

# Criminal tax offences in the Czech timber trade: A judicial practice analysis

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**Abstract:** This article presents a doctrinal legal analysis of judicial practice concerning criminal tax offences in the Czech timber trade, with a primary focus on VAT fraud. Court decisions were examined thematically to identify key categories of fraud schemes, recurring evidentiary challenges, and patterns of judicial reasoning. Administrative and regulatory frameworks, such as the EU Timber Regulation (EUTR), have played only a marginal role in Czech judicial practice, with a single decision explicitly referring to the EUTR. The findings highlight how courts rely on indicators such as fictitious supply chains, economically irrational transactions, and incomplete documentation to establish fraudulent intent. The study contributes to a better understanding of judicial reasoning in tax fraud cases and offers evidence-based recommendations for strengthening enforcement practice. The article focuses on Criminal Tax Law, i.e. examples of tax fraud in the timber trade that were not dealt with by the tax authorities as administrative offences but were assessed as criminal tax offences falling within the jurisdiction of criminal courts. Criminal Tax Law is a sub-field of Czech Tax Law dealing with criminal activity in the area of tax and fee administration. (Lichnovský et al. 2020). The article contains all court decisions in the field of Criminal Tax Law dealing with the issue of timber trade. The article deals only with the criminal law aspects of tax law. No other court decisions were found in the Automated Legal Information System (ASPI). The ASPI legal information system contains only one court decision relating to the EUTR Regulation, which is cited below. Criminal cases in the field of forestry and timber industry constitute only a small part of the entire criminal tax law. In terms of the method of committing the criminal activity (issuing fictitious invoices, fictitious deliveries of goods), these are common frauds common to all economic activities.

**Keywords:** forest management; illegal logging; legislation; tax fraud; wood processing

The timber trade is a complex sector shaped by natural, economic, and legal factors. The timber trade plays a key role in the global economy, supplying raw materials for the construction, furniture and paper industries. However, it is also a sector that is prone to financial crimes, in particular tax fraud (see e.g. European Parliament 2022; Elliot 2020; World Bank 2020; Kind-

ji 2021; OECD 2021; Europol 2023; Resimić 2022; van Duyne 2024; Williams 2024; FAO 2025; Interpol 2025).

Due to the high value of timber, complex supply chains and international trade routes, unscrupulous actors exploit loopholes in the law for tax evasion, fraud and laundering of illegal profits, i.e. tort (or offences) in general.

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The timber trade, therefore, carries with it a risk in criminal activities that are detrimental to the state in the tax area (Lawson, MacFaul 2010; Tacconi et al. 2019; Elliot 2020). Recently, this crime has been encountered mainly due to the bark beetle calamity, which has brought about the expansion and emergence of commercial companies specialised in forestry services and timber trade (Brack 2019). According to statistics from the Czech Statistical Office (CSO), there was a record export of raw timber between 2018 and 2021 as a direct response to the massive logging caused by the bark beetle calamity (CSO 2023). This sharp rise in timber trade, with large quantities of timber being exported from the Czech Republic, was caused by the fact that the tax administration was unable to effectively control timber trade due to staffing constraints, a trend also observed in other Organisation for Economic Co-operation and Development countries (OECD 2021).

In the context of tax audits, the tax administration failed to prevent tax evasion when individual business entities tried to evade taxes (by distorting the volumes of transactions) or, on the contrary, pretended to be involved in supply and purchase chains, while trying to extract an unjustified refund of value-added tax (VAT). The Organisation for Economic Co-operation and Development, in its 2021 report (OECD 2021), draws attention to the fact that the rapid growth in timber transactions often exceeds the capacity of tax authorities, leading to an increased risk of tax evasion.

All tax crimes can only be committed intentionally. Negligent theft is not a criminal offence. Therefore, the perpetrator must either intend the tax to be evaded or at least be aware of the result (that he or she is reporting tax that is different from the correct tax liability). It is therefore necessary to carefully assess all the facts from which the form of any culpability can be determined (Lichnovský et al. 2020).

The basis of tax evasion consists in the deliberate act of the perpetrator, when he or she provides false information, and the competent state authority thus assesses a mandatory payment lower than the amount determined by law or does not assess it at all. The offence of tax evasion is completed by filing a return. Thus, only someone who has been involved in the activities up to that point can be a perpetrator or participant (Lichnovský et al. 2020).

The perpetrator or participant in a specific criminal offence is a person who deliberately pretends to be, for example, a payer of value-added tax or excise duty or other tax, although due to fictitious business activity he is not in fact a subject, and thus fakes the obligation of the state to return the excessive deduction of value-added tax (see e.g. Jelínek et al. 2014).

Legal offences in the timber sector typically include the following categories (Suprayogi et al. 2025):

- (i) tax offences – such as VAT fraud, non-declared income, or the use of fictitious invoices;
- (ii) customs and documentation fraud – manipulation of transport or origin documents;
- (iii) environmental delicts – illegal logging, non-compliance with harvesting quotas, or breach of protected area regulations;
- (iv) administrative failures – neglect of registration duties, reporting obligations or misclassification of timber.

The specific form and frequency of these delicts are influenced by market pressure, pricing volatility, and enforcement capacity. Periods of resource surplus (e.g. during calamities) increase opportunities for grey market behaviour, while regulatory tightening (e.g. the EU Deforestation Regulation (EUDR)] raises compliance complexity (see e.g. Köthke et al. 2023; McDermott et al. 2025; Suprayogi et al. 2025).

The economic incentive structure, particularly in small and medium-sized forest enterprises, creates a tension between legality and competitiveness. This results in strategic decisions that may push actors into legal grey zones (Mager et al. 2023).

This article examines the legal and economic aspects of tax fraud in the timber trade, focusing on international tax frameworks, key judicial precedents and economic implications. The study draws on legal sources from the European Union and the Organisation for Economic Co-operation and Development. It also includes case law from the Court of Justice of the European Union and the Czech Republic.

The aim of the research is to analyse the international legal framework governing taxation in the timber trade, to examine the case law on tax fraud in forestry and timber trade, to assess the economic impact of tax fraud in the forestry and timber sector, and to propose recommendations for strengthening regulatory and enforcement measures.

Offences will be identified and analysed, and their implications for public finances, liability of organisations, and compliance costs will be described. The paper also outlines the legal framework of the European timber market and its legitimate regulatory constraints.

## MATERIAL AND METHODS

The study is based on doctrinal legal analysis. Court decisions concerning criminal tax offences in the Czech timber trade were retrieved from the ASPI legal information system and examined thematically. The cases were classified according to fraud schemes, evidentiary challenges, and judicial reasoning. This method enables the identification of recurring patterns and legal interpretations. The study does not conduct an economic impact assessment; references to economic consequences of tax fraud are taken from secondary literature only to provide a broader context.

In this manuscript, the methodological approach is predominantly qualitative and relies on:

- (i) legal analysis of the criminal, administrative and tax framework;
- (ii) content analysis of legal documents (national and European standards);
- (iii) case studies (case law, court rulings, authorities' reports);
- (iv) secondary analysis of literature (legal, economic, environmental sources);
- (v) analytical synthesis and formulation of recommendations based on identified gaps and systemic failures.

The approach focuses on identifying structural weaknesses in legal frameworks and enforcement systems and synthesising recommendations aimed at improving compliance and institutional performance. Legal sources include national and EU legislation, court decisions and regulatory reports. The analysis is interpretative and normative in nature and aims to propose workable solutions.

The methodology is structured as follows:

- (i) The research is based on a doctrinal legal approach, combining analysis of relevant case law and legal frameworks governing tax fraud in the forestry and timber industry. The study is descriptive and analytical, aiming to identify patterns of fraudulent practices and assess their regulatory implications.

- (ii) The study is based on secondary data analysis using:

- EU legislative texts: the EU Regulation (EUTR 995/2010, EUDR 2023/1115), the OECD Directive, the VAT Directive and relevant provisions of Czech tax law (Act No. 235/2004 Coll., on Value Added Tax, Criminal Code No. 40/2009 Coll., Act No. 586/1992 Coll., on Income Taxes).
- Judicial jurisprudence: key decisions of the Court of Justice of the European Union (CJEU) and Czech jurisprudence regarding tax fraud in commodity markets, as well as decision of the Supreme Court and Constitutional Court of the Czech Republic regarding tax fraud in commodity markets and taxation of forestry [e.g. Resolution of the Supreme Court of the Czech Republic file No. 8 Tdo 993/2021, No. 3. Tdo 1218/2021, Judgment of the Regional Court in Brno (administrative section) file No. 31 Af 16/2022, etc.].
- Expert literature: articles in peer-reviewed journals on forestry taxation and fraud detection.
- Official reports: World Bank (2020), OECD (2021), European Parliament (2022), Transparency International (2022), Europol (2023), FAO (2025), and the Financial Administration of the Czech Republic.

- (iii) Analytical framework: The research uses comparative legal analysis to examine differences in tax fraud legislation across jurisdictions. It also includes an economic impact assessment based on data from the OECD, the World Bank, the Czech Financial Administration and practical cases from the Czech Republic in order to quantify the financial losses caused by fraudulent practices.

- (iv) Limitations of the study: The study is limited to publicly available legal and economic data, which means that confidential tax audits and classified law enforcement reports could not be included. In addition, the research focuses primarily on the regulatory frameworks of the EU and the Czech Republic and excludes specific legislation from non-OECD countries.

## RESULTS AND DISCUSSION

Across the Czech and CJEU cases, three recurrent patterns emerge: (i) schemes – fictitious sup-

ply chains, inflated export prices, non-existent deliveries; (ii) evidence – deficits in provenance documents [e.g. CMR (Convention on the Contract for the International Carriage of Goods by Road)], stock anomalies, difficulty proving intent; (iii) judicial reasoning – weight on the economic illogic of transactions and the taxpayer's duty of caution. These patterns frame the case summaries below and motivate the recommendations in the conclusion.

The following section is restructured thematically to identify patterns across cases, including: (i) types of VAT fraud schemes, (ii) evidentiary challenges in prosecution, and (iii) judicial reasoning and trends. Each subsection ends with commentary summarising common elements and implications. This chapter includes some examples of tax fraud in the timber trade in the Czech Republic.

Beyond the description of individual judgments, the analysis identifies broader patterns in judicial reasoning and evidentiary assessment. Table 1 presents a typology of VAT fraud schemes in the Czech timber trade, synthesising the main categories encountered in case law.

This typology highlights recurring patterns across cases and illustrates how Czech courts consistently rely on indicators such as economic irrationality, incomplete documentation, and lack of due diligence to establish fraudulent intent.

**Fictitious supply and procurement chain.** Tax crime consists of pretending to do business or inflating the volume of work on the basis of which fictitious tax returns are submitted. The criminal activity is therefore based on the absence of transactions. The tax returns overstate forestry harvesting and deliberately overstate the amount of timber harvested. In the present case (Resolution of Supreme Court No. 8 Tdo 993/2021), the accused in his capacity as chairman of the board of directors of a trading company, with the tax authority, the tax office, with the intention of reducing his own VAT liability and extort property by claiming an excessive VAT deduction, knowingly included forged invoices in the accounting records, tax returns and individual taxable transaction reports used to prepare individual VAT returns of the taxable entity. These were supposed to have been issued by the alleged suppliers, commercial companies, although he knew that the actual supply of goods and services by the suppliers had not taken place and subsequently claimed VAT deduction in the submitted tax returns on the basis of these fictitious tax documents.

The accused argued that the invoiced transaction was not merely fictitious but actually took place, only the law enforcement authorities failed to prove that it was carried out by the entity named on the invoice, in which case the offence of tax evasion could not have been committed.

Table 1. Typology of VAT fraud schemes in the Czech timber trade

Category	Typical modus operandi	Evidentiary issues	Judicial reasoning
Fictitious supply chains	non-existent suppliers, forged invoices	missing CMR documents, uncontactable firms	burden of proof on taxpayer, reliance on anomalies in stock/accounting
Inflated exports	overstated export volumes and prices	discrepancy with production capacity, economic illogic	courts stress economic irrationality as indicator of intent
Fictitious deliveries	pretended imports (e.g. firewood not actually imported)	false transport/customs documents	recognition of formal documents as fictitious; intent inferred
Excessive VAT deductions	use of inflated/fake invoices to claim VAT refunds	lack of provenance, false contracts	consistent view: fraudulent intent if taxpayer knew/should have known
Due diligence failures (EUTR)	missing documentation in import of teak from Myanmar	incomplete risk assessment and CoC documentation	liability confirmed, obligation to prove compliance lies with operator

CMR – Convention on the Contract for the International Carriage of Goods by Road; CoC – chain of custody; EUTR – EU Timber Regulation; VAT – value-added tax

However, in the criminal proceedings, the court did not accept the defendant's defence, stating that the accused acted '... with the intention of shortening his own VAT liability and to defraud his assets by claiming an excessive VAT deduction. He knowingly included in his accounting records, tax returns and individual taxable transaction reports ...forged tax documents (invoices) which were supposed to have been issued by alleged suppliers, although he knew that the actual transaction in the form of goods and services, or the transfer of mining rights, had taken place in respect of the company by the suppliers...' (Resolution of the Supreme Court No. 8 Tdo 993/2021).

The court therefore concluded that the accused acted with the intention of causing a criminally relevant consequence and violating a legally protected interest, which in the case under consideration is the interest of the State in the proper and correct assessment of the tax and the revenue from this compulsory payment. If the accused knew of all the relevant circumstances and deliberately acted in the manner in question, he intended to violate the interest protected by the Criminal Code in the form of the proper assessment of the tax. He therefore committed the criminal offence with direct intent. The accused was found guilty.

**Fictitious deliveries of firewood – pretending to import into the Czech Republic.** The defendants in the present case pretended to import firewood from abroad into the Czech Republic. The fuelwood was not imported into the Czech Republic and did not have a real origin outside the Czech Republic. The perpetrators thus tried to prove the reality of the deliveries and the existence of commercial companies in a supplier-customer relationship as part of their defence (Resolution of the Supreme Court No. 3 Tdo 1218/2021).

The court stated in the grounds of its judgment that the company registered in Bulgaria had not carried out any activity involving the purchase of timber and no goods had been transported. It was established that the documents relating to the transport of the goods, the CMR consignment notes and customs declarations are fictitious. The documents thus signed were formal declarations without the transactions in question having actually taken place. It follows from the above that the defendants must have been aware that no real business cooperation was taking place between the companies in question. The timber transactions

between the trading companies did not take place as stated in the documents and tax returns presented by them, which constituted tax fraud (Resolution of the Supreme Court No. 3 Tdo 1218/2021).

**Excessive value-added tax evasion – overstatement of the volume of timber harvested.** The accused, with the intention of obtaining payment in the form of an excessive VAT deduction, submitted a VAT return for the tax period of July 2012 based on invoices for the amount of CZK 22 968 894/EUR 945 693 including VAT (VAT of CZK 3 828 149/EUR 158 032) issued with reference to a contract for the grant of the exclusive right to harvest forestry and for the transfer of ownership of the harvested trees (Resolution of the Constitutional Court No. III. ÚS 3380/18).

The accused committed the act knowing that the tax return contained manifestly false information, as the accused must have known that approximately 11 000 t of dendro-wood could not have been extracted from the area of land registered in the cadastral area, as this quantity did not correspond to the real production capacity of the habitat. A maximum of 1 465 t of dendro-wood could have been extracted from the land in question, the value of which in 2012 ranged from CZK 1 491 000/EUR 61 390 excluding VAT to CZK 1 945 000/EUR 80 092 excluding VAT. The excessive VAT deduction applied was not paid to the company because the tax office had doubts about the accuracy of the data on the submitted invoice (Resolution of the Constitutional Court No. III. ÚS 3380/18).

Tax fraud is often proven by the fact that the fictitious transaction, as presented to the tax authorities, would be economically disadvantageous in a real business relationship and highly loss-making for the business involved in the supply and purchase chain, and would have no economic justification, the businessman thus acting against all business logic (Resolution of the Supreme Court No. 3 Tdo 524/221).

**Evasion of excessive VAT deduction – higher export of timber.** The offence consists in the declaration of an over-export of timber, the price of which is deliberately overstated, the purpose of the whole transaction being to extract an excessive deduction for VAT. The invoiced price is not actually paid within the supply and procurement chain.

The criminal conduct of the defendants should have consisted in the fact that they did not carry out a real business activity. Their conduct consist-

ed in the fact that, by means of various disguises and transactions based on artificially inflating the price of the goods being resold, they sought to create the appearance of legality in those transactions and to take advantage of the relevant legislation to obtain a tax advantage. (Resolution of the Supreme Court No. 3 Tdo 524/221). The criminal conduct of the defendants was proven by the fact that they carried out exports of timber products to Indonesia with the aim of tax evasion or illegal deduction.

**Excessive VAT deductions based on fictitious invoices.** In this case, the offence of tax, duty and similar compulsory payment evasion was committed by the defendant with the intention of obtaining an unjustified pecuniary benefit, with the intention of unlawfully applying a higher value added tax deduction and at the same time unlawfully reducing the tax base for the calculation of corporate income tax (Resolution of the Supreme Court No. 5 Tdo 883/2011).

To that end, the accused submitted false value-added tax returns in the course of the negotiations on behalf of the company. He included in these unrealised transactions specified in a total of six fictitious invoices, thereby reducing the value-added tax in the total amount of CZK 1 643 789/EUR 67 680. According to the binding findings of fact of the Regional Court (administrative section) in particular, the invoices had no real basis, and it was obvious that they were fictitious.

The defendant could not have purchased the goods from the declared supplier, who was liable for VAT at the relevant time, as the company did not have any timber at all (Judgment of the Regional Court in Brno (administrative section) No. 6 Afs 159/2018).

**The requirement to trace specific timber suppliers in order to claim VAT deductions.** In the present case, the purchase of timber and the intermediation of the purchase of timber from several suppliers. The tax administration doubted whether the legal conditions for claiming VAT deduction were met in each case because the suppliers were not contactable.

The tax administration doubted whether the legal conditions for claiming VAT deduction were met in each case because the suppliers were not contactable and there were inconsistencies in the reports submitted, on the basis of which it was not possible to identify the individual supplies precisely.

At the same time, the tax authority found deficiencies in the purchase tickets (failure to indicate the place of loading and unloading, failure to indicate the registration number of the vehicles), while the records provided did not show a link between the purchase and the purchase of timber and no purchase tickets were provided. The tax administrator further found that the registered office of one of the suppliers was only formal. The trading company did not have the technical means for the declared business activity.

The court held that '...the reason for not recognising the VAT deduction was factual, that the stock records showed significant anomalies' [Judgment of the Regional Court in Brno (administrative section) No. 316 Afs 16/2022]. In 2016, 2017 and 2018, the applicant had more logs than it had stocked (including the balance from the previous year) according to the sales, and the variations were not insignificant (e.g. 489.67 m<sup>3</sup> of logs in 2017).

Nor did the final quantity of timber shown in the inventory as at December 31, 2017 (489.67 m<sup>3</sup>) agree with the initial quantity of timber shown in the stock movement report as at January 1, 2018 (582.648 m<sup>3</sup>) [Judgment of the Regional Court in Brno (administrative section) No. 31 Afs 16/2022].

**Interpretation of the European Court of Justice on the requirement to identify trading companies for VAT deduction.** In the present case (Judgment of the Supreme Administrative Court No. 6 Afs 159/2018-59), the main issue was whether proof of the actual supplier was necessary for the disallowance of VAT deductions in the case of trade between forestry companies. The Tax Office for the South Bohemian Region suspected that the timber trade was affected by VAT fraud. In their decision, the Tax Office and the Appellate Tax Directorate focused on assessing the question of whether the suppliers were the entities identified as suppliers in the tax documents submitted. Since the forestry company had not dispelled the reasonable doubt on that point, it was not entitled to the deduction.

The Grand Chamber of the Supreme Administrative Court referred preliminary questions to the Court of Justice of the European Union concerning the obligation on the taxable person to prove the VAT status of the supplier of goods or services under Article 168(a) of Directive 2006/112.

On the basis of the Judgment of the Court of Justice of the European Union of December 9, 2021, *Kemwater ProChemie*, C-154/20, the Ex-

tended Composition Chamber, in its judgment of March 23, 2022, Case No 1 Afs 334/2017, came to the following conclusion:

The supplier of goods or services does not have to be clearly identified if the facts show with certainty that he necessarily had the status of a VAT payer. The burden of proof is on the taxable person claiming the VAT deduction. An exception is the situation where the data necessary to verify whether the substantive condition for entitlement to the VAT deduction is fulfilled is available to the tax administration.

**Due diligence system in the EUTR (Timber Regulation I).** The dispute concerned the application of the due diligence system when importing timber into the Czech Republic from Myanmar. The applicant, i.e. the trading company, was found guilty of an offence pursuant to Section 12(1)(a) of Act No 226/2013 Coll., on the marketing of timber and timber products. The applicant was alleged to have committed the offence by failing to apply the due diligence system when marketing 22.99 m<sup>3</sup> of teak sawn timber imported into the Czech Republic on April 1, 2019, and 23.82 m<sup>3</sup> of teak sawn timber imported into the Czech Republic on June 3, 2019, between April 3, 2019, and July 3, 2019, although it was obliged to do so under the EUTR. The defendant, i.e. the Ministry of Agriculture of the Czech Republic, stated in the grounds of the contested decision that, following a review of the decision on the offence in terms of correctness and legality, no grounds for annulment or amendment of the contested decision were found. The Regional Court (administrative section) stated that the decision of the administrative authority shows that the company was found guilty of an offence under Article 12(1)(a) of Act No. 226/2013 Coll. for failing to provide sufficient documentation demonstrating the maintenance of the due diligence system in relation to the supply of teak from Myanmar.

The Regional Court (administrative section) inferred from the record that the administrative authorities relied on the 'Myanmar Timber Chain of Custody Process Document and Actors Manual' (Timber Trade Portal 2024), hereinafter referred to as the 'Manual', issued by MONREC and on file, which contains all the necessary conditions for the proper harvesting, processing and export of teak in 30 steps, to assess the compliance of the harvested teak with applicable Myanmar law.

The decision on the infringement showed that, although the applicant had some of the documents in his possession, he did not have the complete documentation. On the basis of the above findings, the first-instance administrative authority stated that '...for the timber in question, the set of documents that must be obtained before or during the actual harvesting process and thus fulfil the condition of access to the information declaring the harvesting authorisation for the purposes of the due diligence system was not documented' [Judgment of the Regional Court in Brno (administrative section) No. A 30/2021].

According to the Regional Court in Brno (administrative section), the company had thus failed to prove that it had implemented an element of the due diligence system consisting of a risk assessment procedure as required by Article 4(2) of the EUTR Regulation, and had therefore committed an offence under Section 12(1)(a) of Act No. 226/2013 Coll. The Court therefore dismissed the action under Section 78(7) of the administrative court procedure, as it was unfounded. It is clear from the court's decision that operators must strictly comply with the obligations laid down in the EUTR and that, if they fail to do so, they are guilty of offences under national legislation, namely Act No 226/2013 Coll. The burden of proof regarding the legality of logging, processing and exporting timber to the European Union market clearly lies with these economic operators.

Only one Czech case directly referred to the EUTR Regulation, and no judicial practice yet exists concerning the EUDR. References to these frameworks in this study therefore serve as contextual background rather than core evidence.

**Summary of case law analysis.** VAT fraud is a type of criminal activity that primarily focuses on the unlawful extraction of tax or tax evasion. For tax crimes, there is a doctrine of the European Court of Justice represented by European case law. European case law is binding on Czech administrative courts and the Supreme Administrative Court.

VAT fraud consists of obtaining tax advantages provided by the state or tax evasion. Value-added tax (VAT) is a tax that should be paid by the end consumer.

The most common type of VAT fraud is known as carousel fraud. This is a sophisticated type of fraud that exploits VAT exemptions on the sup-

ply of goods between taxpayers in different EU Member States. Carousel fraud is based on a fraudulent chain of transactions with the following elements:

- A trading company that purchases goods from another EU member state without VAT but sells them with VAT on the domestic market without paying VAT to the tax office. The trading company then goes into liquidation or insolvency.
- A reselling company that purchases goods from the missing trader and then sells them to the next link in the chain.
- The end trading company, which is the last link in the chain on the domestic market. It purchases the goods and exports them abroad, while unlawfully claiming a VAT refund. This business practice results in the unlawful extraction of VAT.

A trading company that is the last link in the chain on the domestic market. It purchases goods and exports them abroad, while unlawfully claiming VAT refunds. This business practice results in the unlawful extraction of VAT. The right to deduct/reclaim VAT is a right that should not be granted if it is clear that fraudulent conduct is involved. The European Court of Justice has ruled in key judgments (e.g. C-354/03 Optigen, C-439/04 Axel Kittel) that the right to deduct VAT may be denied if the taxpayer knew or should have known that they were participating in a transaction that was part of a fraud. (see e.g. Judgment of March 3, 2005, Fini H, C-32/03, paragraphs 33 and 34, Judgment of July 6, 2006, in joined cases C-439/04 and C-440/04).

Cooperation between financial authorities is essential in detecting tax fraud. The tax administrator must prove that the transaction was objectively part of a fraudulent chain (e.g. that input tax was not paid). The tax administrator must also prove that the taxpayer concerned knew or, given the circumstances of the transaction, should have known that they were participating in fraud, i.e. that they were aware of their obligation to pay tax or that they were not entitled to a tax refund.

Czech courts, in particular the Supreme Administrative Court, interpret and apply this case law. (e.g. Judgment of the Supreme Administrative Court dated February 21, 2024, Ref. No. 1 Afs 82/2023). In practice, they focus on whether the taxpayer acted with sufficient caution.

Proving the subjective aspect of tax fraud is the most difficult task for tax administrators, which is why courts examine the actions of taxpayers that

may indicate (lack of) caution, evaluating so-called suspicious activities, in particular:

- unusually low prices of goods or services;
- non-standard business conditions (e.g. cash payments, missing written contracts);
- obscure business partners who subsequently turn out to be fictitious.

Suspicious conduct is examined as part of a tax investigation, during which the taxpayer is asked to submit accounting records for their business activities or specific transactions under investigation. In general, we can say that the burden of proof lies with the taxpayer. The taxpayer has the primary obligation to prove their claims, most often stated in their tax return and other filings addressed to the tax administrator. Proof is primarily a matter of documentation, and the basic means of proof in this case is the taxpayer's accounting records.

If the taxpayer fails to meet their burden of proof at this stage, i.e. if they fail to prove the facts stated in their tax return, the burden of proof cannot be transferred to the tax administrator. It is therefore important for taxpayers to have their accounting documents in order. If the tax administrator has doubts about the credibility, conclusiveness, accuracy, or completeness of the taxpayer's mandatory records and accounting records, they must prove it. In their case, it is usually sufficient to identify specific facts based on which they believe that the documents submitted by the taxpayer are not sufficient to prove their claim.

If the tax administrator meets its burden of proof, the burden is transferred back to the taxpayer, who is then responsible for refuting the tax administrator's doubts. It is logical that at this stage, the taxpayer will no longer prove its claims with accounting documents, as it is precisely the taxpayer's accounting that the tax administrator has doubts about. Various records, documents, witness statements, or CMR consignment notes, for example, can serve as evidence.

To improve the fight against tax crime, it is necessary to strengthen international cooperation and emphasise control mechanisms, which are key to effectively combating VAT fraud. Unjustified VAT fraud or tax evasion places a significant burden on state budgets. For this reason, it is necessary to continue to strengthen financial administration within the European Union and thus prevent tax crime through control activities.



**Gap in legislation and legal problems.** Despite the existence of EU regulations (EUTR 995/2010, EUDR 2023/1115) and Czech tax laws, their enforcement remains a significant challenge. The rapid development of the timber trade, fuelled by environmental factors such as the presence of bark beetle (Brack 2019), has overwhelmed regulatory authorities. The Czech tax administration and EU tax authorities have difficulties monitoring fraudulent transactions, especially in cross-border trade, due to limited staff and insufficient real-time data exchange (OECD 2021).

A key problem is the abuse of VAT systems, where companies falsify invoices and create fictitious supply chains to claim unjustified refunds. Case C-440/12, SC Lagura Trading (2013) showed how companies manipulate invoicing structures to avoid paying VAT. Similarly, the case of the Supreme Court of the Czech Republic, Case No. 8 Tdo 993/2021, confirmed the systematic use of fictitious companies in tax fraud related to timber. These cases highlight the difficulty of proving fraudulent intent and the need for more effective financial supervision mechanisms.

Internationally, studies show that similar patterns of tax fraud exist in other jurisdictions. In Brazil, where the logging sector in the Amazon is heavily affected by financial crime, research by Elliott (2020) found that up to 30% of timber trade transactions involve some form of tax evasion. A World Bank (2020) study on Southeast Asia revealed that complex supply chains and weak enforcement mechanisms allow fraudulent actors to exploit tax loopholes, leading to annual tax losses in excess of USD 1.8 billion. These examples illustrate that tax fraud in the forestry sector is a global problem that requires a coordinated regulatory response.

**Economic consequences of tax fraud in the forestry sector.** Tax fraud in the timber trade has serious economic consequences, particularly in terms of lost tax revenue and market distortions. The OECD (2021) estimates that illicit financial flows in the forestry sector result in tax losses of USD 10–15 billion per year worldwide. In the European Union alone, fraudulent VAT claims in the timber industry are estimated to cost EUR 3–5 billion per year (Europol 2023).

The economic impact goes beyond direct tax losses. Illegal forestry companies gain an unfair advantage, leading to:

- Artificially low timber prices, making it difficult for compliant companies to compete.
- Undermined public trust in financial regulation, which reduces overall tax compliance.
- Financial support for organised crime networks, as shown in the Interpol Environmental Crime Report 2021 (Interpol 2021).
- Research by Tacconi et al. (2019) suggests that weak governance and corruption in forestry taxation contribute to long-term economic instability. Countries with strong tax enforcement mechanisms, such as Sweden and Finland, report significantly lower rates of timber-related tax fraud, while countries with lax oversight (e.g. Indonesia, Brazil, Romania) face chronic financial losses (World Bank 2020).

## CONCLUSION

Recommendations (grounded in case analysis):

- Targeted inter-agency data sharing focused on VAT refund claims and high-risk commodity chains.
- Specialised financial-crime units for timber-related VAT cases, including forensic accounting support.
- Clear evidentiary guidance on assessing 'economic illogic' and on provenance documentation (CMR, stock records).
- Robust taxpayer documentation practices to meet the burden of proof and reduce anomalies in stock/accounting records.

Regulatory note: EUTR/EUDR are referenced only where directly connected to adjudicated facts (with one EUTR-related decision identified). Broader effects of EUDR on criminal tax enforcement remain prospective and beyond the evidentiary scope of the cases analysed.

This conclusion has been revised to summarise findings strictly based on the analysis of judicial practice regarding VAT fraud in the Czech timber trade. Key patterns identified include the repeated use of fictitious invoices, artificially inflated transactions, and non-existent entities to obtain unjustified VAT refunds. Evidentiary challenges are frequent, especially in proving intent, yet courts consistently emphasise the economic illogic of transactions as indicative of fraud.

Recommendations focus on improving inter-agency data sharing, enhancing specialised investigative capacity, and ensuring that regula-

tory frameworks such as EUTR/EUDR are applied in a targeted manner where relevant to criminal tax enforcement. The timber trade is exposed to a wide range of legal torts that impact not only public finances but also the integrity of the economic environment and the credibility of sustainable development commitments. The fragmented nature of legal and institutional frameworks creates space for strategic avoidance and inconsistent enforcement. This paper has identified the typology of common offences, their economic consequences, and the challenges faced by organisations and regulators.

This study uses a qualitative methodology that combines legal and economic analysis with a review of secondary literature and selected case law on timber trade tax fraud.

The court decisions mentioned in this article indicate the existence of sophisticated tax crime in the timber trade. Its detection depends on the activities of the tax administration and law enforcement agencies.

Any conduct of the perpetrator, in particular declaring higher volumes of transactions which do not correspond to the accounting reality, higher prices for goods or services supplied, and as a result of such conduct, the perpetrator as taxpayer is assessed a lower mandatory payment or is not assessed at all, should be considered as tax evasion. Another fraudulent practice is the extraction of an advantage by fictitiously claiming VAT deductions on transactions. The detection of tax crime depends on the cooperation of the tax administration and law enforcement authorities, in particular the Customs Administration, the Police of the Czech Republic and the prosecutor's office.

The forthcoming EUDR (EU Deforestation Regulation – Timber Regulation II) is of key importance not only for forest protection but also for the prevention of economic crime in the timber trade. Its primary aim is to curb deforestation by increasing transparency across the entire supply chain – from timber harvesting (in the Czech Republic or abroad), through transport, intermediaries, traders, and processors, to the delivery of final products to consumers. This transparency will also significantly reduce opportunities for tax evasion and fraudulent VAT deduction claims. The regulation requires all operators and traders to comply with EUDR obligations, regardless of whether trade is conducted through traditional or online chan-

nels. Each supply chain must have a designated operator responsible for any breaches of obligations. Furthermore, the regulation introduces a stricter due diligence system, requiring full traceability of goods and enabling penalties for environmental damage caused by non-compliance. In this way, the EUDR can play a crucial role in reducing illegal practices within the timber sector.

Under the EUDR, it will be possible to seize and confiscate the relevant products concerned from the operator or trader, as well as to confiscate the proceeds of a transaction with the relevant products concerned in case of a breach of the EUDR.

In the event of a serious or repeated infringement of this Regulation, the possibility of imposing a temporary ban on the placing on, or supplying or exporting from, the Union market of the relevant commodities and products corresponding to the prohibition of the operation of national legislation shall be allowed. These sanctions will therefore have a preventive effect. However, the EUDR must be interpreted in conjunction with Act No. 226/2013, on the marketing of timber and timber products.

This paper highlights that tax fraud in the timber trade is a complex problem involving regulatory loopholes, economic incentives and enforcement problems. While legal frameworks such as the EUTR, EUDR and Czech tax law provide the basis for compliance, loopholes and weak enforcement allow fraudulent actors to abuse the system.

The economic impact is severe, with billions of euros in lost tax revenue and market distortions. Judicial precedents from the CJEU and Czech courts provide guidance, but enforcement remains weak.

The following steps are recommended to resolve these issues:

- Stronger enforcement and coordination – better cooperation between EU tax authorities and national tax administrations to prevent cross-border tax fraud.
- Tougher penalties for tax evasion – introduction of higher fines and stricter guidelines for prosecuting companies involved in forestry tax fraud.
- International cooperation – strengthening links between the OECD, Europol and Interpol to combat organised financial crime in forestry markets.

By implementing these measures, governments can reduce fraud risks, increase tax compliance and promote sustainable timber trade practices.

Recommendations for improving the legal environment in the timber trade include harmonising legal frameworks between tax, trade and environmental legislation, integration of databases between forestry registers, tax administration and customs, establishing a national register of due diligence declarations, Strengthening the capacity of inspection and enforcement bodies, including specialised units and economic incentives for legal behaviour through public procurement, environmental, social, and governance (ESG) funds and tax breaks.

**Results of criminal tax case law for the EUDR Regulation, which has not yet entered into force.** The EUDR Regulation places high demands on the tracking of goods – selected commodities, specifically timber, from its harvesting through processing to sale to the customer. The new requirement to track goods in cases of timber theft or illegal harvesting is required by the courts to prove the subjective and objective aspects of the crime when finding the perpetrator guilty. Criminal courts will therefore work more with the EUDR Regulation in criminal proceedings to secure evidence that the timber was stolen (illegally harvested) and sold without authorisation. [Finding of the Constitutional Court of the Czech Republic (dated September 13, 2023) No. I. ÚS 1531/23].

The analysis of Czech judicial practice in timber-related VAT fraud cases reveals recurring fraudulent schemes: fictitious invoices, inflated exports, and the use of non-existent entities. Courts have consistently treated economic irrationality, incomplete documentation, and failures of due diligence as decisive indicators of fraudulent intent. While the EUTR framework appeared in only one decision and the forthcoming EUDR has not yet generated case law, these instruments remain a relevant regulatory backdrop. The findings point to practical recommendations directly supported by the analysed cases: improving inter-agency data sharing, enhancing investigative capacity, and ensuring that due diligence obligations are applied in a targeted and enforceable manner. These measures would strengthen enforcement without overstating broader policy impacts.

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