Financial Administration in the Fight Against Tax Evasion

Nora Štangová, Agneša Víghová

https://doi.org/10.33542/VSS2025-2-5

Abstract

Enormous amounts of tax evasion occur in European Union countries as well as in the Slovak Republic. It is therefore very important to set up a well-functioning system for the institution responsible for detecting such tax evasion. In the Slovak Republic, this is the Financial Administration, which underwent a change in its organizational structure in 2012 to bring it into line with the organizational structure of financial administrations operating in OECD countries. In practice, this means merging tax and customs offices to streamline tax registration and collection, as well as detecting tax evasion.

In this article, we look at the organizational structure of the financial administration in comparison with OECD countries, the impact of this change, and a summary in terms of making the detection of tax evasion more efficient.

Keywords: *Financial administration of the Slovak Republic, Financial administration in OECD countries, tax evasion, value added tax, tax control, detection of tax evasion*

Introduction

The existence of modern financial administration and the network of tax offices in Europe can be traced back to September 18, 1850. The current tax system began to take shape in Europe in 1927. Currently, European Union member states are creating a system of financial administration at the national level for the purpose of recording and collecting taxes. Taxes are the most important source of revenue for the state budget. The aim of this article is to highlight the importance of the effective functioning of the Slovak Financial Administration in relation to the detection of VAT tax evasion. Tax evasion causes a significant loss of revenue to the state budget in every country. Therefore, European Union countries are looking for ways to detect them. It is not possible to completely eliminate tax evasion, but it is possible to effectively detect and combat it through legislation and effective tax control. The article discusses the possibility of combating tax evasion in Slovakia by assessing the current situation and taking into account the analysis from the past period.

1 VAT and the tax gap in Slovakia and the EU

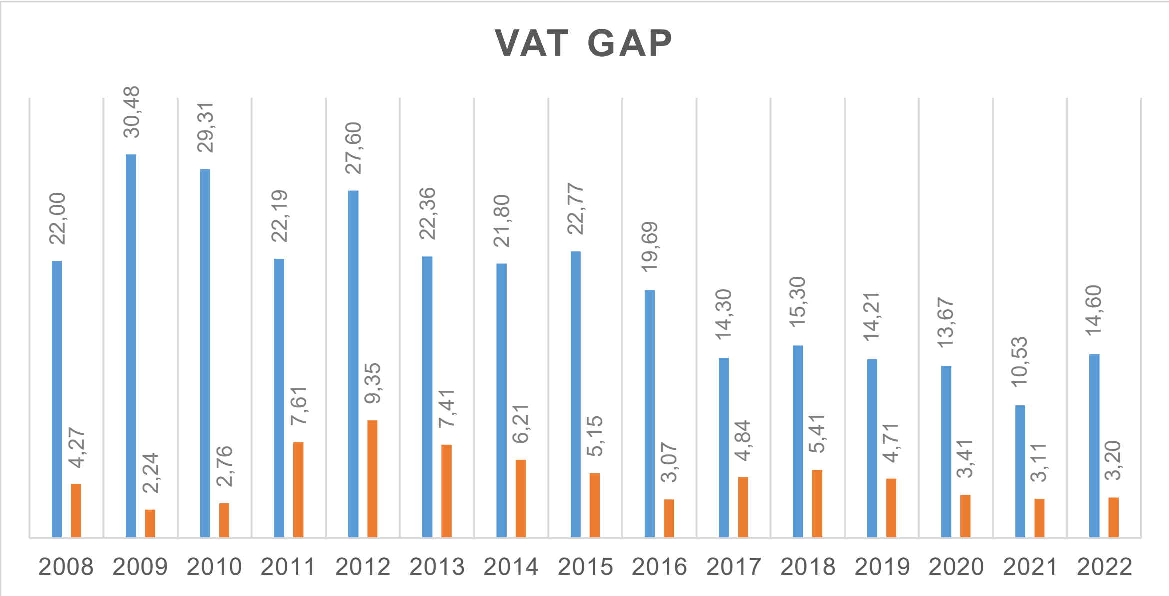
Value added tax belongs to the category of indirect taxes. VAT is based on a system of partial payments (Berger, 2011). The partial payment system means that the final amount of VAT applicable to the goods or services supplied is never paid at once, but is paid into the state budget gradually, at each stage of the production and distribution process (Beňo, 2024).

VAT in the European Union is a harmonized tax, with the legal basis for this harmonization being Article 113 of the Treaty on the Functioning of the EU, under which Directive 2006/112/EC on VAT was adopted, which entered into force on January 1, 2007, is the main EU legislation on VAT (Schultzová, 2018). VAT rates in EU Member States vary from country to country, although they are harmonized to a certain extent within the EU (Frintrup, 2020). The VAT Act No. 222/2004 Coll. on VAT, which is currently in force in Slovakia, is in line with the European Union directive.

Based on the above information, we can see that VAT or GST exists in 170 countries around the world. For countries that have VAT or GST in their tax system, VAT revenue represents a significant amount in their national budget. Based on the results of the analysis we conducted as part of the research task IGP 1/2023 Taxation in the Context of Indirect Taxes and Tax Evasion, we found that, for example, for the country of Croatia, the state budget accounts for 37% of total revenues, Belgium and Luxembourg only 15%, and the state budget of Slovakia accounts for 21% of total state revenues (in the amount of 6,223.91 million euros). Since VAT is an indirect tax and applies to goods and services, it has an international dimension, and the practical application of the VAT mechanism therefore creates opportunities for illegal tax evasion. In 2023, VAT tax evasion in EU countries amounted to EUR 93 billion. It is therefore very important to focus on detecting illegal tax evasion in order to secure the revenue side of the state budget.

The term tax gap refers to the quantification of the extent of tax evasion. The tax gap can be divided into two parts: unidentified VAT and the collection gap. Unidentified VAT is the part of the gap that taxpayers have intentionally or unintentionally failed to declare and that has not been identified by the tax authorities during their controls. It is calculated as the difference between the potential and prescribed tax. The tax collection gap is the difference between the prescribed tax and the tax actually paid. This also includes additional tax liabilities assessed after a tax control that have not been paid.

Every year, each European Union country publishes the percentage of the VAT tax gap, including Slovakia. Chart 1 shows the development of the VAT tax gap in Slovakia from 2008 to 2022.



note: blue color VAT tax gap - unidentified gap, orange color VAT tax gap - selection gap

Figure 1: VAT gap in Slovakia

Source: based on data from Financial administration SR (Open Data).

For the period 2023, the Slovak Republic reports a VAT tax gap of 10.50% in 2024, which is at the level of 9.7%.

Quantification of the tax gap serves to identify the amount that quantifies the extent of tax evasion and serves to make the detection of tax evasion more effective.

Table 1: VAT gap in EU countries from 2021 to 2024

State of the European Union	VAT tax gap in 2021	VAT tax gap in 2022	VAT tax gap in 2023	VAT tax gap in 2024
Slovakia	11,8 %	11,50 %	10,5 %	9,7 %
Austria	3,4 %	3,0 %	1,0 %	0,6 %
Slovenia	3,2 %	8,4 %	4,9 %	4,5 %
Sweden	4,2 %	3,5 %	5,3 %	7,7 %
Romania	29,5 %	26,7 %	30,0 %	29,5 %
Portugal	3,5 %	4,1 %	3,6 %	4,6 %
Poland	4,8 %	11,2 %	16,0 %	10,9 %
Netherlands	5,8 %	9,6 %	7,0 %	7,3 %
Malta	24,4 %	23,7 %	24,20 %	22,9 %
Latvia	11,30 %	2,0 %	5,4 %	5,3 %
Luxembourg	7,4 %	3,7 %	No data available	No data available
Lithuania	13,1 %	12,2 %	15,1 %	13,2 %

Italy	15,1 %	14,5 %	15,0 %	15,3 %
Belgium	7,2 %	11,7 %	12,3 %	13,9 %
Bulgaria	3,0 %	6,3 %	8,6 %	No data available
Cyprus	10,2 %	6,3 %	3,3 %	1,7 %
Czech Republic	11,1 %	8,2 %	8,0 %	No data available
Germany	7,1 %	6,6 %	9,7 %	9,7 %
Denmark	7,4 %	7,9 %	8,9 %	8,0 %
Estónia	2,2 %	5,2 %	10,3 %	10,0 %
Spain	2,8 %	4,1 %	7,6 %	9,7 %
Finland	0,4 %	2,1 %	3,0 %	1,5 %
France	4,2 %	5,1 %	5,6 %	7,4 %
Greece	16,4 %	12,4 %	11,4 %	9,0 %
Croatia	11,6 %	11,4 %	7,7 %	9,0 %
Hungary	4,1 %	2,5 %	7,4 %	No data available
Ireland	-3,2 %	2,3 %	8,3 %	No data available

Source: European Union, 2025.

2 Organizational structure of the Financial Administration of the Slovak Republic and comparison with OECD countries

Tax evasion is undesirable in the economy of any country, which is why every country seeks ways to eliminate it (Babčák, 2019). One way to reduce tax evasion is through tax controls. A tax control is a fundamental act of tax proceedings and, for tax purposes, it means a detailed examination of accounting cases and all documents necessary to determine tax liability in terms of their authenticity, completeness, and accuracy (Burák, 2016). Tax controls may be carried out by financial administration employees (Babčák, 2012). The basic rights and obligations of taxpayers and financial administration employees, the tax control process, appeal proceedings, and enforcement proceedings are defined in the Slovak Republic in Act No. 563/2009 Coll. Tax Code, as amended (Balko, Babčák, 2009). Tax controls are carried out by tax office employees within the Financial Administration of the Slovak Republic. The financial administration in the Slovak Republic consists of the following institutions:

a) Financial Directorate of the Slovak Republic,
b) Tax offices (8 tax offices, 1 tax office for large taxpayers, 39 tax office branches, and 29 tax office contact points),

c) Customs offices (9 customs offices, 62 customs office branches, and 18 customs office stations),
d) Criminal Office of Financial Administration.

In countries around the world, each state decides on the organizational structure of its financial administration. The aim of states is to build a control system, including institutions that effectively monitor the fulfillment of tax obligations by business entities. The Organization for Economic Cooperation and Development (OECD) has been working closely for several years to modernize the tax system and combat tax evasion, so Table 2 shows the number of offices in each OECD country. This table was used to analyze the structure of the Financial Administration in the Slovak Republic.

Table 2: Comparison of the organizational and regional structure of financial administrations in the analyzed OECD countries

OECD country	Number of regional offices	Number of branches
Slovakia	18	153
Austria	5	40
Belgium	35	3153
Denmark	0	28
Estonia	0	15
Hungary	25	50
Ireland	7	75
Israel	0	80
Israel	6	67
Netherlands	14	0
Portugal	36	367
Slovenia	16	0
Spain	56	227

Source: Own processing according to www.finance.gov.sk and Kostolanský, 2000.

Table 2 shows that in the Slovak Republic, the branches of the Financial Administration of the Slovak Republic are on average smaller than abroad, but there are more of them. In the future, there are plans to digitize other services provided by the Financial Administration of the Slovak Republic, which is expected to streamline the employment of the Financial Administration of the Slovak Republic.

European Union countries and OECD member states are also striving to ensure the effective functioning of their financial administrations. The OECD's international criteria are listed in Table 3.

Table 3: Current status of compliance with criteria according to OECD recommendations

Criteria according to OECD recommendations	Current status of the Financial Administration of the Slovak Republic
Have sufficient autonomy within the organizational structure of financial administration in the areas of planning, budget management, human resources management, and remuneration systems.	Partially fulfilled
Unification of the system for collecting direct taxes, indirect taxes, and social security contributions.	Not yet fulfilled
Stable legal framework for tax and customs policy.	Criterion fulfilled on an ongoing basis – implementation of the UNITAS I project
Clearly define the structure of relationships between headquarters, regional and local branches.	Partially fulfilled
Organize the internal organizational structure so that large taxpayers have a separate office.	Fulfilled – there is a Tax Office for large taxpayers

Source: own processing based on materials from the Institute for Financial Policy www.finance.gov.sk

In accordance with OECD criteria, a major reform of tax and customs administration in Slovakia was implemented on January 1, 2012, under the name UNITAS I. The changes brought about by this reform are as follows:

a) the merger of tax and customs administration and the creation of a new system for managing and organizing the collection of state revenues through the creation of the Financial Administration of the Slovak Republic. In practice, this meant the abolition of 103 tax offices and the creation of eight new tax offices. At the same time, the tax and customs administrations were merged under the name Financial Administration, which operates as a budgetary organization. This change required the harmonization of the information technologies of the Financial Administration of the Slovak Republic, i.e., the purchase of new software to ensure the recording of data on tax entities.
b) The Financial Administration established a call center for taxpayer inquiries (such a service did not exist until then).

c) the electronic filing of tax and customs returns was introduced (previously, taxpayers submitted their tax returns in person or by post, and tax office employees manually entered the tax returns into the software);
d) A database of questions and answers accessible to the public was established (until then, there was no database of questions and answers).
e) The publication of information materials aimed at various target groups began (until then, no information materials had been published, and tax office employees were prohibited from providing expert information).

The UNITAS I reform has resulted not only in changes to the organizational structure and the digitization of communication between the Slovak Financial Administration and taxpayers, but also in a change in the approach to tax entities.

3 Detection of tax evasion

The elimination of tax evasion in the Slovak Republic is ensured by the Financial Administration of the Slovak Republic. Based on its competence, it ensures, through tax and customs offices, the control of the correctness of accounting records, as well as the control of the correctness of the calculation of individual taxes introduced in the Slovak Republic.

Since the Financial Administration of the Slovak Republic is unable to perform tax controls on every taxpayer, it is important to ensure their effectiveness, which in practice means selecting taxpayers for control where there is a high probability of detecting tax evasion. Tax evasion occurs most frequently in relation to VAT (both in Slovakia and abroad), as it is an indirect tax and is related to foreign transactions.

Table 4: Number of controls carried out and resulting findings

Year	Total number of controls	Number of tax controls focused on VAT	Findings (data in thousands of euros)
2020	10.522	5.488 (51,15 %)	387.581
2021	9.672	5.900 (61,00 %)	390.089
2022	7.291	5.280 (72,41 %)	290.328
2023	6.859	4.713 (68,71 %)	182 220
2024	7.336	4.931 (67,21 %)	169 456

Source: Authors' own processing based on the Annual Report on the Activities of the Financial Administration for 2020 to 2024

Table 4 shows that VAT controls account for a significant proportion of control activity, representing more than 50% of the total number of controls carried out. We see a slight decrease in findings in 2024 for VAT controls. Based on the results, the most common VAT tax evasion cases are as follows:

- the VAT payer does not issue an invoice (this is undeclared value added tax),
- the VAT payer does not issue a document from the electronic cash register (this is unrecognized value added tax),
- the accounting entity issues an invoice abroad without VAT, even though the business partner abroad is no longer a VAT payer (this is non-payment of VAT),
- Chain fraud occurs when targeted re-invoicing shifts the tax liability to other entities, using different tax periods, or when a missing trader is also involved in the chain.
- Alteration of invoice amounts (in reality, the amount of the transaction is higher, but a lower amount is declared).
- multiple deduction of VAT from documents issued from an electronic cash register (information on VAT deduction is entered in the control statement in a summary amount if the VAT deduction does not exceed EUR 3,000 from one business partner).
- cash payments (where the payment was not actually made),
- invoicing between related parties, as well as failure to comply with the market price principle when invoicing.

Conclusions and recommendations

The estimated amount of tax evasion in the EU in 2023 was €6.711 trillion, with studies indicating that the largest tax evasion occurs in VAT. EU Member States have legislation in place at the national level, but the laws are harmonized with EU legislation. Therefore, the EU recommends that individual states combat tax evasion. For the Slovak Republic, in terms of legislation, this meant changing the organizational structure of the financial administration and introducing electronic communication. Further recommendations are as follows:

- monitor the behavior of the business environment in relation to the fulfillment of tax obligations. So far, once a year monitoring is not sufficient, so we recommend monitoring twice a year. At the same time, issue a list of tax entities that appear to be non-risky. The Financial Administration would be the one to carry out the action, which has all the possibilities. The estimate of detection in this case is difficult to quantify, because it is difficult to predict the behavior of tax entities.
- identify tax entities that pose a risk of tax evasion. As the number of risky tax entities increases every year, this identification follows on from the first recommendation.
- after identifying risky taxpayers, initiate a tax control after conducting a local investigation if there is 100% certainty of tax evasion. With the rapid deployment of tax

controls, it will be possible to capture a larger amount of evasion funds in a short time, which will mean savings for the state budget.

- during the tax control, secure existing assets on the basis of a preliminary measure decision (which in practice means a ban on the sale of assets until the tax arrears have been paid after the tax control). To demand immediate payment of the determined amount to the state budget, which again means an increase in revenue from risky tax entities to the state budget.

It is difficult to quantify the direct impact of these measures on the state budget, as currently tax entities are rapidly emerging and rapidly disappearing due to turbulent tax laws.

The fight against VAT tax evasion in Slovakia continues, with the introduction of mandatory control and summary reporting for businesses. These mechanisms have helped to carry out targeted tax controls, which have increased the effectiveness of the financial administration, although further measures need to be introduced to successfully detect tax evasion.

Based on the recommendations of the European Commission, from January 1, 2027, every VAT payer registered in Slovakia will be required to issue invoices in electronic form via the information system of the Financial Administration of the Slovak Republic. This measure ensures compliance with the Accounting Act, according to which an invoice must be issued within 15 days of the taxable supply, and at the same time prevents tax evasion or speculation in the area of invoicing and VAT refunds. This system has been implemented in Hungary, for example, and has had positive effects in detecting tax evasion.

References

BABČÁK, V. 2012. *Slovak tax law.* Bratislava: EPOS, ISBN: 978-80-8057-971-5.

BABČÁK, V. 2018. *Tax evasion and tax fraud and legal options for preventing them (through tax, commercial, and criminal law institutions).* Košice: UPJŠ v Košiciach, ISBN: 978-80-8152-661-9.

BABČÁK, V. 2019. *Tax law in Slovakia.* Bratislava: EPOS, ISBN: 978-80-5620-247-0.

BALKO, L., BABČÁK,V., a kol. 2009. *Financial law*. Bratislava: Eurokódex. ISBN: 978-80-8944-702-2.

BELIČKOVÁ, K. a kol. 2010. *Budget theory, policy, and practice.* Bratislava: IURA EDITION, ISBN 978-80-8078-335-8.

BERGER, W. 2011. *EC Directive on value added tax*. Prada: VOX, ISBN 978-80-8632-483-8.

BEŇO, M. a kol. 2024. *Value Added Tax Act – commentary*. Bratislava: Wolter Kluwer, ISBN: 978-80-571-0688-3.

BURÁK, E. 2016. *Tax control through the eyes of practice.* Ján Šindléry, Ružomberok: TESFO, ISBN: 978-80-8925-373-9.

FRINTRUP, M., SCHMIDTHUBER, L., HILGERS, D. 2020. Towards accounting harmonization in Europe: a multinational survey among budget experts*. International Review Of Administrative Sciences*, Article Number 0020852320915640, http://doi.org/10.1177/0020852320915640.

EUROPEAN COMMISSION. 2025. How does VAT work? Available at: https://taxation-customs.ec.europa.eu/taxation/vat/vat-directive/how-does-vat-work_en

EUROPEAN UNION. 2025. VAT gap in Europe (Report 2025). Available at: https://op.europa.eu/en/publication-detail/-/publication/b5c7403b-d67f-11f0-8da2-01aa75ed71a1/language-en

FINANCIAL ADMINISTRATION SR (Open Data). Available at: https://opendata.financnasprava.sk/en/opendata/category/148-dan-z-pridanej-hodnoty

FINANCIAL DIRECTORATE OF THE SLOVAK REPUBLIC 2024. Available at: https://www.financnasprava.sk//_img/pfsedit/Dokumenty_PFS/Zverejnovanie_dok/Vyrocne_spravy/FS/2025/2025.04.03_vyr_sprava_2024.pdf

HENRIQUE, MARCELO RABELO; DA SILVA, JESSICA MEDEIROS; SAPORITO, ANTONIO; et al. 2020. Tax accounting: bibliometric study of the accounting area between the period 2010 to 2020. *Revista Contabilidade E Controladoria-Rc C*, 12(3), 148-164.

KOSTOLANSKÝ, R. 2000. The history and present of the process of economic integration of the Slovak Republic into the OECD. Available at: https://ekonom.sav.sk/uploads/journals/economic/2000_6_Kostolansky.pdf

LOMBARDI, R., SCHIMPERNA, F., SMARRA, M., SORRENTINO, M. 2020. Accounting for infrastructure assets in the public sector: The state of the art in academic research and international standards setting. *PUBLIC MONEY & MANAGEMENT*, 41(3), 203-212. http://doi.org/10.1080/09540962.2020.1840761

SCHULTZOVÁ, A. a kol. 2018. *Taxation, tax theory and policy* I., Bratislava: Wolter Kluwer, ISBN: 978-80-7598-108-0.

Contact addresses

prof. Ing. Nora Štangová, CSc.
ORCID ID: 0000-0002-9787-6169
Vysoká škola ekonómie a manažmentu v Bratislave
Katedra malého a stredného podnikania
Furdekova 16, Bratislava
Email: nora.stangova@vsemba.sk

doc. PhDr. Agneša Víghová, PhD.
ORCID ID: 0000-0001-8094-0067
Vysoká škola ekonómie a manažmentu v Bratislave
Katedra malého a stredného podnikania
Furdekova 16, Bratislava
Email: agnesa.vighova@vsemba.sk