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COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU

Czechia

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Country fiche: Czechia

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Czechia has substantially reduced its VAT compliance gap in recent years**. While the VAT compliance gap stood at 14% of the VAT Total Tax Liability (VTTL) in 2014, the latest available estimates for 2023 indicate a VAT compliance gap of 8%, which is below the EU average of 9.5%.

- **In addition, Czechia's VAT administration benefits from a fully online registration system, integrated with the One-Stop-Shop (OSS) and underpinned by updated IT systems introduced in 2025.** Taxpayers have access to secure e-filing, with pre-filled forms and online services supporting compliance. Refunds are generally processed promptly, complemented by automated checks for suspicious claims. The tax administration has also adopted a compliance plan outlining key VAT risks, to guide monitoring and strengthen enforcement capacity.

- **Overall, Czechia has in place an efficient tax enforcement system** balancing targeted and risk-based controls, combined with proactive efforts to raise awareness and foster voluntary compliance among taxpayers. This approach seems helpful to contain the size of the shadow economy.

Areas for Improvement

- **Data availability issues hamper further strengthening of Czechia's tax expenditures monitoring and reporting system.** Current limitations stem largely from insufficient data availability and the administrative burden associated to data collection for the tax administration. Tax expenditures mainly relate to the personal income tax (PIT) and VAT, with foregone revenues estimated at 29.1% of the government's total revenues for 2023.
- **There is room for improvement in Czechia's tax recovery operations**. Czechia has IT systems in place for managing VAT and tax arrears. There is scope for further use of dedicated digital tools to improve early detection of non-compliance and tax recovery performance. Tax arrears in Czechia are above the EU average, with a level of outstanding tax arrears amounting to 15.9% of the total net revenue in 2023. Recovery under mutual assistance remains limited with a recovery rate in 2022–2024 at around 4.7% of the amounts requested

- **Czechia could benefit from enhanced investments in the digitalisation of its tax administration to foster tax compliance and increase revenues**. Czechia would benefit from a detailed roadmap outlining its strategy towards the implementation of digital transformation and Artificial Intelligence (AI) within the tax administration. AI and advanced analytics can better combat tax evasion and avoidance while improving fairness and cutting collection costs.

1. Snapshot of Tax System: Tax Revenues and their Sources

In Czechia, tax revenues as a percentage of the country's GDP are below the EU average ([1]). In 2023, total tax revenues amounted to 34.0% of GDP, compared to the EU-27 average of 39.0%. The largest source of tax revenues were labour taxes (50.4% total tax revenues, compared to the EU-27 average of 51.2%) followed by taxes on consumption (30.4% of total tax revenues, compared to the EU-27 average of 26.9%) and taxes on capital (19.2% of total tax revenues, compared to the EU-27 average of 21.9%). Among the different tax types, VAT revenue was above the EU-27 average at 22.1% of the total tax revenues (EU average of 18.0%) and 7.5% of GDP (EU-27 average being set at 7.1%). Revenue from recurrent property taxes is comparatively low (0.2% of GDP, compared to 0.9% in the EU) and the Council has recently recommended to increase the use of recurrent property taxes ([2]).

Low-income earners bear a heavy tax burden. Tax wedge ([3]) for low-income earners (50% or 67% of average wage) is around 3 percentage points higher than the EU average. As a result, Czechia has one of the least progressive tax systems in the EU, if we measure it as the difference in tax wedge between high-income earners (167% of AW) and low-income earners (67%). In 2024, the difference in the tax wedge between high-income earners and low-income earners was 3.3 percentage points, compared to an EU average of 7.8 percentage points. This feature discourages low-income and part-time workers from working and has recently been the subject of a Council Recommendation ([4]). Despite this, Czechia performs well in other fairness indicators. The Gini index for equivalised disposable income shows a lower income concentration than the EU-average in 2024 (23.7% compared to 29.3% at the EU level) ([5]), even though the effect of the tax and benefit system in reducing income concentration is below the EU average (6.2 percentage points compared to 7.7 percentage points at the EU level) ([6]). In addition, Czechia has the lowest at-risk-of-poverty or social exclusion rate of the EU-27 (11.3% in 2024, being 9.7 percentage points below the EU average) ([7]).

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[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 33.9% of GDP), followed by an increase of total tax revenues to 35.0% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

[2] Council of the European Union (2025): Council Recommendation on the economic, social, employment, structural and budgetary policies of Czechia.

[3] The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: Tax and Benefits Database.

[4] Council of the European Union (2025): Council Recommendation on the economic, social, employment, structural and budgetary policies of Czechia.

[5] European Commission, Eurostat [ilc_di12]

[6] European Commission, DG EMPL calculations based on EU-SILC survey data.

[7] European Commission, Eurostat [ilc_peps01n]

2. Monitoring of Compliance Gaps

2.1. Overview

Czechia is developing a programme to estimate the size of its tax gap, as part of the pluriannual strategy for the development of the Czech Financial Administration 2014-2020 ([8]). In this strategy, the tax gap is designed as a key indicator used to monitor the long-term performance of the tax administration in combating tax evasion and tax fraud. Core objectives include, *inter alia*, the development of a methodological framework to define, quantify and analyse the main drivers of the tax gap, along with the establishment of a roadmap to continuously minimise the compliance gap. Part of the strategy also includes raising awareness among taxpayers and public administrations, as well as amending areas of the legislative framework that might increase the risk of policy gap. However, while Czechia has in place a programme to estimate the VAT Gap, the development of a program to estimate the CIT gap is still in preparation.

Czechia has been involved since 2021 in the Fiscalis project group on tax gap estimation within the EU ([9]). In particular, the Czech Ministry of Finance and the Financial Administration contributed to the subgroup dedicated to the corporate income tax (CIT) tax gap and the e-commerce VAT gap. This demonstrates the increasing strategic importance of this issue for the Czech tax administration.

2.2. Monitoring VAT Compliance Gap

Czechia's VAT compliance gap ([10]) was estimated at around CZK 50 billion (EUR 2.1 billion) in 2023, or 8% of the VAT Total Tax Liability (VTTL) ([11]), which is below the EU average of 9.5%. This represents a continued improvement compared to 2019 (more than 14% of VTTL), confirming a steady downward trend over the past five years. In nominal terms, the gap declined from around CZK 75 billion (EUR 3 billion) in 2019. Czechia had the 13th lowest gap among EU Member States in 2023 ([12]).

Several factors may have influenced the observed improvement in VAT compliance. The share of services declined (ca. -0.5 percentage points), as did the growth rate of recreational, restaurant, and accommodation services in nominal household consumption. This is likely to have contributed to a lower VAT compliance gap, as a lower share of services is typically associated with a lower risk of non-compliance. Growth in tourism demand, as measured by nights spent in tourist accommodations, also

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[8] Strategic Framework for the Development of Public Administration of the Czech Republic for the Period 2014 – 2020, April 2017, updated in March 2018 and January 2020.

[9] European Commission (2025), Directorate-General for Taxation and Customs Union, *Towards a common approach to tax gap estimation in the EU – Fiscalis Project Group 008 – Final report*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/3068071

[10] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[11] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

[12] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

slowed down (-48 percentage points), although the comparison is made against the exceptionally high post-pandemic surge in 2022. Furthermore, bankruptcy declarations decreased (by almost -7%), limiting Czechia's revenue losses from insolvencies, improving VAT collection and lowering the VAT compliance gap.

Losses due to Missing Trader Intra-Community (MTIC) fraud ([13]) in 2023 were estimated at around EUR 700 million. This is broadly unchanged compared to 2010 levels, though the period from 2019 to 2023 showed fluctuations ([14]).

2.3. Corporate and Personal Income Compliance Tax Gaps, and Measures of the Shadow Economy

Czechia currently does not publish CIT or PIT compliance gap estimates. While the development of a programme to estimate the CIT gap is in progress, there are currently no official estimates of the CIT and PIT compliance gap in Czechia. Two studies in the public domain, whose findings are not based on official estimates nor endorsed by the Czech Financial Administration and Ministry of Finance, indicate a PIT gap of about 5 to 10% of PIT revenues collected ([15]).

According to recent estimates, the CIT compliance gap in Czechia is in line with the EU average. Specifically, the CIT gap in 2018 amounted to around 11% of collected CIT revenues. This estimation is based on a methodology developed by the Joint Research Centre ([16]), which relies on a top-down approach based on national accounts data**.** Czechia ranks 16 out of 23 Member States analysed in the study, which estimates the (unweighted) average for the CIT compliance gap at 10.9% of collected CIT revenues based on available estimates for the 23 Member States. In addition, profit shifting in Czechia is estimated at 7% of collected CIT revenues in 2018, indicating that domestic compliance seems to be a more important source of the CIT tax gap than international tax avoidance ([17]).

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[13] Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

[14] European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2778/6433841.

[15] Finardi, S., and Jiříková, T. (2025). Personal Income Tax Gap: The Czech Experience. In M. Balyt-ska, H. Bohušová, & P. Luty (Eds.), The V4 and Ukraine Fight with Tax Fraud and Money Laundering (pp. 71-77). Publishing House of Wroclaw University of Economics and Business. Hájeka, J. and Olexováb, J., (2024). Comparing personal income tax gap in the Czech Republic and Slovakia, Politická ekonomie 2022, 70(1):27-50.

[16] European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/0541549. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

[17] Wier, L. S., & Zucman, G. (2022). *Global profit shifting, 1975-2019* (No. 30673). National Bureau of Economic Research. https://www.nber.org/system/files/working_papers/w30673/w30673.pdf

The size of the shadow economy in Czechia is below the EU average. In 2022, the shadow economy in Czechia represented 13.5% of its GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament ([18]). This ratio is below the EU-27 unweighted average (17.6%), thanks to a steady decline in recent years (16.0% of GDP in 2012). Among the main drivers of the shadow economy, the mentioned report attributes the major impact to indirect taxes and self-employment. The European Labour Authority (ELA) ([19]) estimates that waged employment accounts for 83% of undeclared labour input in Czechia and self-employed accounts for 17% of undeclared labour input. At sectoral level, the ELA points at a higher incidence of undeclared work in manufacturing and construction.

2.4. Other Compliance Gaps

Czechia does not publish any information on possible other compliance tax gaps estimations. There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes, or capital taxes.

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

Czechia monitors and reports tax expenditures (TEs) as part of its budgetary cycle. While TEs are only reported for the main tax types, it must be emphasised that all information is also provided in English language, increasing transparency in the single market and facilitating comparative exercises.

The Tax Administration performs an ex-post estimation of tax expenditures applying to main taxes including CIT, PIT and VAT. The methodology in use is based on a foregone revenue method coupled with a static approach disregarding changes in tax behaviour or interactions with other tax bases ([20]).

This estimation builds on diverse sources of information, but its coverage remains limited. The analysis performed only applies to tax expenditures for which data is available and whose individual potential impact on public budgets exceeds CZK 100 million (ca. EUR 4.12 million) ([21]). The administrative burden associated to the collection of relevant data may also contribute to data unavailability or incompleteness. Main sources of information include the tax returns database, internal

[18] European Parliament (2022), *Taxation of the informal economy in the EU*. https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf

[19] European Labour Authority (March 2023): *Factsheet on undeclared work – Czechia*. https://www.ela.europa.eu/sites/default/files/2024-02/CZ-UDW_factsheet-2023-fin.pdf.

[20] Methodology for calculating tax relief in the Czech Republic, website of the Ministry of Finance of the Czech Republic. This methodology is grounded in the Act No. 23/2017 Coll. on the rules of budgetary responsibility.

[21] Website of the Ministry of Finance of the Czech Republic, section "Tax expenditures"

reports of the Ministry of Finance and other public institutions such as the Czech Statistical Office and the National Bank, as well as publicly available information ([22]).

In 2023, the level of tax expenditures was estimated to CZK 892.1 billion (EUR 36.84 billion) ([23]), which is about 29% of the total government revenues for 2022 ([24]). In this context, the most significant item of tax expenditures is PIT expenditures, amounting to CZK 560.5 billion (ca. EUR 23.14 billion) ([25]). While 75% of these overall expenditures have a social aspect, the main drivers lie in the basic tax credit (almost 28%), tax exemptions linked to gambling activities, pensions and public-health insurances benefits, as well as the child tax credit (nearly 8%). Nevertheless, legislative changes introduced in 2023 may contribute to lower PIT expenditures by abolishing several family-related tax credits, thereby improving incentives for second earners parents to return to work, in line with the 2025 Council Recommendations ([26]). VAT expenditures are the second highest item of tax expenditures (CZK 298.4 billion, EUR 12.32 billion), consisting mainly of exemptions related to immovable property renting, financial and insurance services, as well as reduced VAT rates. Lastly, CIT expenditures are estimated in 2023 for an amount of CZK 33.2 billion (ca. EUR 1.37 billion).

Czechia is involved in EU programs like FISCALIS and TADEUS, benefiting from valuable insights for a comprehensive and transparent evaluation of tax expenditures. While the use of analytical tools like microsimulation or fiscal incidence analysis remains limited, strengthening reporting practices and gradually integrating such tools into the monitoring framework could enhance the evaluation of tax expenditures, ultimately helping to identify inefficiencies and improving their target.

3.2. VAT Policy Gap

The VAT policy gap ([27]) in Czechia amounted to around CZK 510 billion (EUR 21 billion) in 2023, or 45% of the notional ideal revenue ([28]), lower than the EU average of 51%. The VAT policy gap

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[22] Tax expenditures estimation in the Czech Republic for 2023, Annex No.3 of the Report on the Draft Law on the State Budget of the Czech Republic, 14 November 2025

[23] As of the exchange rate applicable on 26st November 2025. Website of the Ministry of Finance of the Czech Republic, section "Tax expenditures". This aggregate amount of estimated tax expenditures for 2023 is based on calculations from the Ministry of Finance of the Czech Republic. It represents a sum of the quantified tax expenditures for 2023 with a view to providing a rough estimate of distortions caused by the current tax system, without reflecting the methodological approach implemented by Czechia to assess tax expenditures

[24] Total government revenues were CZK 3060 billion in 2023. Website of the Czech National Bank, Statistical data, Government finance statistics

[25] As of the exchange rate applicable on 26st November 2025. These tax expenditures are structured around three main categories: CZK 340.1 billion is accounted for tax exemptions, CZK 208.7 billion for tax credits and CZK 11.7 billion for tax deductions.

[26] Council of the European Union (2025): Council Recommendation on the economic, social, employment, structural and budgetary policies of Czechia.

[27] The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

[28] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

was slightly higher than in 2022 (ca. +0.5 percentage points). Overall, the VAT policy gap increased gradually from 42% in 2019. The rise reflects the broadening use of reduced rates ([29]).

The VAT exemption gap ([30]) stood at around CZK 430 billion (EUR 18 billion) in 2023, representing almost 38% of notional ideal revenue, in line with the EU average. This marked an increase compared to 2022 (+0.5 percentage points) and was up from 36% in 2019.

The VAT rate gap ([31]) reached around CZK 80 billion (EUR 3.5 billion) in 2023, corresponding to 7% of notional ideal revenue, **lower than the EU average of 12%.** It has remained stable compared to 2022 and increased by more than 1 percentage point since 2019. The increase in 2021 was likely driven by temporary VAT relief measures for the hospitality sector. The continued application of reduced rates to foodstuffs, accommodation and restaurant services and utilities has further supported this trend.

The national policy-driven VAT exemption gap ([32]) accounted for nearly CZK 100 billion (EUR 4 billion, almost 9% of notional ideal revenue) in 2023, lower than the EU average of 11%. It has slightly increased compared to 2022 (ca. +0.5 percentage point) and remained stable compared to 2019.

4. Effectiveness of Tax Collection and Recovery Systems

4.1. VAT Collection

Czechia has taken steps to modernise their VAT administration. Czechia's VAT system is digitally accessible, but improvements could be made in terms of risk management and enforcement. Registration is mandatory and online but lacks identity verification, a record of rejected applications, and data exchange with external registries. Risk based pre-registration checks are performed but remain inconsistently applied and invalidation of VAT numbers in fraud cases can take 30 to 45 days. Consequently, this weakens fraud prevention. Improvements are needed in line with recommended practices. ([33]).

[29] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[30] The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

[31] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

[32] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

[33] Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, EUR-Lex - 52022DC0137 - EN - EUR-Lex. / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

Czechia does not currently operate a system for pre-filling VAT returns. Implementing pre-filling solutions for VAT returns could support both taxpayer convenience and stronger compliance oversight. Better integration with other compliance tools would help to support proactive intervention. Improving the integration of its systems, along with providing more access to data and issuing timely reminders to taxpayers, are tools with potential to improve efficiency.

Compliance risk management is fragmented. Concerning the tax compliance risk management, structured processes similar to standard risk management processes as described in OECD or IMF publications are not in place. However, a comprehensive tax compliance risk management framework is currently being prepared.

Audit and enforcement procedures are in place but could be more risk-focussed by increasing use of modern targeting tools. Audit manuals and sector guidelines are used, and oversight of One-Stop-Shop (OSS) operators has improved. However, there is little systematic use of EU tools or joint audits, and audit targeting is not fully risk based. There is room for strengthening precision and coordination in audit practices.

Payment and collection tools exist. They provide opportunities to enhance real-time verification and strengthen links between refund processes and risk systems to further reduce the VAT gap**.**

Debt recovery processes are in place but could be improved. There are opportunities to strengthen integration across IT subsystems and make better use of risk data, including from customs. Expanding automation, enhancing cross-border enforcement and improving the use of IT systems for penalties and prioritisation could further boost efficiency and effectiveness.

While Czechia's Recovery and Resilience Plan primarily supports broad digitalisation, there remains potential to deepen reforms in VAT enforcement, risk profiling and debt collection. Since 2020, however, substantial progress has been achieved. Czechia has modernised its registration procedures through a fully online system integrated with the OSS. Czechia maintains sector specific audit manuals, representing significant advancements in areas that previously needed improvement. Taxpayers also benefit from pre-filled returns and digital services, which mark a clear improvement. These developments place Czechia among the stronger performers in digital access and service orientation.

Some challenges remain, particularly in ensuring consistent application of identity verification and pre-registration risk checks. Accelerating VAT number invalidation in fraud cases would further align Czechia with EU best practices. There is an opportunity to strengthen compliance by introducing systematic monitoring of filing timeliness and implementing proactive reminders for late filers. There is strong potential to enhance compliance outcomes by more fully integrating risk registers and profiling tools into compliance planning and by expanding the use of risk-based audit targeting. Debt collection could also be further strengthened through greater IT system integration, increased automation and enhanced cross-border enforcement.

Compared with 2020, Czechia has made progress in digitalisation, audit guidance and the availability of taxpayer services, but less so in enforcement, compliance risk management, and recovery of arrears. With a VAT compliance gap of 8.0% in 2023 (below the EU average of 9.5%), Czechia has achieved notable improvement compared to previous years, although there is scope to address remaining systemic challenges.

4.2. Tax Recovery

Enhancing the effectiveness of tax recovery and monitoring of arrears was promoted as a key objective of the pluriannual strategy for the development of the Czech Financial Administration 2014-2020 ([34]). As a result of this strategy, Czechia has put in place an integrated framework for monitoring, reporting and enforcement of tax recovery activities ([35]). Reports providing granular information on these activities are published annually. In addition, the Czech tax administration applies gradual enforcement measures together with voluntary compliance approaches lying in proactive communication with taxpayers and the implementation of voluntary disclosure programmes ([36]).

Moreover, Czechia applies the same recovery rules across all taxes, though competences are split. The Financial Administration handles VAT, PIT, CIT and other national taxes, while the Customs Administration deals with excise duties and some other claims. This uniformity of rules is considered an advantage, as it ensures consistency of recovery procedures across different types of taxes and reduces fragmentation. In addition, it allows the administration to apply recovery measures simultaneously to all outstanding claims of a debtor, which streamlines enforcement and reduces administrative workload. Enforcement priorities are determined through selected performance indicators ([37]). However, there is no clear evidence of the implementation of a risk-based approach to the Czech tax recovery system, distinguishing between different profiles of debtors or classifying taxpayers based on their risk of non-payment, thereby reducing enforcement effectiveness.

Further use of dedicated digital tools may improve early detection of non-compliance and tax recovery performance. Although IT systems for managing VAT and tax arrears exist, they are not well-integrated or sophisticated. Basic digital infrastructures such as the tax administration online portal and the CESOP system are currently used to substantiate tax recovery processes. This does not include automated reminders or advanced predictive and prescriptive analytics. Recognising this gap, the tax administration is currently developing a software designed to centralise data from multiple sources and streamline analytical workflows. This initiative is expected to strengthen enforcement capabilities by enabling a more targeted and data-driven recovery strategy.

Czechia's policies on writing off tax arrears are grounded in continuous enforcement actions aimed at assessing the debtor's financial situation until the debt is prescribed by statutory limitation. The Tax Code ([38]) lays down the general conditions for classifying a debt as uncollectible, but the internal methodology applied by the Tax administration in this area is not publicly disclosed.

Even though tax arrears in Czechia are above the EU average, the effectiveness of the tax recovery policy has significantly improved since 2020. While the level of outstanding tax arrears

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[34] Strategic Framework for the Development of Public Administration of the Czech Republic for the Period 2014 – 2020, April 2017, updated in March 2018 and January 2020.

[35] Based on information provided by Czechia concerning its domestic framework for tax recovery in the European Commission's survey for the preparation of the report on the use of recovery assistance (Directive 2010/24/EU).

[36] The Annual Report of the Financial Administration, 2023.

[37] Report on the activities of the Czech Financial Administration and the Czech Customs Administration for 2023, July 2024.

[38] Section 158 of the Act No. 280/2009 Coll., Tax Code.

amounted to 15.9% of the total net revenue in 2023 ([39]), this constitutes a significant improvement compared to 2020, where outstanding tax arrears stood at 31.4% of the total net revenue. Despite this progress, only 21.9% of the closing stock of arrears was assessed as collectible in 2023, positioning Czechia in the lower quartile among the EU Member States in terms of effective tax debt recovery. This stock follows a slight upward trend since it was estimated to reach 14% in 2019 and 17.8% in 2020 ([40]).

Czechia's cooperation practices are in place but could be improved to increase the overall effectiveness of the tax recovery policy. The Czech legal framework includes cooperation with insolvency administrators under the Insolvency Act but tax authorities are not allowed to exchange information with the administrator of the insolvency proceedings concerning assets that could be used for the recovery of the unpaid claims in the insolvency proceedings ([41]). Czechia also performs cross-border tax recovery, and an IT system has been introduced to monitor deadlines for replies to recovery assistance requests, sending alerts 30 days before expiry and flagging missed deadlines.

Czechia largely respects the deadlines for communication on the follow-up of recovery assistance requests from other Member States. Disputes related to recovery assistance of tax claims are very rare. Based on the information provided by Czechia, there is no monitoring of how long it takes on average to reach an administrative decision on domestic tax claim disputes or to deliver a final resolution. ([42])

Recovery under mutual assistance remains very limited. The recovery rate in 2022–2024 was only around 4.7% of the amounts requested. This is mainly because requests often concern older claims where recoverable assets are no longer available, debtors are insolvent or companies no longer exist, and in many cases no assets can be identified in the requested Member State. Additional factors include delays in communication between Member States and the application of Article 13(4) of the Directive, which allows refusal of requests where recovery would cause serious economic or social difficulties.

The Czech Ministry of Finances is undertaking reforms aimed at modernising and advancing digitalisation of the tax administration. These reforms reflect a strategic commitment to improve public financial commitment and address structural challenges by aligning with international best practices, with a clear emphasis on increasing the efficiency of tax collection and recovery of tax arrears.

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[39] Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", http://isoradata.org

[40] Isora data, Table D.41 Arrears ratios: Closing stock and collectable arrears.

[41] Information based on the Czech reply to the European Commission's survey for the preparation of the report on the use of recovery assistance (Directive 2010/24/EU).

[42] Information based on the Czech reply to the European Commission's survey for the preparation of the report on the use of recovery assistance (Directive 2010/24/EU).

4.1. Use of Directive on Administrative Cooperation (DAC) ([43]) Instruments and Data ([44])

Czechia makes thorough use of DAC1 ([45]) and DAC2 ([46]) data for assessing taxation on individuals. DAC1 (categories of income) ([47]) and DAC2 (financial accounts) data are currently used for awareness campaigns, voluntary compliance (origin of assets disclosure programme), domestic risk assessment analysis ([48]), general audits and audits limited to specific categories of income or capital. Data is mainly used in the field of personal income tax, leading to increasing tax revenues. Czechia also uses the information from DAC1 and DAC2 for tax recovery purposes, which is particularly relevant to reduce the tax gap, and anti-money laundering actions.

DAC data matching rates concerning individuals ([49]), are slightly under the EU average. but Czechia has taken measures to improve identification of taxpayers. For the year 2024, the average matching rate, measuring success in identifying taxpayers with DAC data, is close to 75% for DAC1 ([50]), and 77% for DAC2. These rates are slightly lower than the EU-average which are at 84% and 87% respectively. However, to improve results, Czechia has introduced a system that compares current data with that of previous years and incorporates additional parameters such as country of origin and type of exchange. The system also uses manual matching, focusing on cases involving higher amounts at stake.

Czechia uses DAC3 ([51]) (rulings) and DAC4 ([52]) (country-by-country report) data systematically for risk-analysis purposes in the field of corporate income taxation. The percentage of reports identified successfully in 2024 is very high: 100% for DAC3, 99% for DAC4, leading to systematic use of

[43] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended.
[44] Sources: Yearly Assessment 2025; EU-AIAC statistics 2024 – Subject to confidentiality clause on DAC art. 23a.
[45] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC.
[46] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.
[47] Income from employment, Director's fees, Pensions, Immovable properties.
[48] Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.
[49] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.
[50] Average rate for Income from employment, Director's fees, Pensions, Immovable properties.
[51] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.
[52] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.

information. In accordance with the goals of DAC3, notifications of an existing advanced pricing agreement or a ruling are included in the domestic risk assessment tool as part of the set of indicators that may lead to further investigations on the taxpayers concerned. Similarly, DAC4 reports are systematically processed to feed the national database for risk analysis. These reports, including DAC3 and DAC4 data, are used for assessing risks on transfer pricing, base erosion and profit shifting matters, economic and statistical analysis, and audits limited to specific categories of transactions (e.g. transfer pricing).

The use of DAC6 ([53]) data follows the same approach as DAC3 and DAC4. DAC6 data is mainly used for risk assessment, including assessing high-level risk of tax-harmfulness of arrangements reported; notification to generate disclosure, general audit, or audit limited to specific categories of transactions (e.g. transfer pricing). From the end of 2023, the data is uploaded to an analytical database for further developments (implementation of a new data analysis system).

Czechia is a regular user of the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits. The synergies between participating Member States derived from these coordinated activities usually lead to an increase of the tax assessed and, therefore, contribute to reducing the tax gap. Looking at the past three years, Czechia initiated six simultaneous audits and was involved in 2024 in three other cases initiated by other Member States.

In conclusion, Czechia uses the data obtained from the automatic exchange of information in coherence with the objectives of the DAC, based on a thorough approach in terms of risk analysis, for both data related to individuals and company taxation. There is room to improve the identification of taxpayers, in order to increase the impact of these exchanges of information on corporate income tax, and the monitoring of the outcome of the use of data, to estimate the increase in tax assessed better.

5. Digitalisation and Compliance

5.1. Digital Transformation, Skills, and Culture

Czechia does not have yet a structured digital transformation strategy for its tax administration. Developing such strategy would help identify future skills needs and foster a strong digital culture within the organisation, thus strengthening Czechia’s ability to modernize services, automate processes, and facilitate taxpayer compliance.

However, Czechia has indicated that some measures have been taken to address this backlog, accelerate and manage the digital transition. Implemented measures include setting-up a senior management governance body to oversee the digital transformation along with the designation of specific roles and positions within the administration to lead the work on digital transformation.

[53] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.

Czechia also reports that it has adopted programme-management activities to support the digital transition in the tax administration. Overall, these steps indicate that Czechia is working towards overcoming previous delays by instituting a clear governance framework, appointing dedicated and qualified personnel, and applying professional program management techniques to drive the digital transformation forward in its tax system.

Regarding Digital Identity and the Once-Only Principle, Czechia has introduced *eIdentita*, a national digital ID system aligned with the EU's eIDAS framework, which allows users to access tax and public services securely. An estimated 61-80% of the individual taxpayer population and 81-100% of the business taxpayer population uses this digital identify facility to access secure digital services offered by the administration. This digital identity solution builds upon an existing domestic identity system and allows individuals and businesses to link with foreign identity system. However, there is significant potential to strengthen the application of the once-only principle, as improved system interoperability would reduce the need for taxpayers to resubmit information already available to the authorities. Czechia could look to countries like Estonia and Finland, as they apply the once-only principle effectively, enabling seamless digital service delivery.

5.2. Front end Digitalisation

5.2.1 Pre-filling

Contrary to data in the OECD Inventory of Tax Technology initiatives database ([54]), the Czech tax administration confirmed that it has not implemented facilities for pre-filling of tax returns for VAT, PIT or CIT. Eurobarometer results indicate that taxpayers experience difficulties in completing tax returns which is unsurprising given the absence of pre-filling systems, only 26% of citizens in Czechia find it very or fairly easy to complete their tax return, placing them 26th among EU Member States ([55]). A large proportion of respondents in Czechia also indicated that they do not need to complete a tax return or use a tax professional (37%).

5.2.2 E-filing

Czechia has achieved solid progress in e-filing, particularly for VAT and CIT, and continued efforts to encourage PIT e-filing will promote greater consistency across all tax types.

Regarding CIT, 97.9% of CIT returns were filed electronically in 2023 ([56]), which is slightly above the EU average of 97.1%. Nevertheless, this represents an increase of 5.6 percentage points since 2018 and reflects effective mandatory e-filing rules for legal entities in Czechia.

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[54] OECD Inventory of Tax Technology Initiatives 2024 ([OECD Data Explorer • Inventory of Tax Technology Initiatives](#)).

[56] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

The e-filing rates for VAT have been high since 2018. Although the rate of e-filing for VAT has slightly decreased from 99.9% in 2018 to 99.8% in 2023 ([57]), this figure remains above the EU average of 99.2%, driven by strong enforcement and a mature digital system for VAT.

E-filing of PIT has risen significantly, but remains well below the EU average, with only 67% of PIT returns received electronically in 2023 ([58]) (representing a significant increase from 20.3% in 2018), compared to the EU average of 87.1%. This can be partially explained by the fact that e-filing is becoming more popular even with individual taxpayers who still relied on paper returns or struggled with the use of digital platforms. The Czech tax administration confirmed that this figure has increased to 68.83% 2024.

Consequently, high CIT and VAT e-filing rates indicate effective systems for businesses, reducing errors and compliance costs. The lower PIT uptake suggests challenges such as limited digital literacy, usability issues, or lack of incentives. There are some available measures to boost PIT e-filing, such as improving platform usability and user support, integrating the system with digital identity tools like eIdentita, and promoting mobile access. These improvements tend to reduce the compliance burden on taxpayers and enhance the tax administration's ability to detect tax fraud and evasion.

5.2.3 Provision of other online Services

In Czechia, the tax administration provides for some additional online tools and services to taxpayers to reduce compliance costs and promote cooperative relationships with the tax administration. These include digital authentication and online registration tools for both corporate and individual taxpayers, which are accessible via the tax administration's webpage. Facilities to make tax payments and request payment arrangements, as well as extensions for filling and payment, are also available. ([59]). Taxpayers can also upload files onto the tax administration system, proceed with e-signatures and obtain information related to their own tax file through a personal Tax information box ([60]). These services and tools help to reduce the compliance burden, thereby facilitating tax management. According to a recent Eurobarometer survey, 44% of citizens in Czechia believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, which is close to the EU average and places them in 16th among EU Member States ([61]).

5.3. Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

Czechia has developed a transversal National Artificial Intelligence Strategy for 2030 (NAIS) ([62]). One of its core milestones lies in the use of artificial intelligence to increase the effectiveness of public

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[57] Ibid.
[58] Ibid.
[59] OECD Data Explorer – Inventory of Tax Technology Initiatives- Czechia
[60] Hlavní stránka - Portál MOJE daně
[61] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713
[62] National Artificial Intelligence Strategy for 2030

administration and improve services. However, this objective is not achieved yet within the tax administration.

Artificial intelligence tools, including machine learning and data governance process, are not in use within the tax administration and no clear timeframes for implementation are set in that respect. While the NAIS provides for a general approach towards increased reliance on AI-driven tools in the public administration and public services, a specific roadmap for the deployment of this strategy within the tax administration is lacking ([63]). Czechia is one of the five Member States in which the tax administration does not use AI but has indicated being engaged in a proof of concept phase involving the testing of several IT tools to be used in the activities of the tax administration([64]).

Nonetheless, the Czech tax administration uses back-end technologies to help ensure taxpayer compliance, manage audits, process and verify tax declarations, and forecast revenues. These tools include data science and related analytics tools, application programming interfaces, identification systems, cloud storage, robotic process automation and network analysis ([65]). In particular, an Automated Tax Information System provides support to different activities of the tax administration through a single infrastructure incorporating different functionalities, such as the *MOJE* tax portal ([66]). The *MOJE* tax portal is the main interface for taxpayers to access online tax services.

5.4. Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

Concerning the tax compliance risk management strategy, structured processes similar to standard risk management processes as described in OECD or IMF publications are not in place. However, a comprehensive tax compliance risk management framework is currently being prepared, according to the Czech tax administration.

Developing a comprehensive CRM strategy, aligned with international best practices, would improve consistency and effectiveness. Integrating existing tools and publicly communicating CRM priorities could also enhance transparency and trust among taxpayers.

5.4.2 Audit Types

Czechia uses a range of audit types to manage post-filing compliance, including desk audits, limited-scope checks, full audits, and targeted investigations. This layered system allows for enforcement based on risk and case complexity ([67]). Audit Types used include:

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[63] The Path to Europe's Digital Decade: The Strategic Plan for the Digitalization of Czechia by 2030, Office of the Government of the Czech Republic

[64] International Survey on Revenue Administration data, 13. Stakeholder interactions: Compliance and innovation - ISORA – tab "innovative technologies 1"

[65] OECD Data Explorer – Inventory of Tax Technology Initiatives- Czechia

[66] Hlavní stránka - Portál MOJE daně

[67] OECD (2023), Global Forum on Transparency and Exchange of Information for Tax Purposes: Czech Republic 2023 (Second Round): Peer Review Report on the Exchange of Information on Request, Global Forum on

- Desk audits: These are the most common, focusing on specific return items without site visits, often triggered by data inconsistencies ([68]).
- Limited-scope audits: These fall under the procedure for "removing doubts" (Article 89). In this context, the tax administration can make requests for clarification before escalating to a full audit, with 1 000–1 500 cases annually.
- Comprehensive audits: These target complex or high-risk cases, involving on-site reviews and covering multiple tax types; about 1 200 are conducted yearly.
- Targeted investigations: These focus on tax avoidance and evasion in high-risk sectors ([69]).

Early measures, such as the procedure for "removing doubts" and informal outreach by regional offices, are a constitutive element of the Czech enforcement strategy and help resolve issues without the need for full audits. This can ease the burden for both taxpayers and authorities. For example, in 2025, Czechia began using "nudge letters" to promote voluntary compliance. This reflects a shift towards more proactive, behaviourally informed tools ([70]).

This risk-based audit model balances efficiency with enforcement, by putting an emphasis on early interventions and promoting voluntary compliance approaches. However, limited audit staffing may constrain capacity. Expanding data analytics and automation could enhance targeting and resource allocation.

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

In 2023, Czechia reported that approximately 22.8% of its tax administration's full-time equivalents (FTEs) were dedicated to audit, investigation, and other verification functions. This is below the EU27 average of 32.2%, and marks only a modest increase from its 2018 level of 20.9% (32.1% EU average), reflecting a relatively stable but cautious allocation of staff to audit-related work ([71]). This figure can be explained by the strategic emphasis placed by Czechia on voluntary compliance and taxpayer services, rather than intensive enforcement.

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

In 2023, Czechia reported additional revenue from audits equivalent to approximately 0.97% of total net revenue, which is slightly below the EU27 average of 1.6%. This represents a small decline from previous years, mirroring a general downward trend observed across most Member States. In 2018, the EU average was 2.77%, suggesting that Czechia has remained broadly aligned with the regional trajectory but has not exceeded average audit yields ([72]).

This figure may reflect the country's limited audit intensity, as evidenced by its below-average share of FTEs dedicated to audit and verification (22.8% vs. the EU average of 32.2%). With fewer

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Transparency and Exchange of Information for Tax Purposes, OECD Publishing, Paris, https://doi.org/10.1787/366b187f-en.

[68] CZ Strategy Recovery Plan

[69] The Annual Report of the Financial Administration, 2023.

[70] Thematic Guidance Note – Effectiveness of Tax Collections (2025)

[71] Own elaboration based on ISORA data

[72] Own elaboration based on ISORA data

personnel assigned to enforcement roles, the tax administration may face constraints in pursuing a greater number or depth of audits, thereby limiting potential revenue gains.

Moreover, Czechia's focus on early-stage interventions, such as procedures for "removing doubts", and its increased use of non-intrusive compliance nudges, may signal a strategic tilt toward fostering voluntary compliance over aggressive audit expansion. While this approach can improve taxpayer relations and long-term compliance, it may also contribute to lower short-term audit recoveries.

To enhance audit-related revenue, Czechia could explore targeted scaling of audit resources, especially by leveraging digital tools and risk analytics to prioritise high-impact cases. This would enable a more efficient deployment of limited staff and could raise the yield of additional revenue from audits without overextending administrative capacity.

5.5. Tax Complexity

Czechia ranks 17th out of the 27 Member States in the Tax Complexity Index ('TCI') ([73]), where a higher rank corresponds to lower tax complexity. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Czechia 21st among the Member States with regards to Tax Framework Complexity, and 14th with regards to Tax Code Complexity. This may indicate that there is room to improve the tax processes carried out by the tax authorities (notably in the area of enactment, according to the authors) and, to a lesser extent, the structure of the tax regulations (particularly in the area of investment incentives, according to the authors).

[73] See: https://www.taxcomplexity.org/ The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.