

LOSS IN PUBLIC BUDGET FROM SPORTSMEN'S EMPLOYMENT IN THE CZECH REPUBLIC

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Abstract

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The article deals with issues of taxation of sportsmen in the Czech Republic. Categories of sportsmen are defined in the theoretical introduction, divided into amateurs, semi-professionals and professionals. These categories are then linked to specific sections of Act on Income Taxes, which are applicable to the taxation of sports activity. The theoretical part is followed with quantification of income tax, social security and health insurance, using a model example with various levels of taxable incomes. All the calculations apply both to the situation where the sportsman assumes the position of an employee, i.e. he has an employment contract, and where he is a self-employed person. Tax incidence on various groups of people involved as well as effects on the public budget are measured within the defined categories. In the context of the public budget we work with the concept of tax evasion which arises from the utilization of one or the other form of relationship between the sports club and the sportsman.

The model example is followed with concrete measurements of tax evasion in football in the Czech Republic. We work with specific publicly available data concerning taxable incomes of professional football players in the top Czech football competition – Gambrinus liga. In conclusion, the interdependence of defined quantities is measured using Pearson product-moment correlation coefficient.

Keywords: sportsman, employee, self-employed person, tax evasion

INTRODUCTION

Personal income tax (in the Czech Republic referred to as the tax on income of natural persons) is perceived as an unpopular tax by most of the society, due to its direct impact on 99% of economically active population. However, from the perspective of the public budget it is the tax with the highest collection rate, and thus forms a cornerstone of modern tax systems. In this contribution we shall focus on a rather small group of payers of natural persons' income tax: sportsmen. Taxation of sportsmen is a very specific issue; several modes of and approaches to the levy on sportsmen's incomes in the Czech Republic may be identified. There is no single legal interpretation of the method of taxation of income in this profession. Thus,

a sportsman can work on the basis of employment relation pursuant to an employment contract (problems may arise in connection to compliance with provisions of Labor Code, Act No. 262/2006 Coll., e.g. concerning the duty of uninterrupted rest), on the basis of a trade license or in the form of a freelance profession. As mentioned by Hrnčířík (2012), the situation in other countries is different (relations between sports clubs and sportsmen are clearly based on employment contracts, which fact defines the level of protection of sportsmen's economic and social interests through collective labor law).

In the Czech Republic, the practice of illegal outsourcing (the so-called "švarc system") is widespread also in the case of sportsmen. Under

Act No. 262/2006 Coll., Labor Code, it is forbidden to perform work for an employer in other ways than within the framework of an employment relation; either pursuant to the employment contract, work performance agreement or task order agreement. Since the beginning of 2014, the employment relation has been regulated by Act No. 262/2006 Coll., Labor Code, and in case Labor Code does not cover the issue concerned, it is regulated by Act No. 89/2012 Coll., Civil Code. Tax evasion is often cited in this context, being probably the most frequently examined issue of tax law. In the strict sense it is usually understood as violation of the law, unlike tax avoidance which is defined as skillful use of the possibilities provided by the law. The expression “legal tax evasion” is commonly used in this context. The term refers to legal procedures that enable avoiding tax liability without breaching the law.

The aim of this article is to quantify differences in payment of income taxes, health insurance and social security by employees and by self-employed persons. The quantification is first performed on model cases; impacts on the football industry are quantified subsequently. We chose football because, as mentioned by Opatrný (2012), of all the sports in the Czech Republic, football clubs have the largest number of members.

All sports were sponsored by Sazka, a. s. in the past. Sports clubs thus gained funds that could be used for their further activities. After Sazka, a. s. went bankrupt, some of the sports associations faced difficulties in obtaining finances from their members. Therefore certain associations decided to introduce electronic registration of their members and also the information system for its administration. The associations spent a lot of money for acquisition of the system, but on the other hand, they economized on wages for persons who had carried out administration manually and often with mistakes. Nowadays, football is one of the sports which use the electronic information system. Thus the club management has clear and up-to-date information of all the registered members and of fees obtained from the respective sportsmen.

Unfortunately, the Czech Republic differs from the European Union in that information in the sports industry is often non-public and e.g. income of sportsmen is not known unless they themselves disclose it. This article uses details available online concerning wages of football players participating in Gambrinus liga. These figures do not include any bonuses for matches played or goals scored. Each club has a different amount of such bonuses set out in their internal regulations.

MATERIALS AND METHODS

The aim of the contribution is to identify differences between the form of a sportsman's

employment which entails a certain form of a labor-law relationship on the one hand and a sportsman “employed” as a self-employed person (“SEP”) on the other. We also identify the loss in the public budget following from tax evasion concerning income tax and insurance, which results from the latter form of employment, referred to in the Czech Republic as the “švarc system”. Descriptive and analytical methods are used in order to find out material differences, and the basic information sources are legal regulations, in particular Act No. 586/1992 Coll., on Income Tax as amended, Act No. 262/2006 Coll., Labor Code, as amended, Act No. 435/2004 Coll., on Employment, and others.

The source information for the calculation of tax evasion was taken from official sources of the Football Association of the Czech Republic, web pages focusing on football, football players and their market prices – Hanzalík (2012), Gambrinusliga.cz (2014), Transfermarkt.de (2014), Eurofotbal.cz (2013). Standard methods of academic work, basic mathematical and statistical methods, namely correlation analysis, are used in the text.

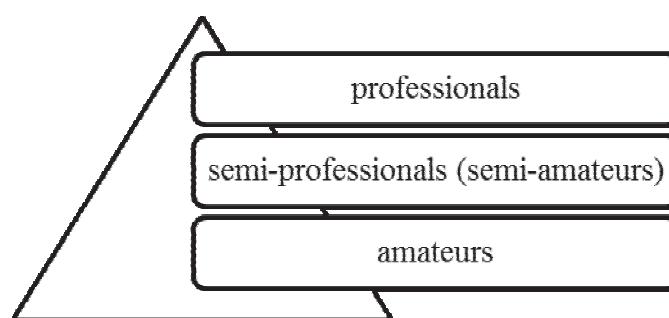
The correlation analysis method assesses the quality of regression function and ascertains the intensity of relation between X and Y. The correlation coefficient measures the strength of linear dependence of X on Y, and its values range from –1 to 1.

The most frequently used expression of tightness between two continuous characters is Pearson correlation coefficient. It expresses the degree of linearity of a relationship (i.e. how tightly the points cluster around a line). Pearson coefficient reaches values between –1 and 1. If the values are ± 1 , the variables are absolutely dependent. Positive values mean positive correlation, with both values either increasing or decreasing at the same time. Negative values mean negative correlation where one variable increases while the other one decreases. The degrees of dependence according to the absolute value of Pearson correlation coefficient are usually interpreted as follows: 0.1–0.3 weak correlation, 0.4–0.6 medium correlation, 0.7–0.8 strong correlation, above 0.9 very strong correlation. The formula for the calculation of Pearson coefficient looks as follows:

$$r = \frac{\sum_{i=1}^n (x_i - \bar{x}) \times (y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2 \times \sum_{i=1}^n (y_i - \bar{y})^2}} \quad (1)$$

RESULTS AND DISCUSSION

Czech tax regulation or international tax treaties do not include the precise definition of the term “sportsman”. We can refer to a guideline: Commentaries on the articles of the OECD Model Tax Convention (2012), which gives examples of who is and who is not considered an entertainer



1: Pyramid structure of sports membership
Source: own work

or sportsman for the purposes of the Convention. According to OECD (2012), a sportsman is a person who engages in traditional athletic sports or less common sports like golf, horse racing, cricket, car racing, chess and other sports games. Czech tax law lacks the definition of a sportsman or a legal regulation that would define a legal position of a sportsman and a sports association. Correct understanding and characteristics of activities of a concrete sportsman are significant for the classification of the sportsman as a taxpayer, also with respect to the amounts of social security and health insurance contributions.

At present, the membership and numbers of sportsmen on the respective levels of the imaginary pyramid may be expressed as depicted in Fig. 1. Fig. 1 clearly shows that the largest number of sportsmen are amateurs and only a small portion are professionals.

The groups of sportsmen defined above are specified in the following section with their direct link to Act No. 586/1992 Coll. on Income Tax as amended ("AIT").

An amateur sportsman engages in sport only in his free time, it is his hobby and he does not get any income or remuneration in return. Sport is therefore a non-profit event, and he only engages in it occasionally, for fun and for some physical activity. According to FIFA regulations (2010) on the Status and Transfer of Players, football players are organized within professional football associations either as amateurs or as professionals. A professional is a player who has a written contract with the club and his salary exceeds expenses he really spends on his football career. All other players are considered amateurs. Amateurs do not get any remuneration and if they get income, such income is taxable under Section 10, par. 1 letter a) AIT. Prizes from public competitions are exempt from tax up to the amount of CZK 10,000 under Section 4 par. 1 letter f), Section 10 par. 3 letter b) and Section 10 par. 8 AIT. The number of football players on this level of the pyramid in Fig. 1 is several times higher than those on the remaining two levels.

Semi-amateurs (or semi-professionals) are on the second level of the pyramid. This is the borderland between amateurs and professionals.

These sportsmen get financial remuneration in money as well as in kind in relation to their sport performance, but unlike professionals they do not have sports activity as their main occupation and livelihood. Semi-professionals have usually a mandate contract concluded with the sports club, which is a simplified version of the professional contract. There is not a universal rule for the taxation of income based on such contracts, as it depends on the real content of the mandate contract. For entrepreneurs this may be income from independent business under Section 7 AIT and for persons who do not have a trade license, such income would fall into the "other income" category under Section 10 AIT. In case the subject of the mandate contract was dependent activity, the income would be subject to tax under Section 6 AIT as income from employment.

The last group of the imaginary pyramid is represented by professionals who engage in sport as their main profession and source of profit. This is the least numerous category of sportsmen. Next to income from sport, they often get receipts from other operations (advertisement and sponsorship) which may be multiples of the income from sport. Income of professionals is subject to tax under Section 6 or Section 7 AIT. Moreover, such players usually play for foreign clubs and therefore get substantial receipts from abroad. According to the Football Association of the Czech Republic (2011), only about 1,400 football players are on the professional level, which is only about 0.23% of the total number of football players registered in the Czech Republic. The professional sportsman can either be employed by the sports center, club or team, or he can have a trade license or a freelance profession. The nature of the relation between the professional sportsman and the club is most accurately expressed by Section 6 par. 1 letter a) AIT, i.e. the relation between an employee and an employer.

In real practice, there are many types of legal relationships between sportsmen and organizations and hence the specific rights and duties. The most common type of contractual relation is the employment relation under Act No. 262/2006 Coll., Labor Code, as amended

(hereinafter the “Labor Code”) which includes employment contract, task order agreement or work performance agreement. Until 31 December 2013, the legal relationships could assume the form of a mandate contract under Section 724–732 Civil Code No. 40/1964 Coll., or under Section 566–575 Commercial Code No. 513/1991 Coll., or an unspecified contract (under Section 51 Civil Code No. 40/1964 Coll.). Since 1 January 2014, mainly mandate contracts under Act No. 89/2012 Civil Code are used. In the Czech Republic, the most typical form of sportsmen's engagement is that the sportsman is a self-employed person, whereas in other European countries the employment relation prevails (e.g. in Belgium, Estonia, Italy, Latvia, Cyprus, Germany, the Netherlands, Portugal, Austria, Romania, Slovakia and the United Kingdom).

The fact is that sportsmen, especially in collective sports, do not work independently, but observe the employer's guidelines; therefore they should be in the relation with the club. In case the sportsman is employed in the sports club, his income is taxed under Section 6 par. 1 letter a) AIT. The amendment to the Labor Code setting out that sportsmen are the club's employees (as the case is in the other EU states) has been discussed since the accession of the Czech Republic to the EU. In case sports organizations and sportsmen themselves were bound by the employment contract under the Labor Code, they would face many obstacles in the performance of sports. The most substantial difficulty is the obligation of uninterrupted rest lasting at least 35 hours a week under Section 92 Labor Code. If professional sportsmen have to train daily including weekends, the condition is easily breached. Employers (sports clubs) would face another problem: an employee could give notice with a two-month notice period under Section 50 and Section 51 Act No. 262/2006 Coll., Labor Code. Some competitions last from spring until autumn and it would be difficult for the club to search for a new player in the midst of the season.

Therefore, in the Czech Republic it is not easy for a sportsman to decide whether to work on the basis of an employment contract or as a self-employed person; moreover we face problems with the definition of the term dependent work. In the Czech Republic sportsmen do not enter into standard employment relations due to specific features of their profession. In the sports industry, the sportsman – semiprofessional or full professional – is usually an employee, but issues invoices, which means the above-mentioned “švarc system” is applied; in fact the work resembles the employment relation. Business-law relations are concluded instead of typical employment relations under an employment contract as per Section 33 Labor Code No. 262/2006 Coll. Thus the relationship has typical features of dependent work: it is performed on the basis of superiority of the employer and subordination of the employee,

on behalf of the employer and according to his instructions; the employee performs it in person, at the expense and liability of the employer, at the employer's workplace and in the working hours, for a salary, wage or remuneration for work. Amendment to Act No. 435/2004 Coll., on Employment, as amended by Act No. 401/2012 Coll., contains a new definition of illegal work with effect from 1 January 2013. Under Section 5 letter e) of the Act on Employment, illegal work is prohibited and subject to sanction. One of the types of illegal work under this clause is dependent work performed by a natural person outside of employment relation. There are judicial decisions in this context, issued by the Supreme Administrative Court, whose view is clear as far as the performance of dependent work by the sportsman is concerned, but otherwise leaves a certain “freedom” claiming that it always depends on the agreement between both parties.

- On 29 November 2011 the Supreme Administrative Court issued a judgment (ref. No. 2 Afs 16/2011), in which it declares that the activity of a professional sportsman is not a simply defined dependent work within the framework of an employment relation. Therefore other types between sportsmen and clubs cannot be considered illegal. Because Czech law does not contain any special legal regulation governing professional sportsmen's activity, the form of legal regulation depends on the arrangement between the parties.
- The Supreme Administrative Court in its judgment of 1 August 2012 (ref. No. 2 Afs 22/2012-31) *inter alia* again expressed its opinion of the assessment whether this is dependent work or business undertaking. Thus, the Supreme Administrative Court identified with its previous decisions according to which the assessment whether the work is dependent or independent business activity must be made on an individual basis.

The next part of the article describes a model situation, aiming at the identification of tax evasion following from employment of sportsmen, comparing an employment relation and work under the trade license – a form of self-employment. We shall quantify the amount of evaded income tax and insurance on the basis of the analysis of the present state of tax law and concrete work relation between the sportsman and the sports organization. As far as the employee is concerned, we stress the unfair taxation of the respective income groups of taxpayers and disadvantages of tax discounts, which may be deducted only to the limit of the zero tax base. The consequences for the state are significant especially with regard to the slump in the public revenues in recent years, which has been caused also due to low payments of insurance and income taxes. Positive and negative features of the system are listed with respect to all the three entities (employer, employee and the state).

Quantification of Incidence on Employees, Self-employed Persons, Employers and the State

We compared incidence on the income of the employee, employer, and the state through application of three levels of taxable income. The model monthly taxable income was set to CZK 5,000, 30,000 and 70,000. For the sake of clearness and better quantification of incidence on the defined groups, we work with the annual taxable income, i.e. amounts of CZK 60,000, 360,000 and 840,000. To simplify the calculations, we assume the identical level of taxable income in all the months and we suppose that the employee signed the tax return under Section 38 k) AIT and that he claims tax bonus for two supported children under Section 35 c) AIT.

First, we calculated incidence on **employees and self-employed persons**. Each of the above mentioned levels of taxable incomes has the annual taxable income determined (twelve monthly taxable incomes) and net income (after subtracting statutory deductions from wages) calculated, see Tab. I. The amount of annual returned tax (with minus sign) or the arrears of payment (with plus sign) are quantified in Tab. II.

In case the employee has low amount of taxable income, he gets a certain financial amount back. The tax base is so low that the tax duty proper amounts to zero. Although the taxpayer pays social security and health insurance – 11% in total, he gets the tax bonus for supported children from the state, as mentioned in Tab. I.

Tab. I also shows calculations in case the sportsman is in the position of a self-employed person. For completeness of the above calculations we must add that the minimum assessment base for self-employed persons is half of the tax base. If this base is lower than CZK 150,822, the minimum annual health insurance is 13.5% of the assessment base, i.e. CZK 20,361.

Employees with the lowest taxable income, CZK 60,000 per year, get CZK 20,208 back from the state. However, if it is a self-employed person that earns this level of taxable income, he shall pay more and his net income shall be lower by CZK 35,784. In case the annual taxable income is CZK 360,000, the employee shall pay CZK 60,312 for income tax, social security and health insurance, while as a self-employed person would pay a lower amount of CZK 32,649, i.e. CZK 27,663 less. In case the annual taxable income is CZK 840,000, an

I: Calculation of net income in CZK – incidence on employees and self-employed persons

| | Employee | SEP | Employee | SEP | Employee | SEP |
|-----------------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| annual taxable income in CZK | 60,000 | 60,000 | 360,000 | 360,000 | 840,000 | 840,000 |
| lump sum expenses 40% | | 24,000 | | 144,000 | | 336,000 |
| soc. sec., health ins. 34% for employer | 20,400 | | 122,400 | | 285,600 | |
| tax base | 80,400 | 36,000 | 482,400 | 216,000 | 1,125,600 | 504,000 |
| tax before discount per taxpayer | 12,060 | 5,400 | 72,360 | 32,400 | 168,840 | 75,600 |
| discount per taxpayer | 24,840 | 24,840 | 24,840 | 24,840 | 24,840 | 24,840 |
| tax after discount per taxpayer | 0 | 0 | 47,520 | 7,560 | 144,000 | 50,760 |
| number of children | 2 | 2 | 2 | 2 | 2 | 2 |
| tax bonus for a child | 13,404 | 13,404 | 13,404 | 13,404 | 13,404 | 13,404 |
| tax after discount for children | 0 | 0 | 20,712 | 0 | 117,192 | 23,952 |
| tax bonus | 26,808 | 26,808 | 0 | 19,248 | 0 | 0 |
| assessment base | | 18,000 | | 108,000 | | 252,000 |
| minimal amount of health ins. | | 20,361 | | 20,361 | | 34,020 |
| minimal amount of soc. sec. | | 22,023 | | 31,536 | | 73,584 |
| total soc. sec. + health ins. | | 42,384 | | 51,897 | | 107,604 |
| soc. sec., health ins. 11% per employee | 6,600 | | 39,600 | | 92,400 | |
| net annual income in CZK | 80,208 | 44,424 | 299,688 | 327,351 | 630,408 | 708,444 |

Source: own work

II: Incidence on employees and self-employed persons in CZK

| | Employee | SEP | Employee | SEP | Employee | SEP |
|-------------------------|----------|--------|----------|---------|----------|---------|
| annual taxable income | 60,000 | 60,000 | 360,000 | 360,000 | 840,000 | 840,000 |
| net income | 80,208 | 44,424 | 299,688 | 327,351 | 630,408 | 708,444 |
| – obtained / + withheld | –20,208 | 15,576 | 60,312 | 32,649 | 209,592 | 131,556 |
| Difference | 35,784 | | 27,663 | | 78,036 | |

Source: own work

employed sportsman pays to the state CZK 209,592. On the other hand, a self-employed person saves CZK 78,036 on withdrawals to the public budget.

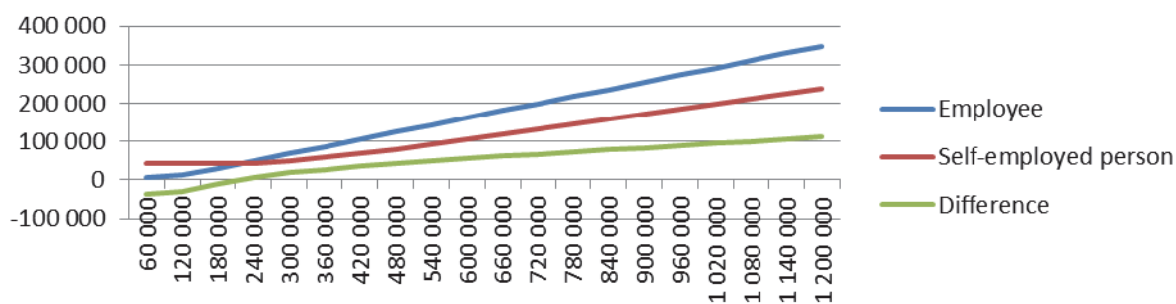
The calculations mentioned in Tab. I and Tab. II were used for the draft of Fig. 2. As may be seen in Fig. 2, employees in the lower income categories get money back from the state (in the form of a tax bonus), while a self-employed person pays a certain amount to the state in the form of taxes, security and insurance. However, this difference tends to decrease, and if the income of a taxpayer is between CZK 240,000 and 300,000 a year, the situation reverses, i.e. an employee starts to pay more money to the state budget than a self-employed person. The amount of differences is not contingent on the number of children.

The next calculation is quantification of **incidence on the employer's costs**. The situation is clear: the employer pays health insurance and social security only for its employees (34% of the taxable income); see Tab. III. If a self-employed person

works for the employer, its further expenses are zero.

Quantification of **incidence on the state – public budget**. This includes social security and health insurance (to health insurers) payment as well as income tax. Tab. IV shows payments obtained back by taxpayers in the form of a tax bonus for supported children. The Tab. III contains all the public incomes from social security and health insurance, i.e. both the incomes withheld from the taxable income of an employee and employer's payments for the employee. According to the current legislation, the employer pays for the employee 25% of social security and 9% of health insurance, employees are withheld social security of 6.5% and 4.5% for health insurance, in total 31.5% for social security and 13.5% for health insurance is paid; this in the event that the sportsman is in the position of an employee on the basis of a labor-law relation.

The below conclusions follow from the results of Tab. IV. When the level of annual taxable income is CZK 60,000, the position of the state



2: Difference in incidence on employees and self-employed persons in CZK

Source: own work

III: Incidence on employers – payment of social security and health insurance for employees

| | | | |
|--------------------------------------------|--------|---------|---------|
| Annual income | 60,000 | 360,000 | 840,000 |
| Soc. sec. and health ins. paid by employer | 20,400 | 122,400 | 285,600 |

Source: own work

IV: Quantification of incidence on the state – public budget in CZK

| | Employee | SEP | Employee | SEP | Employee | SEP |
|-----------------------------------------------|----------|--------|----------|---------|----------|---------|
| annual taxable income | 60,000 | 60,000 | 360,000 | 360,000 | 840,000 | 840,000 |
| soc. sec. 6.5% | 3,900 | 0 | 23,400 | 0 | 54,600 | 0 |
| health ins. 4.5% | 2,700 | 0 | 16,200 | 0 | 37,800 | 0 |
| soc. sec. 25% | 15,000 | 0 | 90,000 | 0 | 210,000 | 0 |
| health ins. 9% | 5,400 | 0 | 32,400 | 0 | 75,600 | 0 |
| soc. sec. 29.2% | 0 | 20,361 | 0 | 20,361 | 0 | 34,020 |
| health ins. 13.5% | 0 | 22,023 | 0 | 31,536 | 0 | 73,584 |
| tax after deduction of tax bonus per taxpayer | 0 | 0 | 47,520 | 7,560 | 144,000 | 50,760 |
| tax after deduction of tax bonus for children | 0 | 0 | 20,712 | 0 | 117,192 | 23,952 |
| bonus | 26,808 | 26,808 | 0 | 19,248 | 0 | 0 |
| payment to state budget | 192 | 15,576 | 182,712 | 32,649 | 495,192 | 131,556 |
| Difference | | 15,384 | | 150,063 | | 363,636 |

Source: own work

is on a consistent level, because it conforms to the standard set by legal regulations (it is not profitable for the sportsman to be in the position of a self-employed person). However, if amounts of taxable income are higher, tax evasion occurs in the case of using work of a self-employed person, and the public budget loses significant revenues. We can assume with a high level of certainty that the higher is the taxable income of the sportsman, *ceteris paribus*, the form of work as a self-employed person shall be profitable for him and disadvantageous for the public budget.

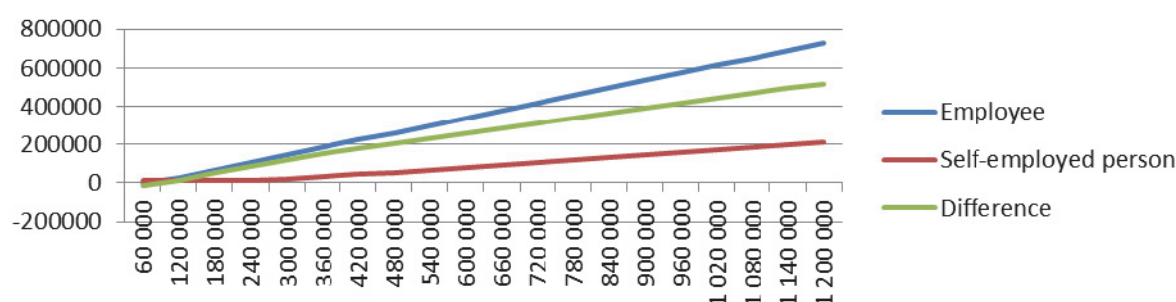
Quantification of Tax Evasion in the Football Industry in the Czech Republic

The official website of the Football Association of the Czech Republic – “FACR” (2012) provides data about the number of registered football players. In 2011 we had 750,000 players, of which 1,700 were professionals. The electronic registration of football players, coaches and other players was introduced in 2012 in order to ascertain their real numbers and monitor membership fees received (see above). While in the past FACR got money from the state (mainly from the proceeds of Sazka, a.s.), it was not necessary to monitor the exact numbers of sportsmen and it applied that municipalities obtained subsidies depending on the number of registered athletes. After Sazka, a.s. went bankrupt, sports clubs have to provide contributions to umbrella organizations (in particular to the Czech Sports Association, since 27 April 2013 the Czech Sports Union), and therefore they try to get the lowest possible levels of membership fees. The number of football players has significantly dropped from 750,000 to 280,000 since the introduction of the electronic registration system. We should mention that the number of professional players, unlike amateur athletes, was well monitored and registered in the past, too,

and therefore the official number has not changed dramatically. The number of professional football players is currently ca 0.23% of the total number, which is a insignificant proportion. The other football players, i.e. those on the lower levels of the pyramid – semiprofessionals and amateurs – have much lower income.

The model example that is the subject of analysis is based on the calculated number of professionals (Tab. V) and defined prerequisites leading to the determination of tax and insurance evasion as mentioned in the above text. The “value indicators”: mode, median and weighted arithmetic mean were calculated from the income of players in the top Czech football competition according to Hanzalík (2012). However, it is not suitable to apply the arithmetic mean of CZK 55,000 because the average income value has been distorted by outliers (the minimum income of CZK 16,000 and the maximum of CZK 275,000). Therefore the remaining indicators are more appropriate. Due to the fact that the most frequent modal value of CZK 35,000 occurred 63 times in the selected sample and the median of CZK 45,000 occurred only 10 times, we chose the modal value of income in Gambrinus liga in the amount of CZK 35,000 for the purposes of further calculations.

Tab. VI shows incidence on employees, employers, and the state in years 2011–2013 assuming that the sportsman is in the position of an employee or a self-employed person in the category of professional football players in the Czech Republic. If the calculated taxable income of a sportsman is CZK 35,000, the resulting differences in payments of taxes, social security and health insurance between employees and self-employed persons according to number of sportsmen in Tab. V oscillate around CZK 200 million in the respective years. Thus, tax evasion in this category of sportsmen is very high



3: Difference in incidence on public budget in CZK

Source: own work

V: Numbers of football players in 2011–2013 according to Czech Sports Association (now Czech Sports Union)

| Year | 2011 | 2012 | 2013 |
|---------------------------------------|---------|---------|---------|
| Number of football players | 512,780 | 538,762 | 508,755 |
| Re-calculated number of professionals | 1,162 | 1,221 | 1,153 |

Source: own work

VI: *Incidence on employees, employers and the state in football industry – professionals*

| Year | 2011 | | 2012 | | 2013 | |
|-----------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Incidence on employees | Employee | SEP | Employee | SEP | Employee | SEP |
| Taxable income | 488,040,000 | 488,040,000 | 512,820,000 | 512,820,000 | 484,260,000 | 484,260,000 |
| Net income | 396,274,536 | 437,719,590 | 416,395,188 | 459,944,595 | 393,205,284 | 434,329,335 |
| – Obtained / + withheld | 91,765,464 | 50,320,410 | 96,424,812 | 52,875,405 | 91,054,716 | 49,930,665 |
| Difference | 41,454,054 | | 43,549,407 | | 41,124,051 | |
| Incidence on employers | | | | | | |
| Taxable income | 488,040,000 | 488,040,000 | 512,820,000 | 512,820,000 | 484,260,000 | 484,260,000 |
| Soc. sec. and health ins. | 165,933,600 | 0 | 174,358,800 | 0 | 164,648,400 | 0 |
| Difference | 165,933,600 | | 174,358,800 | | 164,648,400 | |
| Incidence on the state | | | | | | |
| Taxable income | 488,040,000 | 488,040,000 | 512,820,000 | 512,820,000 | 484,260,000 | 484,260,000 |
| Soc. sec. 8% | 31,722,600 | 0 | 33,333,300 | 0 | 31,476,900 | 0 |
| Health ins. 4.5% | 21,961,800 | 0 | 23,076,900 | 0 | 21,791,700 | 0 |
| Soc. sec. 26% | 122,010,000 | 0 | 128,205,000 | 0 | 121,065,000 | 0 |
| Health ins. 9% | 43,923,600 | 0 | 46,153,800 | 0 | 43,583,400 | 0 |
| Soc. sec. 29.2% | 0 | 42,752,304 | 0 | 44,923,032 | 0 | 42,421,176 |
| Health ins. 13.5% | 0 | 23,659,482 | 0 | 24,860,781 | 0 | 23,476,233 |
| Tax after deduction of tax bonus per taxpayer | 69,231,960 | 15,059,520 | 72,747,180 | 15,824,160 | 68,695,740 | 14,942,880 |
| Tax after deduction of tax bonus for children | 38,081,064 | 0 | 40,014,612 | 0 | 37,786,116 | 0 |
| Tax bonus | 0 | 16,091,376 | 0 | 16,908,408 | 0 | 15,966,744 |
| Payment to state budget | 257,699,064 | 50,320,410 | 270,783,612 | 52,875,405 | 255,703,116 | 49,930,665 |
| Difference | 207,378,654 | | 217,908,207 | | 205,772,451 | |

Source: own work on the basis of information from Yearbook Czech Sports Association 2011–2013

VII: *Amount of tax evasion (in CZK) in the top Czech football competition*

| Club | Players in the line-up | Total wages | Tax evasion |
|------------------|------------------------|-------------|-------------|
| Slavia | 23 | 22,200,000 | 2,021,325 |
| Plzeň | 21 | 20,940,000 | 1,915,167 |
| Baník Ostrava | 21 | 12,030,000 | 942,477 |
| Olomouc | 24 | 14,580,000 | 1,273,548 |
| Liberec | 20 | 14,280,000 | 1,317,402 |
| Mladá Boleslav | 13 | 11,760,000 | 1,092,504 |
| Teplice | 27 | 12,606,000 | 926,622 |
| Příbram | 29 | 13,320,000 | 1,038,744 |
| Jablonec | 21 | 12,600,000 | 1,170,540 |
| Dukla | 20 | 12,600,000 | 1,170,540 |
| Jihlava | 23 | 12,048,000 | 1,078,806 |
| Brno | 29 | 13,320,000 | 1,141,236 |
| České Budějovice | 29 | 12,180,000 | 1,034,343 |
| Hradec Králové | 26 | 8,220,000 | 581,958 |
| Slovácko | 28 | 14,160,000 | 1,257,153 |
| Sparta | 23 | 31,500,000 | 2,926,350 |
| Total | | 238,344,000 | 20,888,715 |

Note: The table contains the calculated tax evasion amount only for players in Gambrinus liga, not for all registered professional football players.

Source: Eurofotbal (2013), Gambrinusliga.cz (2014), Transfermarkt (2014), own work

VIII: Expression of dependence of tax, security and insurance evasion on football players' wages

| | Players in the line-up | Total wages | Tax, security and insurance evasion |
|------------------------|------------------------|-------------|-------------------------------------|
| players in the line-up | 1 | | |
| total wages | 0.198165098 | 1 | |
| tax evasion | 0.328733205 | 0.880857033 | 1 |

Source: own work

if sportsmen work as self-employed persons. Nevertheless, the question is whether this is really tax evasion; basically it is a suitable use of legal possibilities to pay less taxes due to insufficient legislation in the Czech Republic, which is not able to precisely define whether sportsmen should work on the basis of an employment relation or another type of contractual relation enabling the taxation of their taxable income while applying Section 7 AIT. Again we would like to stress that we only focus on the football industry and consider only the basic wage without bonuses for successful performance. Professional players get further extra bonuses e.g. for the time played, goals scored, matches won etc.; therefore their income may be much higher as well as the difference in taxes, security and insurance – these amounts are not possible to be calculated for reasons mentioned above.

Tab. VII quantifies the total amount of evaded tax in the respective clubs in Gambrinus liga. The quantification is based on the number of players in the line-up and total wages of the club. The total amount of tax evasion caused by the clubs participating in the top Czech football competition was calculated using annual taxable incomes of individual football players. We can summarize the calculation to the total annual tax evasion of CZK 20,888,715 for 377 players. In fact, tax evasion amount is much higher because the calculation

does not consider bonuses for matches won, time played etc.

Pearson correlation coefficient shall be used for the measurement of dependence of amount of tax, security and insurance evasion on the amount of income of players in the top Czech football competition. Pearson coefficient r according to formula (1) expresses the degree of linearity of the relationship. The coefficient is applied for the measurement of dependence of data stated in Tab. VII.

The number of players in the line-up, total wages in the football club and tax evasion were analyzed on the basis of information in Tab. VII. Results stated in Tab. VIII do not contain any negative value, which would suggest negative correlation, thus it follows that positive correlation exists between all the analyzed features. Figures calculated by means of the correlation coefficient may be interpreted as follows: The lowest correlation exists between the number of players in the line-up and total wages, amounting to 19.18%. On the other hand the number of players in the line-up affects tax evasion by 32.87%. The highest (strongest) correlation is between the total wages in the club and tax evasion and amounts to 88.08%. It means that the more players work for the club and the higher their incomes, the higher is the tax evasion of the club.

CONCLUSION AND SUMMARY

The legislation in the Czech Republic does not provide for a definition of a sportsman or a definition of the legal relation between the sportsman and a sports organization. This results in situations where the sportsman is either in the position the club's employee, or works as a self-employed person or has an innominate (unspecified) contract on sports performance with the club. The most frequently used is the second option, i.e. the sportsman working as a self-employed person. In the view of experts, sportsmen should be employed by their clubs. This, however, presents several problems: for example, the sportsman could give a notice to the club in the middle of the season and the entitlement for uninterrupted rest during the week cannot be guaranteed.

This article dealt with evasion from taxes, social security and health insurance in the cases of employees and self-employed persons. The differences were compared using a model example from the area of football, specifically the top Czech competition – Gambrinus liga. All the calculations suggest that self-employed persons get more profit than employees. Evaded tax, social security and health insurance payments of registered professional football players exceed CZK 200 million annually. The calculations only considered the basic wage, without any other bonuses or other incomes, such as receipts from other operations than sport; therefore the real tax evasion is much higher.

Amendment to the Labor Code, under which sportsmen would have to be employed by clubs, was proposed in the past. However, it was not passed by the parliament, and sportsmen continue to be able to work as self-employed persons, which is more profitable for them. Also courts maintain that it depends on the agreement between the contracting parties whether the sportsman acts as a self-employed person or has a different type of contractual relation with the club.

The results of our analysis also suggest that in case all Gambrinus liga football players were in the position of self-employed persons, and not in the position of employees, the state would be curtailed by CZK 20,888,715 on income taxes and insurance due to utilization of loopholes in the law and therefore application of the "švarc system". However, this amount may be much higher because bonuses and extra remuneration of players were not taken into account.

In conclusion we must say that tax evasion and loss in public budget shall continue to be generated unless there is a very clear attitude to the issue of sportsmen's employment versus their operation as self-employed persons.

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