

# **The reform of the system of financial administration authorities in the Czech Republic**

## **The reform of the system of financial administration authorities in the Czech Republic**

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Abstract: This paper deals with the system of financial administration authorities in the Czech Republic, which consists of the Ministry of Finance, the General Financial Directorate, Financial Directorates and Tax Offices. At first the paper focuses on the definition of financial administration authorities from a theoretical point of view. Then it focuses on three legal regulations of financial administration authorities. The first is legal regulation that was in force and effective before the end of 2010, the second one is current legal regulation in force and the third one is legal regulation that should be effective from 1<sup>st</sup> January 2012.

The first part of the reform of financial administration authorities was realized in the Czech Republic from 1<sup>st</sup> January 2011 and its main purpose was a creation of new central administrative authority with a national scope of authority, the General Financial Directorate. The second part of the reform should be effective from 1<sup>st</sup> January 2012 and its main purpose is to replace 8 Financial Directorates and 199 Tax Offices by only one Appellate Financial Directorate and 15 Tax Offices (14 Tax Offices and the Specialized Tax Office).

The aim of this paper is to assess whether the reform will help to make activities of financial administration authorities more efficient. Emphasis is put on comparison of particular legal regulations of financial administration authorities and on main differences between them.

Key words: Financial administration authorities, reform, the General Financial Directorate, the Appellate Financial Directorate, Tax Offices, the Specialized Tax Office

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## **1. Introduction**

In this paper I would like to deal with the ongoing reform of the system of financial administration authorities in the Czech Republic. Nowadays it is very actual topic because the Government of the Czech Republic passed the proposal of the Act on Financial Administration of the Czech Republic on 10<sup>th</sup> August 2011 and this act should come into effect on 1<sup>st</sup> January 2012.<sup>1</sup>

First of all I will deal with financial administration authorities from a theoretical point of view, i.e. from a point of view of current financial law publications. After that I will focus on the system of financial administration authorities in the Czech Republic in three above-mentioned time periods.

Initially the system of financial administration authorities in the Czech Republic before the end of 2010 will be described and assessed. Then I will deal with the current legal regulation of financial administration authorities. The third time period which is the subject of interest of this paper is the system of financial administration authorities according to

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<sup>1</sup> See the Resolution of the Government of the Czech Republic of 10<sup>th</sup> August 2011 No. 591 to the proposal of the Act on Financial Administration of the Czech Republic and to the proposal of the Act that amends some other acts in connection with a passage of the Act on Financial Administration of the Czech Republic.

proposed legislation, i.e. the system of financial administration authorities that should be effective from 1<sup>st</sup> January 2012.

The aim of this paper is to assess whether proposed reform will help to make activities of financial administration authorities more efficient, mainly in the field of tax administration. Emphasis is put on the comparison of particular legal regulations of financial administration authorities and on main differences between them.<sup>2</sup>

## **2. Financial administration authorities from a point of view of theory of financial law**

The **Prague textbook of financial law**<sup>3</sup> deals with financial administration authorities in the chapter dealing with subjects of financial law relationships. It counts financial administration authorities among financial authorities, i.e. state administration bodies that represent the Czech Republic in financial law relationships. This textbook counts Tax Offices, Financial Directorates and the Ministry of Finance among financial administration authorities.

The **Brno textbook of financial law**<sup>4</sup> concerning the term financial administration authority refers to the Prague textbook of financial law and it says that it is impossible to interchange terms financial authority and financial administration authority because the second one is narrower term from a point of view of financial law.

The latest **Pilsen-Brno textbook of financial law**<sup>5</sup> does not distinguish terms financial authority and financial administration authority, or more precisely it uses term financial authority for financial administration authority. Among financial administration authorities it counts the Ministry of Finance, Financial Directorates, Tax Offices, but also the Czech National Bank, the General Directorate of Customs, Directorates of Customs and Customs Offices. Unfortunately this different view on financial administration authorities is not explained in the textbook and so it is not clear if it is an intention or terminological imprecision.

Personally, I prefer conception of first two textbooks and I assume that financial administration authorities include the Ministry of Finance, Financial Directorates and Tax

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<sup>2</sup> This text was written with a financial support and within the Research plan of the Faculty of Law of the Charles University in Prague, registered under No. MSM 0021 620 804, named "The Changes of Law at the beginning of the 3<sup>rd</sup> millennium – roots, solutions and perspectives".

<sup>3</sup> BAKEŠ, Milan, KARFIKOVÁ, Marie, KOTÁB, Petr, MARKOVÁ, Hana. *Finanční právo*. 5. aktualiz. vyd. Praha : C. H. Beck, 2009. 576 s. ISBN 978-80-7400-801-6. s. 34.

<sup>4</sup> MRKÝVKA, Petr, et al. *Finanční právo a finanční správa : 1. díl*. Brno : Masarykova Univerzita, 2004. 320 s. ISBN 80-210-3578-1. s. 90.

<sup>5</sup> JÁNOŠÍKOVÁ, Petra, MRKÝVKA, Petr, TOMAŽIČ, Ivan et al. *Finanční a daňové právo*. Plzeň : Aleš Čeněk, 2009. 525 s. ISBN 978-80-7380-155-7. s. 52.

Offices. Of course I have to count also the General Financial Directorate that was established on 1<sup>st</sup> January 2011 among the system of financial administration authorities and it cannot be mentioned in textbooks because they were published until 2009.

In following text I will count among **financial administration authorities**: the Ministry of Finance, the General Financial Directorate, Financial Directorates and Tax Offices.

### **3. The legislation of the system of financial administration authorities before the end of 2010**

This part deals with the legal regulation of the system of financial administration authorities before the end of 2010. Its aim is to describe the legal regulation of that period to clear ongoing changes.

At that time legal basis of the system of financial administration authorities was made up by the **Act on the Territorial Financial Authorities**<sup>6</sup>, effective from 1<sup>st</sup> January 1991. According to this act the system of financial administration authorities before 31<sup>st</sup> December 2010 included Tax Offices, Financial Directorates and the Ministry of Finance.

It should be noted that the Act on the Territorial Financial Authorities did not use term financial administration authorities and it does not use it even today. For Tax Offices and Financial Directorates it uses term “**territorial financial authorities**”. Scope of authority of the Ministry of Finance as a financial administration authority is only set by enumerative method.

Regarding Tax Offices and Financial Directorates can be added that legal concept of these authorities differs from theoretical concept. As above-mentioned, financial law theory counts these financial administration authorities into broader category of financial authorities. The Act on the Territorial Financial Authorities uses a broader term “financial authorities” for these authorities and not a narrower term “financial administration authorities”. It is not a problem in terms of its function, some discrepancies may however occur from a theoretical and pedagogical point of view.

Financial Directorates and Tax Offices are expressly termed by the Act as administrative authorities. Administrative authorities are a part of the executive in the Czech Republic and to establish them and determine their scope of authority is only possible by act.<sup>7</sup>

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<sup>6</sup> The Act No. 531/1990 Coll., on the Territorial Financial Authorities, as amended.

<sup>7</sup> See Art. 79 of the Constitution of the Czech Republic.

Tax administration can be considered as a principal scope of authority of territorial financial authorities according to the Act on the Territorial Financial Authorities. Tax administration was in accordance with the Tax and Fees administration Act<sup>8</sup> valid and effective at that time. These administrative authorities also exercised other scope of authorities beside the principal one.<sup>9</sup>

From the perspective of **subordinate structure**, Tax Offices were controlled by Financial Directorates. Until 31<sup>st</sup> December there were 199 Tax Offices and 8 Financial Directorates in the Czech Republic. All Financial Directorates were controlled by the Ministry of Finance. Within the Ministry of Finance this scope of authority was executed by the Central Financial and Tax Directorate as an internal organizational part of the Ministry of Finance.

Financial Directorates were established as budgetary organizations. Tax Offices were not budgetary organizations, it was only said that their personnel and material needs were provided by Financial Directorates that controlled them. In 2001 Financial Directorates which were established as budgetary organizations became **state organizational units** according to the Act on the Property of the Czech Republic.<sup>10</sup> The Act on the Territorial Financial Authorities was put in accordance with this Act on 1<sup>st</sup> January 2006,<sup>11</sup> when the provision saying that a Financial Directorate is a budgetary organization was replaced by new provision expressly saying that Financial Directorates are accounting units. Nevertheless the principle that personnel and material needs were provided by Financial Directorates was maintained. Act on the Property of the Czech Republic said that a state organizational unit is an accounting unit only when it is expressly said by act. Although it was expressly said with five-year delay, in fact Financial Directorates have been accounting units since 1<sup>st</sup> January 2001.

The fact that Financial Directorates were, unlike Tax Offices, accounting units meant in practice that in fact there were 14 separate state organizational units (accounting units), mainly in terms of state property administration competencies and from inclusion of employees into these state organizational units. Thus each Financial Directorate was relatively independent of property and personal issues.

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<sup>8</sup> The Act No. 337/1992 Coll., the Tax and Fees administration Act, as amended.

<sup>9</sup> See § 1 of the Act on the Territorial Financial Authorities.

<sup>10</sup> The Act No. 219/2000 Coll., on the Property of the Czech Republic and its performance in legal relationships, as amended.

<sup>11</sup> The Act No. 444/2005 Coll., that amends the Act No. 531/1990 Coll., on the Territorial Financial Authorities, as amended.

#### **4. Current legal regulation of the system of financial administration authorities**

A relatively major change in the system of financial administration authorities was brought by the Act No. 199/2010 Coll.<sup>12</sup> During its discussion in the Parliament of the Czech Republic a part substantially changing the system of financial administration authorities was added into draft of this Act, based on a parliamentary motion to amend.<sup>13</sup>

The basis for this motion to amend formed the proposal of the Ministry of Finance to amend the Act on the Territorial Financial Authorities, which was consulted by the Legislative Council of the Government within the legislative process in early 2010. The Legislative Council, however, did not recommend its adoption.<sup>14</sup>

However, despite the above mentioned fact, the proposal was approved by the Parliament of the Czech Republic and Act No. 199/2010 Coll. came into effect on the 1<sup>st</sup> January 2011. I consider adoption of such a fundamental law through the motion to amend incorrect, as it is to circumvent the regular legislative process in the executive authority. Additionally, it is obvious that the Legislative Council of the Government, i.e. the government's advisory body in its legislative activities disagreed with the proposal.

The merit of the Act No. 199/2010 Coll. is to establish an entirely **new financial administration authority**, the General Financial Directorate. The Act on the Territorial Financial Authorities counts among the territorial financial authorities besides Tax Offices and Tax Directorates the General Financial Directorate as well. In this context it should be noted that the law in this regard is not logical, since the authority with national authority is ranked among territorial financial authorities. From a legal point of view is incorrect, that the authority with national authority is designated as a territorial authority with its territorial authority limited to a certain part of the Czech Republic. The Act on the Territorial Financial Authorities still regulates the authority of the Ministry of Finance as a financial administration authority.

An originally three-level system of financial administration authorities (Tax Offices, Tax Directorates and the Ministry of Finance) was extended to **four-level system** (Tax

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<sup>12</sup> The Act No. 199/2010 Coll. which amends the Act No. 586/1992 Coll., on the Income Taxes, as amended, and the Act No. 218/2000 Coll., on Budgetary Rules and on changes of other Acts, as amended, and other Acts.

<sup>13</sup> *Psp.cz* [online]. 2011 [cit. 2011-08-09]. Parliamentary Press 959/3. Amendments and other proposals to Parliamentary Press 959/0. Chamber of Deputies, 5. election period, 2006-2010. Available from WWW: <<http://www.psp.cz/sqw/text/tiskt.sqw?o=5&ct=959&ct1=3>>.

<sup>14</sup> *Vlada.cz* [online]. 2011 [cit. 2011-08-09]. Results of 58. session of Legislative Council of the Government from 25<sup>th</sup> February 2010. Available from WWW: <<http://www.vlada.cz/cz/ppov/lrv/tiskove-zpravy/vysledky-58-zasedani-legislativni-rady-vlady-25--unora-2010-68768/>>.

Offices, Tax Directorates, the General Financial Directorate and the Ministry of Finance). At first sight this may seem as unfounded, as only further financial administration authority was added. However, it should be noted that the merit of change is in determining which of these authorities the unit of account (see below) is. In addition, it is only a kind of passage on the path to the target state, which is described in the section dealing with the system of financial administration authorities according to the Financial Administration Act approved by the Government.

**General Financial Directorate** is the administrative office for the performance of tax administration and the exercise of other authorities with national territorial authority seated in Prague. Concerning relationships of superiority and subordination, the General Financial Directorate is subordinated to the Ministry of Finance and superior to the Tax Directorates. Essential is the legal rule, which provides that the General Financial Directorate is an accounting unit. Given that the Tax Directorates lost the position of an accounting unit, this fact means that property and personal matters of the entire system of territorial financial authorities (i.e. the General Financial Directorate, Tax Directorates and Tax Offices) have been centralized into a single financial authority with a national territorial authority. This should enable more efficient performance of competences by those authorities. Only time will tell if this is true. In fact, the General Financial Directorate originated mainly from a separate Central Financial and Tax Directorate as an internal organizational unit of the Ministry of Finance.

There are still 8 **Tax Directorates**. In terms of territorial authority this Tax Directorates carry out their powers within the territorial district consisting of the territorial districts of the Tax Offices, managed by the directorates. As I pointed out earlier, the directorates lost position of accounting units and the jurisdiction for state property management and the jurisdiction for the fulfillment of other obligations and exercise of the rights and obligations arising from employment relationships of employees in Tax Directorates passed, with effect from the 1<sup>st</sup> January 2011, to the General Financial Directorate.<sup>15</sup> For state property management, including the state budgetary funds, accounting and employment relationships, particular Tax Directorates have positions of internal organizational units of the General Financial Directorate. They are therefore administrative authorities, which are state organizational units; however, they are not accounting units, but

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<sup>15</sup> See transitional provisions of Act No. 199/2010 Coll.

only internal organizational units of other administrative authority (the General Financial Directorate).

Even 199 **Tax Offices** still exist, and their territorial jurisdiction is defined in Appendix 1 to the Act on Territorial Financial Authorities. The Tax Offices are subordinated to the Tax Directorates. For state property management, including the state budgetary funds, accounting and employment relationships, particular Tax Offices have positions of internal organizational units of the General Financial Directorate. They are therefore administrative authorities, which are state organizational units; however, they are not accounting units, but only internal organizational units of other administrative authority (the General Financial Directorate). In this respect they have the same status as the Tax Directorates. For completeness, it is necessary to add that in the Czech Republic there are differences between the Tax Offices with respect to their competences exercised. Certain competences<sup>16</sup> are performed by all 199 Tax Offices, but some competences<sup>17</sup> are being exercised by only 14 selected Tax Offices.

The Act on Territorial Financial Authorities allows the establishment or abolition of territorial financial authorities' **branches**, which are their internal organizational units, by the decision of the Director General of the General Financial Directorate.<sup>18</sup> Currently, there is only one branch office established, a branch office of the Tax Office in Brandýs nad Labem - Stará Boleslav, seated in Prague.<sup>19</sup>

## **5. Proposed legal regulation of the system of financial administration authorities**

As already mentioned, the Government of Czech Republic recently approved a draft of the Act on Financial Administration of the Czech Republic.<sup>20</sup> This is a brand new, modernly conceived legal regulation of financial administration authorities, which should replace nowadays inadequate Act on Territorial Financial Authorities, with effect from 1<sup>st</sup> January 2012.

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<sup>16</sup> These include the administration of tax or transfer tax revenues which they collected and enforced and which are not revenues of state budget.

<sup>17</sup> These include oversight of lotteries and other similar games or administration charges for violation of budgetary discipline.

<sup>18</sup> See Sec. 10 par. 5 of the Act on Territorial Financial Authorities.

<sup>19</sup> *Cds.mfcr.cz* [online]. 2011 [cit. 2011-08-10]. Competence and activities of PFÚ. Available from WWW: <<http://cds.mfcr.cz/cps/rde/xchg/cds/xsl/7465.html?year=0>>.

<sup>20</sup> Along with this Act have been also approved a draft of the Act on the Customs Administration of the Czech Republic and Acts changing other acts in relation to their adoption.

Sec. 1 par. 1 of the Act on Financial Administration of the Czech Republic states that "*Financial Administration of the Czech Republic is a system of administrative authorities for the performance of tax administration.*" As the financial administration authorities of the Czech Republic<sup>21</sup> are General Financial Directorate, Appellate Financial Directorate and Tax Offices to be established.

Novelty compared to existing legal regulation is the designation of financial administration authorities as Financial Administration of the Czech Republic. This corresponds to today's current designation of territorial financial authorities, which are designated as "tax administration" or "Czech tax administration."<sup>22</sup> There is no reason why the new system of financial administration authorities should not be called Financial Administration of the Czech Republic. The reason, why not the term "tax", but term "financial" was used is that the new system of financial administration authorities will have as its scope not only the tax administration, but also other competences, especially administration of the social security contributions, contributions for public health insurance and other mandatory financial performances.<sup>23</sup>

It should also be noted that, in case that the Act on Financial Administration of the Czech Republic is adopted by the Parliament, there will be a match between theoretical and legislative and factual designation of financial administration authorities. This fact can be welcomed because there is no reason in calling certain authorities in a different way than referred in legal theory, respectively theory of financial law.

As is evident, the Financial Administration of the Czech Republic is designed as three-leveled. Ministry of Finance is not explicitly designated as financial administration authority, nor does the Act on Financial Administration of the Czech Republic explicitly list its authorities in tax administration. This does not mean that the Ministry of Finance will no longer have any authorities in tax administration. Ministry of Finance will continue to be a central state administration body for taxes, according to the Competence Act.<sup>24</sup> Moreover, the Act on Financial Administration of the Czech Republic, the Tax Code and other tax laws regulate certain authorities of the Ministry of Finance in the area of tax administration. It can be stated that in the broadest sense there will be **four-level system** of Financial

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<sup>21</sup> The Act introduces the abbreviation „financial administration authority”.

<sup>22</sup> Cds.mfcr.cz [online]. 2011 [cit. 2011-08-11]. Czech Tax Administration. Available from WWW: <<http://cds.mfcr.cz/cps/rde/xchg/cds/>>.

<sup>23</sup> Social security contributions and contributions for public health insurance will be first administrating from the year 2013.

<sup>24</sup> Act No. 2/1969 Coll., on establishment of ministries and other central bodies of state administration in the Czech Republic, as amended.

Administration of the Czech Republic (i.e. the General Financial Directorate, Appellate Financial Directorate and Tax Offices) and the Ministry of Finance.

However, it is necessary to note that the draft of the Act on Financial Administration of the Czech Republic, which has been sent by its submitter (Ministry of Finance) to the government, counted with three-level system of financial administration authorities (Ministry of Finance, General Financial Directorate General and Tax Offices). Appellate Financial Directorate was added based on discussions in the Legislative Council of the Government.

In terms of hierarchy the system of financial administration authorities is a classical model of **superiority and subordination**. Ministry of Finance is superior to General Financial Directorate which is superior to Appellate Financial Directorate which is superior to the Tax Offices. At first glance it may seem strange that a part of the system of financial administration authorities are three administrative bodies that are on their level alone, i.e. perform authorities for entire territory of the Czech Republic. This fact, which is not usual in theoretical terms, shouldn't make any difficulties in practice, because the relationships of superiority and subordination are clearly determined by the law.

All bodies of Financial Administration of the Czech Republic are designated by the Act on Financial Administration of the Czech Republic as for the **administrative authorities and state organizational units**. This is not a substantive change from the territorial financial authorities and new legal regulation in this area continues smoothly in the existing legal regulation.

**General Financial Directorate**, which now exists under the Act on Territorial Financial Authorities, will become under the proposed transitional provisions from 1<sup>st</sup> January 2012 the General Financial Directorate under the Act on Financial Administration of the Czech Republic. This will ensure continuity of this financial administration authority, created in 2011. General Financial Directorate will continue to be an accounting unit and will exercise its authorities for the whole territory of the Czech Republic.

The head of the General Financial Directorate will be **Director General**. Under the original draft of the Act on Financial Administration of the Czech Republic, prepared by the Ministry of Finance, Director General should have been appointed and dismissed by the Minister of Finance. However, the government decided that Director General will be appointed and dismissed by the government upon Minister of Finance's suggestion. On one hand the legitimacy of the Director General is stronger; on the other hand, it may be difficult in the future to appoint the Director General, since his appointment depends on the will of the collective body (the government) instead of the individual (the Minister of Finance).

A completely new financial administration authority will be the **Appellate Financial Directorate**. This will be authority having jurisdiction for the whole territory of the Czech Republic and will be seated in Prague. Appellate financial directorate will be state organizational unit, but not the accounting unit.

As its name implies, it should be a financial administration authority, which will mainly act as an appellate body against decisions of tax offices in tax and administrative proceedings. As already mentioned, the draft of the Act on Financial Administration of the Czech Republic, which has been sent by its submitter (Ministry of Finance) to the government, didn't count with the creation of the Appellate financial directorate. In that draft the General Financial Directorate was the appellate authority. In order to prevent Ministry of Finance to be third degree in the financial administration system (i.e. mainly not to decide against the appeal against the decision issued by the General Financial Directorate in the first instance), contained a draft law on Financial Administration of the Czech Republic the decomposition principle. According to this principle would not submit the appeal, but decomposition, which would decide the General Director of the opinion of the special appellate committee. This principle has been criticized by the Government Legislative Council especially because of creating completely unusual model of system of administrative authorities. Therefore the next level of financial authority administration system, namely Financial Directorate of Appeal, has been proceeded to establish. From theoretical point of view this act is to be welcomed.

The lowest level of the new financial authority administration system is 14 **Tax Offices**. These Tax offices will be subordinated to Appellate Financial Directorate. Each Tax Office will be established for particular higher territorial self-governing unit (region), while every Tax Office will exercise authorities in the territory of the higher territorial self-governing unit of which name is the part of the name of the Tax Office. Compared to current legislation the number of Tax Offices is significantly reduced (from 199 to 14) together with the fact that the Tax Offices will not be distinguished to two categories of authorities, as it is today.

The very innovation should be creating of the **Specialized Tax Office**, i.e. tax office competent to particular selected entities. The legal regulation of Specialized Tax Office is already included in the Act on Territorial Financial Authorities<sup>25</sup>, but this legislation will come into effect on 1<sup>st</sup> January 2012. In addition, on the same day the new provision of sec.

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<sup>25</sup> See sec. 9a of the Act on Territorial Financial Authorities.

9a of the Act on Territorial Financial Authorities which modifies the legal regulation of Specialized Tax Office will come in to effect. This legal regulation is contained in the Act, which modifies Act no. 235/2004 Coll., on Value Added Tax, as amended, and other related laws, which was passed by Chamber of Deputies of Parliament of the Czech Republic.<sup>26</sup> The third legal regulation of Specialized Tax Office, which should also come into effect on 1<sup>st</sup> January 2011, is contained in the draft of the Act on Financial Administration of the Czech Republic. How is it possible that three legal regulations concerning Specialized Tax Office will come into effect on the same day?

The legal regulation which is in currently valid version of the Act on Territorial Financial Authorities was adopted by Act no. 199/2010 Coll. This legal regulation, as legal regulation of General Financial Directorate, got into the draft of the Act on Territorial Financial Authorities on the basis of parliamentary amendment (see above). As a consequence of this fact this legal regulation has some defects that could in practice cause serious difficulties during activities of Specialized Tax Office.<sup>27</sup> These difficulties should be removed by reformulating legal regulation of Specialized Tax Office in the draft of the Act which amends the Act on Value Added Tax. This is therefore the amendment of legal regulation even before it comes into effect. But why is it necessary to amend current legal regulation when it should be replaced by the Act on Financial Administration of the Czech Republic with the efficiency from 1<sup>st</sup> January 2012? It is especially because of the legislative care, because it is possible that the efficiency of the new Act on Financial Administration of the Czech Republic could be postponed. Then, without above described amendment of legal regulation of Specialized Tax Office in the Act on Territorial Financial Authorities, the currently valid legislation, which as described suffers from defects, would come into effect. It is probable that on 1<sup>st</sup> January 2012 either legal regulation concerning Specialized Tax Office in amended sec. 9a of the Act on Territorial Financial Authorities or legal regulation of Specialized Tax Office in the Act on Financial Administration of the Czech Republic come into effect. Above described complicated legislative problem concerning legal regulation of Specialized Tax Office is the evidence of which problems the deferred efficiency of legislation could bring. In following text I will deal with the legal regulation of Specialized

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<sup>26</sup> *Psp.cz* [online]. 2011 [cit. 2011-08-09]. Parliamentary Press 377/1. The decision of Budgetary committee to Parliamentary Press 377/0. Chamber of Deputies, 6. election period, from 2010. Available from WWW: <<http://www.psp.cz/sqw/text/tiskt.sqw?o=6&ct=377&ct1=1>>.

<sup>27</sup> These include problems in the administration of property taxes, problems of competence of group pursuant to the Value Added Tax and the absence of transitional provisions.

Tax Office which is included in the draft of Act on Financial Administration of the Czech Republic.

Primarily it is necessary to emphasize that Specialized Tax Office is the Tax Office, too. This implies that it is subjected to everything that applies for Tax Offices according to the Act on Financial Administration of the Czech Republic (e.g. director of Tax office or material authority of Tax Offices). Specialized Tax Office is also a state organizational unit, but not accounting unit, and will be subordinated to Appellate Financial Directorate. In terms of territorial jurisdiction it will be a financial administration authority with national territorial jurisdiction with the fact that the seat of Specialized Tax Office should be Prague. Special rules for Specialized Tax Office are then contained in Sec. 11 of the draft of Act on Financial Administration of the Czech Republic.

Specialized Tax Office should be competent for the selected entities like banks, insurance companies or business legal entities that achieved and annual turnover of more than 2 million CZK. The reason for this is to increase effectiveness of exercising the powers of financial administration authorities. Concentration of jurisdiction of selected entities of the same type or size at one tax office can namely enable personal and material savings. That should avoid the unjustified differences while exercising the competences against selected entities because these competences will be exercised by one authority of financial administration.

Furthermore, it is necessary to mention **regional offices (branches) of financial administration authorities**. The Act on Financial Administration of the Czech Republic sent by Ministry of Finance to the government presumed that regional offices of financial administration authorities would be established and abolished by the organizational regulations of Financial Administration of the Czech Republic with the efficiency on 1<sup>st</sup> January. Every establishing and abolishing of regional office should be published in Financial reporter within 30<sup>th</sup> June of previous calendar year. Outlined legal regulation has changed in connection with discussing of the draft of Act on Financial Administration of the Czech Republic by the government. The Act on Financial Administration now explicitly solves the existence of regional offices of Tax Offices which are not located in the seat of Tax Office. Concerning regional offices of Tax Offices which are located in its seat and regional offices of other financial administration authorities, a general director of General Financial Directorate remains free to establish and abolish these regional offices by organizational regulations.

Nevertheless regional offices of Tax Offices which are not located in its seat should be newly set by public notice of Ministry of Finance. The internal legal regulation of general director will not be sufficient, but the generally binding legal regulation of Ministry of Finance is needed. This matter of fact is response to apprehension that in smaller municipalities and towns, where Tax Offices are located today, the financial administration authority might not exist there in future. The draft of public notice namely presumes that regional offices will be established in the place where Tax Office is today together with the fact that is not a seat of a new Tax Office.

## **6. Conclusion**

The system of financial administration authorities currently consists of Ministry of Finance, General Financial Directorate, Financial Directorate and Tax Offices. This system of financial administration authorities in the Czech Republic undergoes these days of rapid development which can be designated as reform of this system.

The reform proceeds in two stages. The first stage of reform already took place with the efficiency on 1<sup>st</sup> January 2011, while its essence was establishing of new central administrative body with national territorial jurisdiction, General Financial Directorate. This step, especially from the property and personal aspect, led into centralization of existing decentralized system, because General Financial Directorate became an accounting unit in place of 8 Financial Directorates.

The second stage of reform should proceed with the efficiency on 1<sup>st</sup> January 2012 while its essence is replacing 8 Financial Directorates and 199 Tax Offices by one Appellate Financial Directorate and 15 Tax Offices (14 Tax Offices and one Specialized Tax Office). It is obvious that the main feature of this stage is to reduce the number of financial administration authorities. But existing financial authorities should not be completely abolished, but the majority of them should be transformed into regional offices of new Tax Offices. It is also evident that the reform is directed towards larger centralization of decision making powers and towards reducing number of management employees. This matter of fact could influence larger consistency of decision-making of financial administration authorities.

The intent to establish Specialized Tax Office for particular selected entities could be evaluated as positive. Specialization and centralization of performing certain activities within financial administration authorities system into one office is logical consequence of difficulties and administrative complexity that some certain activities bear (for example banking or insurance companies' activities). Specialized Tax Office could in this direction

meet the requirements for qualified execution of certain powers within financial administration authorities system.

In conclusion I can only express desire that reform of financial administration authorities in the Czech Republic will be successful and will lead to more effective performance of activities exercised by these authorities. The role of financial administration authorities within public administration is irreplaceable because these authorities provide collection of substantial part of public budgets incomes.

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