZK 26.75/€ was used for conversion to €

The technical support of EMCS was provided based in four agreements between 2011 and 2017. By the end of 2015, CZK 7,499,675 (i.e., € 281,389.77),¹³ including VAT, was invoiced for the technical support. The average amount paid since 2011 for the technical support per movement entered in EMCS since 2010 amounts to CZK 6.18 (i.e., € 0.23).

Invoices for the development and technical support pertained to the national solutions, which led to the development of the EVV application, which the General Directorate of Customs operated before EMCS was launched. The invoices were paid from national sources under programme financing. Technical support is invoiced as part of services to other applications provided by the supplier to the Czech Customs Administration.

9.2. EMCS in Slovakia

EMCS (Excise Movement and Control System) is an electronic system operated by the EU Member States for the purpose of monitoring the movement of excisable goods under duty suspension between Member States. It replaced the accompanying document that was used before this system came into effect, thereby ensuring better checks and supervision of movements. EMCS was launched in Slovakia on 1 April 2010 and is updated regularly based on requirements stemming from EU legislation.

A unique administrative reference code, ARC, is generated for each movement. This code is used to monitor movements on-line, i.e., in real time.

Table 20 Movement executed in EMCS

Name of indicator	2012	2013	2014	2015
Number of movements executed in EMCS within the EU	138.772	150.494	151.571	168.036
of which:				
- Dispatched	71.214	78.356	74.435	82.448
- Received	67.558	72.138	77.136	85.588

Source: FD SR

¹³ ECB exchange rates for each year of the period 2011-2015.

9.2.1. Development of functionalities in EMCS

EMCS ensures that excisable goods are received and dispatched by tax entities who are authorised to use EMCS, which greatly reduces the risk of tax evasion. The greatest development of functionalities occurred in 2011, when the EMCS became fully operational (see Annex 6).

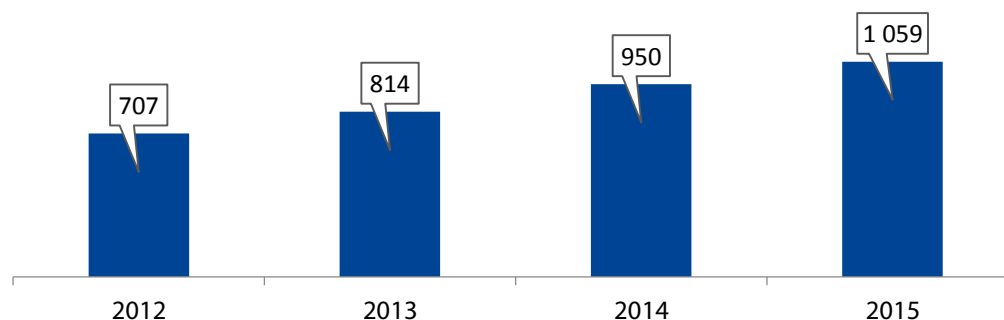
Table 21 EMCS functionalities ensuing from EU legislation

EMCS	2012	2013	2014	2015
EMCS functionalities				
of which:				
1. e-SD approval	x	x	x	x
2. Use of “timers”	x	x	x	x
3. Submission of reports of receipt	x	x	x	x
4. Cancellation of a planned movement	x	x	x	x
5. Change of destination	x	x	x	x
6. Splitting of a consignment of energy products	Slovakia does not split consignments of energy products			
7. Temporary registered trader	x	x	x	x
8. Rejection before arrival of goods	x	x	x	x
9. Refusal after arrival of goods	x	x	x	x
10. Customs cases	x	x	x	x
11. SEED (System for the Exchange of Excise Data and reference data)	x	x	x	x
12. Reference data (codes and parameters supporting EMCS operations)	x	x	x	x
13. Reports of events	x	x	x	x
14. Access to registration data	x	x	x	x
15. Access to movement data	x	x	x	x
16. Report on controls	x	x	x	x
17. Enforcement report	x	x	x	x
18. Interruption of movement report	x	x	x	x
19. EWSE (Early Warning System)	EWSE was replaced by EMCS in 2011			
20. MVS (Movement Verification System)	x	x	x	x
21. Ad-hoc query proposals	x	x	x	x
22. Fallback & Recovery Specifications	x	x	x	x

Source: FD SR

EMCS users have to be certified users of the software and have a secured electronic signature.

Graph 9 Number of EMCS users



Source: FD SR

9.2.2. Expenditure on implementing and using EMCS

EMCS was implemented as another module of SysNeD application software. For this reason, the Slovak side cannot determine the costs of its first application.

Table 22 EMCS upgrade expenditure

Year	Subject of agreement regarding EMCS	Amount in EUR excluding VAT
2011	Modification and expansion of APV SysNeD functionalities – EMCS module according to the lasted EU documentation. The expansion also pertains to functionalities of the SPD Klient client application.	657.798
2012	Modification and expansion of APV SysNeD functionalities – automation of export procedures and connection of EMCS and ECS.	64.000
2013	Modification and expansion of functionalities of APV SysNeD – implementation of changes to EMCS functionalities according to DG TAXUD requirements and operational requirements of the Customs Section.	399.827
2014	Modification and expansion of functionality of APV SysNeD – implementation of changes in EMCS module function in accordance with updated DG TAXUD requirements for EMCS in 3.1 MVS and the operational requirements of the Customs Section	682.000
2015	EMCS – expansion in accordance with implementation of phase 3.2 defined by the European Commission	145.922
	Total in EUR	1.949.547

Source: FD SR

9.3. Comparison and assessment

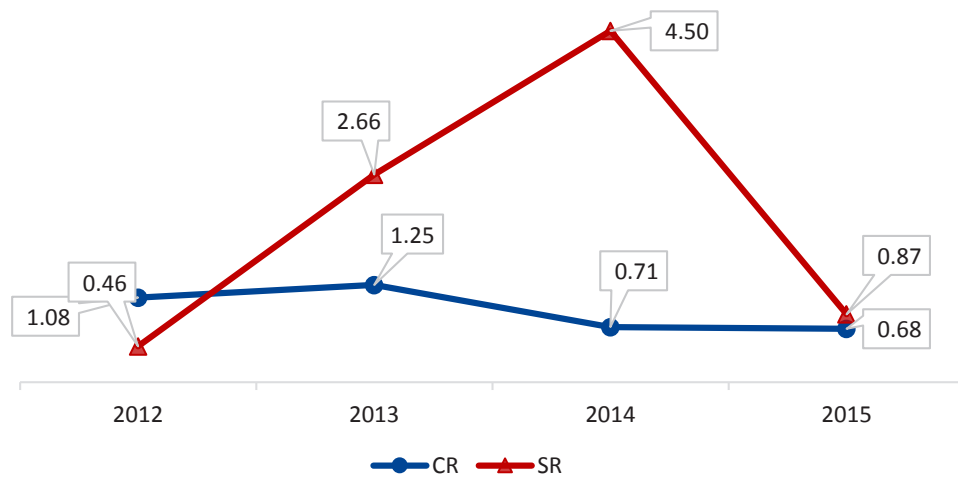
9.3.1. Comparison

The objective of EMCS was to replace a system based on movement administration in paper form. The benefit of EMCS is a complex overview of transport between EU Member States, from notification of when transport begins up to when it ends. Another important aspect is the reduction of administrative costs spent by the excise duty administrator and tax entities on processing, submitting and storing documents.

In the Czech Republic and in Slovakia, national functionalities have been implemented into EMCS to allow surveillance of movement of goods under duty suspension between two spots in the Czech Republic or in Slovakia.

Moreover, in the Czech Republic, the automatic functionalities of on-line monitoring and securing the excise bond has been added. National functionalities that monitor the risk profile of the tax entity or movement, with a subsequent mandatory response form the excise duty administrator, have also been implemented.

Graph 10 Expenditure in € on EMCS upgrades converted to one movement between the Czech Republic/Slovakia and other EU Member States



Source: GDC, FD SR

EMCS shows that Slovakia and the Czech Republic have comparable number of movements within the EU. Between 2012 and 2015, Slovakia spent € 744,310.01 more than the Czech Republic upgrading this system.

The Slovak SAO obtained information from the FD SR about EMCS upgrades for the period since 2011 although this system was launched earlier. Despite this fact, Slovakia spent € 188,134.44 more than the Czech Republic did on implementing and upgrading EMCS over the ten years that it has been in operation there.

9.3.2. Assessment

In the audited period, the costs associated with upgrading EMCS in Slovakia per movement was 2.3 times higher than in the Czech Republic.

10. Conclusion

Cooperation between the Czech SAO and the Slovak SAO has satisfied its objectives. Both auditing institutions obtained greater knowledge and understanding of the excise duty administration system in the Czech Republic and Slovakia. Despite a shared basic legal framework, the cooperation revealed significant differences between the two systems affecting the effectiveness of excise duty administration.

During the parallel audits, examples of good practice were found. These could contribute to reducing tax fraud, the significance of which will grow as duty rates rise. Procedures reducing the costs of excise duty administration were also identified.

Cooperation has revealed differences that significantly influence excise duty administration and hinder international comparison without mutually coordinated audits being conducted at the excise duty administrator. In this the role of the supreme audit institutions is indispensable.

List of Acronyms and Abbreviations

ARC	Administrative Reference Code
CNB	Czech National Bank
CSO	Czech Statistical Office
EAN	European Article Number
EC	European Commission
ECB	European Central Bank
ELO	Excise Liaison Office
EMCS	Excise Movement and Control System
EU	European Union
EVV	Registry of Selected Products (from Czech “evidence vybraných výrobků”)
FD SR	Financial Directorate of the Slovak Republic
FTE	full-time equivalent
GDC	General Directorate of Customs
GDP	Gross Domestic Product
ISSAI	International Standards of Supreme Audit Institutions
IT	information technology
LPG	Liquefied Petroleum Gas
OECD	The Organisation for Economic Co-operation and Development
SAO	Supreme Audit Office
SEED	System for Exchange of Excise Data
SME	Small and Medium Enterprises
SysNeD	System for Excise Duty Administration
UIC	Unit Identification Code

Annex 1 – EU legislation governing excise duty administration

- Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structures of excise duties on alcohol and alcoholic beverages
- Council Directive 92/84/EEC of 19 October 1992 on approximation of the rates of excise duty on alcohol and alcoholic beverages
- Commission Regulation (EC) No 684/2009 of 24 July 2009 implementing Council Directive 2008/118/EC as regards the computerised procedures for the movement of excise goods under suspension of excise duty
- Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code, repealed on 30 April 2016 and replaced by Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code (revised version)
- accompanying document for the intra-Community movement of products subject to excise duty which have been released for consumption in the Member State of dispatch
- Commission Implementing Regulation (EU) 2016/323 of 24 February 2016 laying down detailed rules on cooperation and exchange of information between Member States regarding goods under excise duty suspension pursuant to Council Regulation (EU) No 389/2012
- Council Regulation (EU) No 389/2012 of 2 May 2012 on administrative cooperation in the field of excise duties and repealing Regulation (EC) No 2073/2004
- Commission Regulation (EEC) No 2454/93 of 2 July 1993 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code, repealed on 30 April 2016, and replaced by Commission Delegated Regulation (EU) 2015/2446 of 28 July 2015 supplementing Regulation (EU) No 952/2013 of the European Parliament and of the Council as regards detailed rules concerning certain provisions of the Union Customs Code
- Commission Regulation (EC) No 3199/93 of 22 November 1993 on the mutual recognition of procedures for the complete denaturing of alcohol for the purposes of exemption from excise duty
- Commission Regulation (EC) No 31/96 of 10 January 1996 on the excise duty exemption certificate
- Decision No 1152/2003/EC of the European Parliament and of the Council of 16 June 2003 on computerising the movement and surveillance of excisable products
- Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity
- Council Directive 2008/118/EC of 16 December 2008 concerning the general arrangements for excise duty and repealing Directive 92/12/EEC
- Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco
- Commission Implementing Regulation (EU) No 1221/2012 of 12 December 2012 amending Regulation (EC) No 684/2009 as regards the data to be submitted under the computerised procedure for the movement of excise goods under suspension of excise duty
- Commission Implementing Regulation (EU) No 612/2013 of 25 June 2013 on the operation of the register of economic operators and tax warehouses, related statistics and reporting pursuant to Council Regulation (EU) No 389/2012 on administrative cooperation in the field of excise duties

- Commission Regulation (EC) No 436/2009 of 26 May 2009 laying down detailed rules for the application of Council Regulation (EC) No 479/2008 as regards the vineyard register, compulsory declarations and the gathering of information to monitor the wine market, the documents accompanying consignments of wine products and the wine sector registers to be kept

Annex 2

Czech legislation governing excise duty administration

Acts

- Act No 353/2003 Coll., on excise duties
- Act No 307/2013 Coll., on mandatory labelling of alcohol
- Act No 201/2012 Coll., on air pollution
- Act No 280/2009 Coll., the Tax Code
- Act No 261/2007 Coll., on stabilisation of public budgets
- Act No 311/2006 Coll., on fuels
- Act No 500/2004 Coll., the Code of Administrative Procedure
- Act No 61/1997 Coll., on alcohol
- Act No 455/1991 Coll., on trade licensing (Trade Licensing Act)

Decrees

- Decree No 202/2014 Coll., “refund of excise duty on green diesel”
- Decree No 334/2013 Coll., implementing certain provision of the Act on Mandatory Labelling of Alcohol
- Decree No 133/2010 Coll., on requirements for fuels, on the method of monitoring the content and quality of fuels and on records thereof (Decree on Fuel Quality and Records)
- Decree No 190/2008 Coll., amending Decree No 141/1997 Coll., on the technical requirements for producing, storing and processing alcohol
- Decree No 150/2008 Coll., on control of production and circulation of alcohol and on implementation of other provisions of the Alcohol Act in relation thereto
- Decree No 61/2007 Coll., stipulating the details of marking and dyeing mineral oils and marking certain other mineral oils
- Decree No 34/2007 Coll., stipulating the details of marking certain other mineral oils
- Decree No 149/2006 Coll., implementing Act No 676/2004 Coll., on mandatory labelling of alcohol and on the amendment of No 586/1992 Coll., on income taxes, as amended, as amended by Act No 545/2005 Coll.
- Decree No 313/2005 Coll., stipulating the form and particulars of the excise bond
- Decree No 275/2005 Coll., stipulating the procedure for proposing cigarette prices for end users and for changing these prices
- Decree No 237/2005 Coll., stipulating the amount technically justified losses when moving and storing mineral oils
- Decree No 468/2003 Coll., “stipulating the extract of the original wort before fermentation”
- Decree No 467/2003 Coll., “using tobacco excise stamps”
- Decree No 413/2003 Coll., “refunding excise duty from heating oils “
- Decree No 370/2003 Coll., stipulating the conditions and particulars for proving decisive facts for assessing applications for reducing or waiving the excise bond
- Decree No 141/1997 Coll., on technical requirements for producing, storing and processing alcohol

Regulations

- Government Regulation No 351/2012 Coll., on biofuel sustainability criteria
- Regulation No 188/1929 Coll., allowing official monitoring of alcohol produced in distilleries with a production capacity not exceeding 160 hectolitres of alcohol, using a small-type Zehrov system control gauge
- Regulation No 146/1927 Coll., allowing official monitoring of alcohol produced in distilleries using a Zehrov system control gauge

Slovak legislation governing excise duty administration

Acts:

- Act No 82/1994 Coll., on state material reserves
- Act No 142/2000 Coll., on metrology
- Act No 467/2002 Coll., on production of alcohol and its placement on the market
- Act No 199/2004 Coll., the Customs Act
- Act No 656/2004 Coll., on energy
- Act No 309/2009 Coll., on support of renewable energy resources and on high-efficiency co-generation
- Act No 335/2011 Coll., on tobacco products
- Act No 218/2013 Coll., on emergency supplies of crude oil and crude oil products
- Act No 98/2004 Coll., on excise duty on mineral oils
- Act No 106/2004 Coll., on excise duty on tobacco products
- Act No 530/2011 Coll., on excise duty on alcoholic beverages
- Act No 609/2007 Coll., on excise duty on electricity, coal and natural gas
- Act No 563/2009 Coll., on the administration of taxes (the Tax Procedure Code)

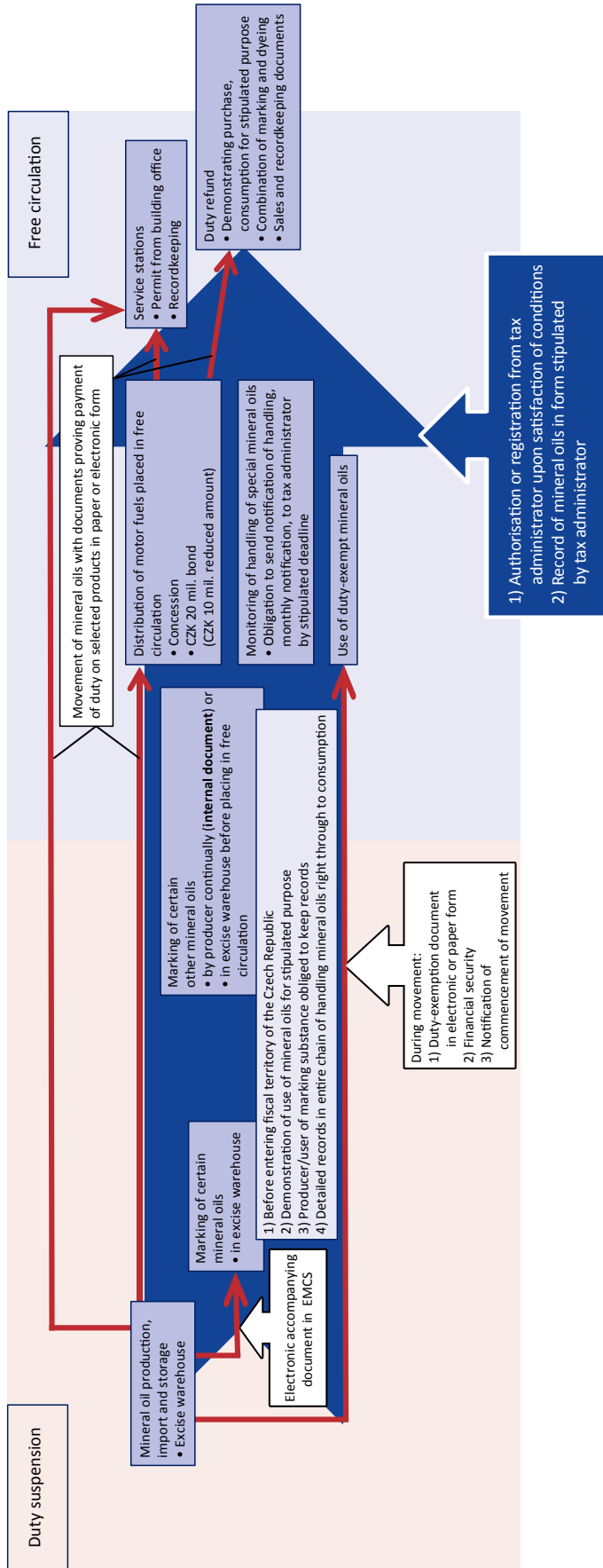
Decrees:

- Decree of the Office of Standards, Metrology and Testing No 210/2000 Coll., on meters and metrological control
- Decree of the Ministry of Agriculture of the Slovak Republic No 653/2002 Coll., on operating fruit growers' distilleries
- Decree of the Ministry of the Interior of the Slovak Republic No 96/2004 Coll., stipulating fire safety rules when handing and storing flammable liquids
- Decree of the Ministry of Finance of the Slovak Republic No 537/2011 Coll., on control of production and circulation of alcohol
- Decree of the Ministry of Financial of the Slovak Republic No 212/2012 Coll., governing tobacco products
- Decree of the Ministry of Finance of the Slovak Republic No 255/2014 Coll., on labelling packaging with tobacco excise stamps
- Decree of the Ministry of Finance of the Slovak Republic No 256/2014 Coll., on labelling packaging with alcohol excise stamps

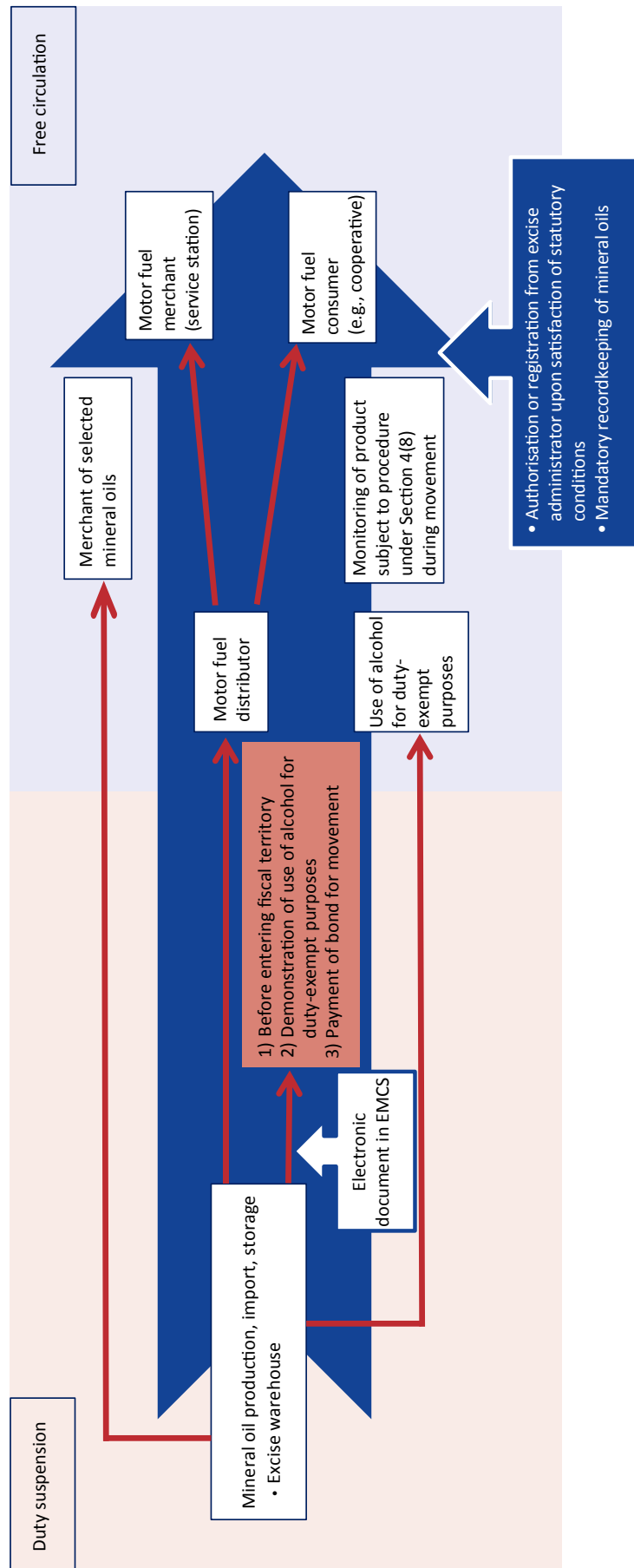
Other related regulations:

- Ordinance of the Ministry of Agriculture No 2915/2003-100 on alcohol loss standards
- Codex Alimentarius (Food Code)

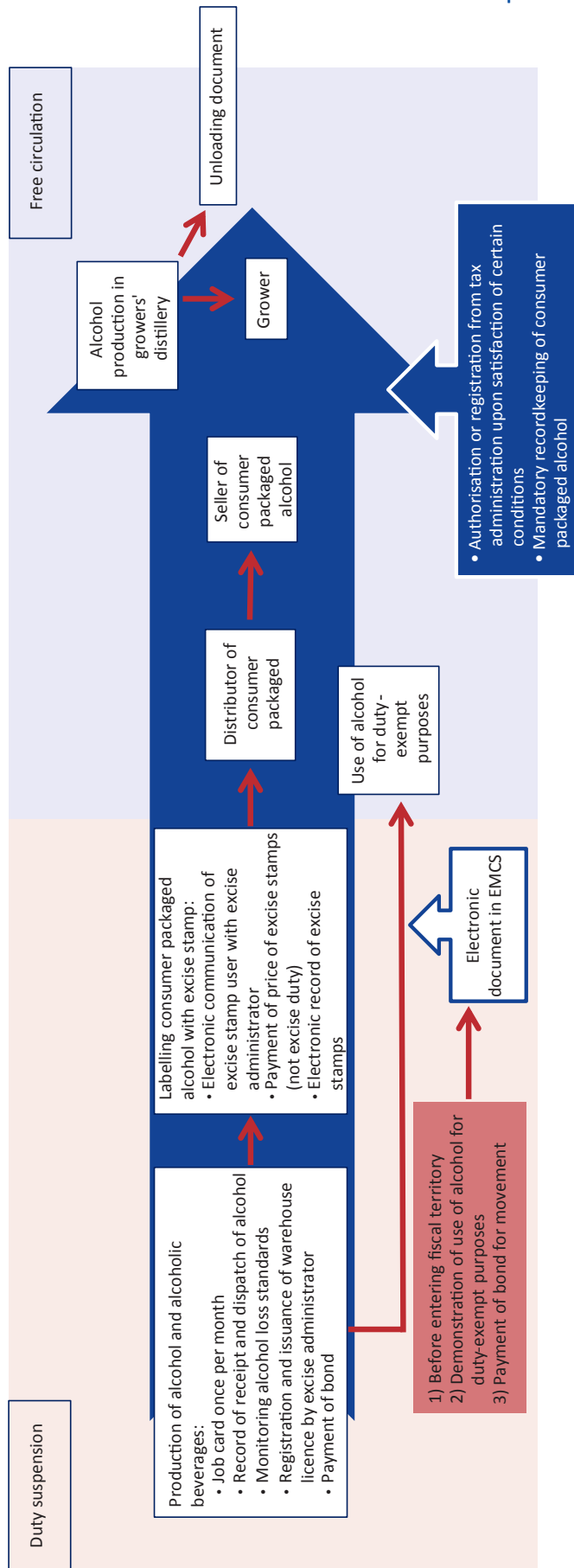
Annex 3a – Scheme of the excise duty administration in the area of ethyl alcohol production and distribution in the Czech Republic



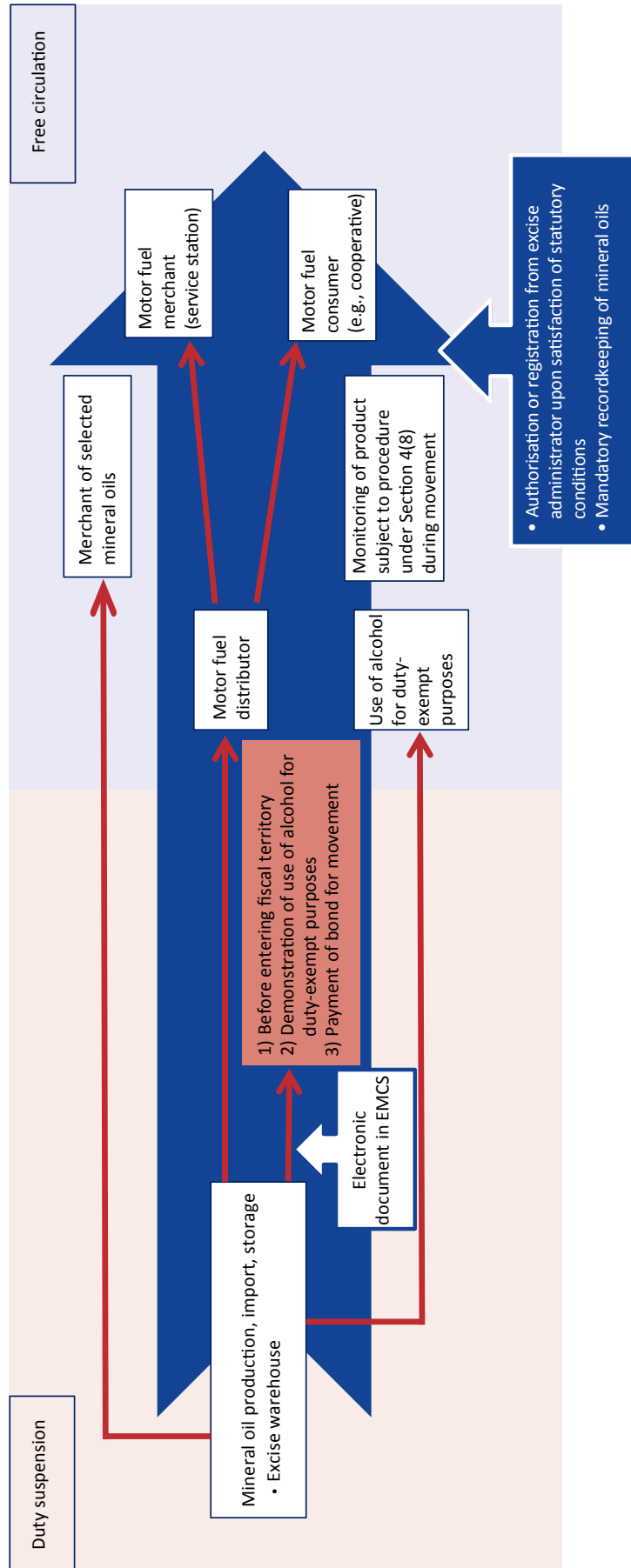
Annex 3b – Scheme of the excise duty administration in the area of mineral oils production and distribution in the Czech Republic



Annex 4a – Scheme of the excise duty administration in the area of mineral oils production and distribution in the Slovak Republic



Annex 4b – Scheme of the excise duty administration in the area of ethyl alcohol production and distribution in the Slovak Republic



Annex 5 – Overview of functionalities in the Czech Republic

EMCS Functionalities

National functionalities for Phase 1 as of 1 April 2010 for initiating Member States (the Czech Republic, among others), which was Phase 0 for non-initiating Member States (Slovakia, among others):

EMCS declarant module:

- Possibility to read and save data offline (saves time in case of frequently used data)
- Filling in information about consignee (based on SEED ID control),
- Required mandatory completion of data that are voluntary on the EU level (maximum data for risk analysis, reducing risk of fraud), interactive completion – application calls attention to type of data being filled in and to missing data, mandatory fields are underlined
- Automatic calculator determining amount of a guarantee
- On-line blockage of an excise guarantee
- Simple change of incorrect data in e-AD proposal (based on warning from customs office of dispatch, only incorrect fields can be changed),
- Integrated detailed manual

EMCS customs module:

- Monitoring of the movement on a national level;
- Recording data for a declarant (based on backup e-AD submitted in writing, changes to e-AD, cancellation of e-AD or backup notification of receipt) with possibility to read offline data in “xml” format from a USB key;
- Implementation of a code list for specific products (more precise definition of a specific product on a national level);
- A manual approval, change, cancellation of e-AD, or an approval of notification of receipt (elimination of errors in e-AD);
- Cancellation of e-AD is possible only before movement (on the EU level also after launching movement timer);
- Filtration of movements in system according to criteria (e.g., for a reason of monitoring specific tax entity);
- Entry of unlimited number of comments to one ARC by various users (only author can delete a comment);
- Identification of ARC – searching for ARC at customs office of destination;
- Handover of ARC – handover of ARC from the tax administrator’s customs office to the customs office of destination;
- Display of data and time of receipt of consignment;
- Display of time of submission of notification of receipt;
- An automatic analysis of information about consignee (data entered by a consignor versus data entered by a consignee); differences highlighted in red;
- Partial release of a guarantee (only on demonstrably received part of the consignment; with respect to the rest, discrepancies are dealt with and other investigations take place);
- After the approval of the notification of receipt of the consignment intended for the authorised temporary consignee, information is automatically sent to the tax entities register application and the authorisation is invalidated;
- A possibility to send an error report directly to the Helpline application for further assistance;
- An integrated detailed manual.

Phase 2 as of 1 September 2011: unimplemented, originally intended for non-initiating Member States who did not manage implementation of Phase 1 by 1 January 2011, when EMCS had to be fully operational, i.e., all Member States were required to commence and end movements in EMCS.

Phase 3.0 as of 1 January 2012:

European functionalities: splitting of consignments (not implemented in the Czech Republic), searching for transiting consignments (movement through Czech Republic), posting of reports of events, posting of reports on control, consignment alert (if data in e-AD filled in incorrectly), rejection of consignment by a consignee (at latest before commencement of movement), international cooperation (cooperation request, spontaneous information) – only on the ELO Department level (the national excise liaison office for international cooperation).

National functionalities:

- The translation of any type of a cooperation report (a cooperation request, spontaneous information, reports of events and reports on controls) with the ELO department to/from English
- Saving of any type of a cooperation report at any processing stage (a possibility to return to a report and complete it)
- Forwarding of any request for cooperation or spontaneous information from ELO to a customs office
- Creation of request for cooperation and spontaneous information to a customs office (ELO then arranges translation and dispatch of it to the EU)
- At the customs office, it is possible to attach any kind of attachments to requests for cooperation, spontaneous information, reports of events, and reports on control (users do not have to waste time converting to a format required by the EU)
- Entry of any number of comments/notes under one correlative cooperation report number by different users (comments can only be deleted by author)
- A possibility to amend data in any type of the cooperation report (correction of incorrect data)
- A record of a Czech and an international version of the cooperation report
- Manual handling of request if a response was received outside EMCS and would no longer be sent through EMCS.

Phase 3.1 as of 15 February 2014:

European functionality: introduction of the electronic MVS (movement surveillance system) through a request for control of various simplified accompanying documents (this is a superfluous functionality that does not allow entry of same amount of data as a request for cooperation; DG TAXUD is considering cancelling it based on experience with it to date).

National functionalities:

- Forwarding MVS from ELO to customs offices (including translation into Czech)
- Creation of MVS requests at customs offices
- Receipt of report of manual termination of export in ECS (only forwarding of automatically created reports has been implemented in the EU)

Phase 3.2 as of 15 February 2016:

Launch in the Czech Republic on 10 February 2016; deadline set by EU, i.e., 16 February 2016, was met. This phase includes extensive changes to European functionalities; only small modifications were made on the national level. Each modification is set out in detail in the following documents: FESS (Functional Excise System Specification) and DDNEA (Design Document for National Application).

Annex 6 – Overview of functionalities in the Slovak Republic

EMCS Functionalities

1. EMCS Phase 2

Functional level FS0 – from 1 April 2010 to 31 December 2010 – interim period:

- A consignee has to be able to receive e-AD electronically and end it electronically by submitting the “Product Receipt Report” to the locally pertinent excise administrator

As of 1 January 2011 – all electronic operators only use EMCS to send/receive e-AD and other reports sent via EMCS. Paper SADs are no longer used.

Functional level FS1 – from 1 April 2010 to 31 December 2011:

- Start of use of EMCS
- Functional core of entire EMCS
- Focused on central circulation of e-AD:
 - Connection to EMCS
 - Data administration (e.g., SEED)
 - Submission and approval of e-AD
 - Change of destination of e-AD
 - Cancellation of e-AD

2. EMCS Phase 3

Functional level FS2 – as of 1 January 2012:

- Functionalities of previous phases – a modification according to current specifications; updates pertaining at least to electronic operations and “business” procedures within the basic circulation of e-AD
- Implementation of functionalities of administrative cooperation governed by Regulation No. 379/2012 on administrative cooperation in the field of excise duties:
 - Request for administrative cooperation:
 - Mandatory exchange
 - Spontaneous exchange
 - Report of events
 - Report on controls
 - Report on enforcement of duties
 - Report on interruption of movement
 - Other reports pertain to basic circulation of e-AD in EMCS.

EMCS Phase 3.1 – as of 13 February 2014:

- Request/response regarding verification of movement of goods under duty suspension into free circulation (MVS)
- Modification of conditions, rules, report format, changes arising from legislation and practice

