

Influence of „morality” and „ethics” on the scope of taxation. The example of Polish regulation of VAT

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Introduction

In Polish literature of tax law topics of morality and ethics are not common. Usually scholars focus on those issues in reference to avoidance of tax duties. The main aim of this paper is to depict that influence of morality and ethics on the scope of taxation itself shall be discussed, as various lines of interpretation may be distinguished. Such situation affects the principle of certainty of law and results in difficulties in practical application of legal rules. Noteworthy, terms as - for example- “norms”, “values”, “good practices”, “honesty” are used by jurisdiction and tax authorities as something that does not require any interpretation because their meaning is certain. From the point of view of theory of law, such assumption is unacceptable.

Research questions are focused on an issue if morality and ethics have any influence on taxation, and if the answer is “yes”, how this influence is shaped. As an exemplification of this problem Value-Added Tax will be used. As this tax is harmonized at the territory of European Union, requirement of consistency with European law brought various challenges to Polish legal framework, that were not known before joining the structures of EU. To start with, characteristic of Value-Added Tax will be presented.

Characteristic of Value-Added Tax

Value-Added Tax (hereinafter as VAT) at the territory of European Union is harmonized by Sixth Council Directive 77/388/EEC of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes - Common system of value added tax: uniform basis of assessment¹⁷², which was replaced by Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax¹⁷³ (hereinafter as VAT Directive). VAT is a tax on consumption and the feature that characterizes it primarily is its commonness. If so, the economic weight of this tax is carried by the consumer and as long as the good or service is in the turnover on the market, it is fiscally

¹⁷² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31977L0388:en:HTML>, 5.11.2015.

¹⁷³ <http://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:32006L0112>, 7.11.2015.

neutral¹⁷⁴. VAT mechanism is based on the right to count off the surplus of tax charged in the previous stages of turnover over the due amount. Polish regulation of VAT¹⁷⁵ is an implementation of VAT Directive.

According to Article 5, scope of taxation is limited to chargeable supply of goods or services at the territory of Poland, export of goods, import of goods to the territory of Poland, intra-Community acquisition of goods and intra-Community supply of goods. Article 6 regulates exclusions from taxation. According to it, rules of an act are not applicable to transactions that refer to enterprise or its organized part or acts that can not be a subject of legally enforceable contract. As this term has no legal definition, its meaning is disputable. Three different approaches of doctrine views may be distinguished. According to first of them, “narrow” approach, this term shall be interpreted strictly in the reference to Penal Law. If so, “acts that can not be a subject of legally enforceable contract” are limited only to crimes penalized by law. In opposite, “wide” approach is connected with Civil Law. Scholars representing this approach assume that the *designatum* of subject term are all of the acts that are invalid in scope of Civil Code, regardless the reason of invalidity. Third approach, “in the middle”, suggests that because of wording of this rule we shall limit it to acts that in no circumstances may be a subject of legally enforceable contract, as tax legislator used phrase “can not be” instead of “are not”¹⁷⁶. To explain the difference between “wide” and “in the middle” approach, an example may be used. According to polish Civil Code an act of selling off immobility must be signed by the parties in a form of notarial act; otherwise it is invalid. If so, in reference to “wide” approach such act would be excluded from taxation. In opposite, scholars representing “in the middle” approach would assume that as it is possible to sign a valid contract of selling off immobility, such transaction should be taxed. Lack of proper form has no consequences in the sphere of tax law – what counts is the nature and characteristic of an act itself, with no reference to additional circumstances of the contract. It implies the assumption that “acts that can not be a subject of legally enforceable contract” are reduced only to those acts that because of its nature would never be a subject of a valid contract. In polish legal framework those would be –*inter alia* - acts that are invalid because of inconsistency with rights of

¹⁷⁴ R. Mastalski, *Prawo podatkowe*, Warsaw 2014, p. 521.

¹⁷⁵ Ustawa z dnia 11 marca 2004 r. o podatku od towarów i usług, Dz.U. 2004 nr 54 poz. 535.

¹⁷⁶ Divagations on the meaning of “acts that can not be a subject of legally enforceable contract” are included in – among all – K. Radzikowski, *Wadliwość czynności prawnej a podatek VAT*, „Przegląd Podatkowy”, nr 10, 2009, P. Skolimowski, *Podatkowe skutki nieważności czynności prawnej*, „Toruński Rocznik Podatkowy”, Toruń, 2011, A. Miliczek – Kuś, *Podatkowa ocena ważności czynności prawnej*, „Przegląd Podatkowy”, nr 9, 2001.

nature, rules of social coexistence and law¹⁷⁷. As “rules of social coexistence” is a general clause with no strict definition, interpretation of a subject term becomes even more challenging.

Nevertheless, it is crucial to decode the meaning of “acts that can not be a subject of legally enforceable contract” from both – theoretical and practical point of view. It emerges from the postulate of certainty of law, as well as from the necessity of strict depiction of exclusions from taxation. Moreover, the influence of morality and ethics on the scope of taxation may be presented on the base of this term, as will be showed afterwards. However, such divagation shall be preceded by analysis of binding regulation and jurisdiction.

Subject term in regulation and jurisdiction

Exclusion from taxation the “acts that can not be a subject of legally enforceable contract” is included not only in the regulation of VAT, but also in the income taxes (personal income tax – PIT, corporate income tax – CIT). In general, scholars do not recognize any differentiation between meaning of subject term dependently on the tax act, but I assume that it is highly disputable. Apart from the subject matter of taxation, what differs VAT, PIT and CIT additionally is the fact that income taxes are not harmonized at the territory of European Union, at least not to such extent as VAT. This feature is important, as regulation of VAT has to be consistent with European law and jurisdiction of Court of Justice of European Union (hereinafter as CJ). It is a consequence of the fact that CJ is the only court that has a formal right to interpret European law when doubts arose and if so, its verdicts have a law-making effect.

Jurisdiction of CJ has contributed to development, specification and definition of basic, characteristic features of VAT and principles that rules it¹⁷⁸. The most important of those are: the principle of commonness of taxation, fiscal neutrality and respect of competition. To start with, principle of commonness shall be understood as a necessity to apply taxation to all of transactions that are connected with goods and services – to all of consumption¹⁷⁹, as long as the transaction is concluded in a professional turnover by person or entity that acts as a VAT taxpayer. To ensure it, VAT Directive includes unitary definitions of acts that are in the scope of taxation, independently of a state regulation of civil law. Otherwise it would be possible that similar transactions were taxed differently, dependently on the place of conclusion of contract. Such situation would be against the

¹⁷⁷ Article 58 of Polish Civil Code, Ustawa z dnia 23 kwietnia 1964 r. - Kodeks cywilny, Dz.U. 1964 nr 16 poz. 93. As this Code came into force in 1964, such terms as „rules of social existence” are relicts of previous political system – communism.

¹⁷⁸ A. Bącal, M. Militz, P. Ogiński, *Zasady dotyczące podatku od towarów i usług*, „Przegląd Podatkowy”, addition 11(223), 2009, p. 2.

¹⁷⁹ *Ibidem*, p. 3.

harmonized system of VAT. If so, exclusions from taxation shall be interpreted strictly, as they are an exemption from the principle of commonness¹⁸⁰.

This principle is strictly connected with the next one – fiscal neutrality. Majority of scholars assume that it is the most important principle of VAT¹⁸¹. In general, taxation is neutral when it has no impact on decisions of the one who makes choice between different economic solutions, that regardless tax issues would be equal¹⁸². To clarify it, it may be repeated after David Ricardo: *leave them as you find them*¹⁸³. In legal context it means the requirement of measurableness of taxation, so the taxation was shaped in accordance with assumptions. To explain it, legal neutrality is infringed when it is impossible to affirm what was the final charged tax or if the burden of tax was proportional to the price of good or service. In practice, principle of neutrality results mostly in the right to deduct the surplus of charged tax over the due amount.

Last of described principles - principle of respect of competition - states that influence of taxation on the choice of consumer shall be minimalized. To ensure it, situations when some of goods or services are more competitive than similar because of exclusion from the taxation shall be avoided. If so, criteria of exclusion from taxation shall be based on the possibility of competition between legal and non-legal products on the market. If such competition is possible, non-legal good or service is in the scope of taxation. The fact that such transaction was – as an example – crime shall have an influence on the exclusion from scope of VAT only in the situation when because of nature or specific features of some goods and services any competition between them and legal economic sector is excluded¹⁸⁴.

All of those principles were the base of verdicts of CJ that has shaped the meaning of “acts that can not be a subject of legally enforceable contract” in polish VAT. As an exemplification, verdict in the case C-3/97¹⁸⁵ may be given. Party of legal dispute was accused of VAT fraud in the sphere of selling off non-taxed, counterfeit perfumes. British Court of Appeal asked CJ prejudicial question if the supply of counterfeit perfumes is in the scope of subject matter of VAT Directive. Accused party assumed that as there is no legal market for counterfeit perfumes, those products are excluded from taxation. CJ did not agree with such argumentation. According to justification of verdict, judges stated that taking into consideration the principle of neutrality, from VAT point of view it is prohibited to

¹⁸⁰ *Ibidem*.

¹⁸¹ J. Martini, Ł. Karpesiuk, *VAT w orzecznictwie Europejskiego Trybunału Sprawiedliwości*, Warsaw 2007, p. 39.

¹⁸² D. Gibasiewicz, *Zasada neutralności podatku od wartości dodanej w orzecznictwie Europejskiego Trybunału Sprawiedliwości*, Warsaw 2012, p. 47.

¹⁸³ *Ibidem*, p. 49.

¹⁸⁴ *Ibidem*, p. 132.

¹⁸⁵ CJ verdict in case C-3/97 *John Charles Goodwin and Edward Thomas Unstead*, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:61997CJ0003>, 5.11.2015.

differentiate legal and non-legal transactions, apart from situations when because of specificity or nature of non-legal products any competition between legal and non-legal economic sector is excluded. Illegality of counterfeit perfumes arises from the violation of intellectual property law, not from nature or specificity of product itself. Prohibition of trade of counterfeit perfumes is conditional and those products may compete on market with legal goods. If so, CJ decided that counterfeit perfumes are in the scope of VAT taxation.

Verdict in next described case – C-289/86¹⁸⁶ – was different. According to factual circumstances of the case, association *Vereniging Happy Family Rustenburgerstraat* run a youth center that offered various trade goods. Among all, *house dealer* was selling hashish. In reference to legal circumstances, it was forbidden to sell or buy drugs, but according to official state policy if the trade was on a minor scale, crime was not chased. It was stated that the priority of prosecution was given to situations when because of its range trade of drugs brought unacceptable risk. Judges assumed that harmful influence of drugs on human body is commonly recognized and their trade is prohibited at the territory of EU. The only exemption is strictly controlled and regulated market for medical purposes. If importation of drugs – all kinds of drugs – is prohibited by Penal Law and as such is outside scope of taxation, it shall be applied to intra-Community supply of goods as well. The fact that trade on such scale as in subject case is rarely chased does not change the line of interpretation. What is more, if it had justified the exemption, it would have infringed the harmonization of VAT. If so, all kinds of transactions that are related to drugs are not in the scope of taxation, as because of nature and specificity of product there is no legal market for drugs.

To summarize at this point, it may be clearly seen that exclusions from VAT taxation shall be interpreted strictly and without reference to regulation of national private law. As subject term was included in tax act that preceded actually binding, change of line of interpretation of the meaning of this term with reference to European law and CJ jurisdiction may be easily noticed.

Previous tax act was a joint regulation of tax on goods and services and excise and it came into force in 1993. At that time it was commonly assumed that term “acts that can not be a subject of legally enforceable contract” refers to acts like stealing, prostitution or procurement, so those prohibited by law, as well as those acts that are unconditionally invalid¹⁸⁷. What is more, construction of VAT was understood wrongly, as it was stated that the right to count off the surplus of charged tax over due amount was a kind of tax allowance. As it was mentioned previously, it is undeniably part of

¹⁸⁶ CJ verdict in case C-289/86 *Vereniging Happy Family Rustenburgerstraat, Amsterdam v. Inspecteur der omzetbelasting Amsterdam*, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:61997CJ0003>, 4.11.2015.

¹⁸⁷ Thesis from verdict of Supreme Administrative Court in Rzeszow from 23th of November 1999, SA/Rz 1066/98.

the whole VAT mechanism and as such, it is a right of a taxpayer, not a relief¹⁸⁸. After joining structures of EU the situation changed. As an example, such verdict may be discussed. In case I FSK 1132/13¹⁸⁹ Supreme Administrative Court answered the question if trade of counterfeit trademarks is in the scope of taxation of VAT. Tax authorities assumed that such trade is not excluded from VAT, as it is an act that can be a subject of legally enforceable contract. Complainant suggested that since he had no right to dispose the trademarks, all conditions of exclusions regulated in Article 6 were fulfilled. Complaint was dismissed, as judges decided that the core of Article 6 is that it excludes from taxation those acts that are assumed as illegal in legal trade, and – additionally - have no impact on competition. As complainant was selling goods with lowered price when compared to equivalent legal products, competition between them was factual. Lack of enforceability from Article 6 refers to essence of act itself, not to results of an act because of other circumstances. If so, subject norm shall be applied when specified act *in abstracto*, regardless the circumstances, can not be a subject of legally enforceable contract.

Such line of interpretation is widely represented, but as the meaning of this term is disputable, other definitions may be easily found. Described verdict is in accordance with jurisdiction of CJ, but sometimes decisions of Polish courts are not fully compatible with European law. As an example, in case I SA/Ol 429/09¹⁹⁰ Regional Administrative Court in Olsztyn stated that trade of counterfeit alcohol is out of scope of taxation. It was justified by the assumption that the state can not gain profits from acts that were previously forbidden by it, as it would be against the principle of democratic rule of law. Such statement is inconsistent with jurisdiction of CJ, as counterfeit alcohol may compete on the market with legal products and lack of taxation has an additional influence on price competition between legal and illegal goods. When it is about VAT, according to CJ such features as immorality or penalization of act – when competition is possible – do not matter.

To summarize at this point, currently the most popular of views is “in the middle” approach. As it combines exclusion from taxation with the fact that act can not be a subject of legally enforceable contract regardless the circumstances, it is worth mentioning when those requirements are fulfilled. As it was stated, one of the examples are those acts that according to Article 58 of Polish Civil Code are unconditionally invalid because of inconsistency with law, rules of social coexistence and rights of nature. From the point of view of this paper, the most important is inconsistency with rules of social coexistence. Doctrinal definitions of this term vary significantly. According to one of the most common definitions, rules of social coexistence refer to the minimum of commonly accepted

¹⁸⁸ *Ibidem*.

¹⁸⁹ Verdict of Supreme Administrative Court from 2nd of February 2014, I FSK 1132/13.

¹⁹⁰ Verdict of Regional Administrative Court in Olsztyn from 24th of September 2009, I SA/Ol 429/09.

principles of correctness and honesty in relations with other people. As such, those acts that are perceived as immoral or not ethical are included in this category. If so, it is not possible to indicate the borders of taxation without answering the main research question - about scope of influence of morality or ethics (or rather their lack) on exclusions from the subject matter of discussed tax act. What is more, it is worth mentioning that the assumption that - as an example – counterfeit alcohol or beauty products – shall be taxed may be highly disputable from the point of view of society, as it creates an impression that state gains profits from acts that are commonly recognized as not fully ethical or moral.

Morality and ethics in the context of exclusions from VAT

Polish scholars commonly agree that the intention of tax legislator is to prevent situations when state achieves profits from acts that are immoral or forbidden. As strict borders between morality and immorality are not certain, various lines of interpretation may be distinguished. To exemplify it, prostitution may be used, as it is a social phenomenon that is highly controversial and raises various disputes.

It is assumed that prostitution shall be excluded from taxation¹⁹¹. Noteworthy, according to Polish Penal Law prostitution itself is not penalized. If so, the only reason why prostitution shall not be taxed is the fact that as an act that is commonly recognized as immoral, it stands against the rules of social coexistence and as such, is an act that can not be a subject of legally enforceable contract. Recently one of tax authorities represented line of interpretation that differs from previously widely accepted approach¹⁹². To clarify the situation, according to Polish Tax Ordinance taxpayer has a right to apply to tax authorities to gain interpretation of tax law in his (or hers) individual case. As factual circumstances state, applicant asked tax authority if virtual prostitution – via webcams – should have been taxed. She assumed that it was an act that can not be a subject of legally enforceable contract. This statement was justified by an assumption that kind of service that was offered by applicant might have been defined as prostitution. Applicant cited various dictionaries and other publications to prove that as such activity was connected with offering sexual services, it should have not been differentiated from traditional forms of prostitution - that not always consist of involvement of factual sexual intercourse. Tax authority did not agree with such interpretation and replied that virtual prostitution is included in the category of economic activity and as such is in the scope of VAT taxation. This assumption was justified by the statement that in this case sexual character of services

¹⁹¹As an example: verdict of Supreme Administrative Court from 14th of January 2010, II FSK 1301/08.

¹⁹²Interpretation of Chair of Tax Chamber from 7th of February 2015, IBPP2/443-987/14/IK.

was disputable. It resulted from the fact that applicant did not offer her body as such, but just an image of it in some kind of show. It did not matter that during this show she was obliged to behave in accordance with orders of client. However, tax authority stated that it was not the core of the whole case. The main problem that should have been analyzed was if it had been possible to conclude legally enforceable contract, that would have referred to such services. Chair of Tax Chamber cited verdicts of CJ, concluding that acts excluded from taxation should have been forbidden in all of member countries of EU, like in case of drugs. What is more, organ assumed that invalidity of act on base of Article 58 shall be *a priori* declared by civil court. As such services are not forbidden, they are not acts that can not be a subject of legally enforceable contract. Noteworthy, if services were offered trans-border, there would have been a risk that they could compete with other services.

In my opinion this line of interpretation shall be evaluated negatively. Tax authority misunderstood characteristic of exclusions from VAT. To start with, in case of invalidity of an act regulated in Article 58 of Civil Code verdict of civil court has a character of declaration as an act itself is invalid *ex tunc*. If so, unconditional invalidity of an act does not depend on the decision of the court. But – actually - when tax authority stated that it can not agree with assumption that activity conducted by applicant is excluded from taxation, to some point it decided that those acts are not unconditionally invalid. In conclusion of an interpretation it stated that “service offered by applicant is not an act can not be subject of legally enforceable contract”. If so, by this phrase Chair of Tax Chamber made a decision about invalidity of an act, in the meantime stating that is not entitled to do it.

On the other hand, organ assumed that there was a risk of competition of such services in case of trans-border transactions. The question arises: why in case of only this kind of transactions? Principle of respect of competition is not limited to trans-border activities, but it refers to those products that are in national turnover as well.

Last but not least, when tax authority stated that activities that are excluded from taxation should have been forbidden in all of member states, at the same time it admitted that prostitution should be taxed, as it is not penalized even at territory of Poland. Such assumption would be against line of interpretation that was seen as doubtless. As it was mentioned, exclusion from taxation is connected with nature or characteristic of a product, not with the rules of Penal Law.

As it may be clearly seen, with development of new technologies law has to face new challenges and question about borders of “rules of social coexistence” and competence to decide if subject behavior infringes them or not arises. In described interpretation tax authority cited authors that stated that in reference to reality, contract of offering services of prostitute should have been valid. In sphere of tax law such line of interpretation is rarely presented. As an example - in one of the

newest interpretations – from 7th of April 2015¹⁹³ – Chair of Tax Chamber in Katowice assumed that prostitution – as an act that is invalid in reference to Civil Code – is excluded from PIT taxation as it can not be a subject of legally enforceable contract. However, it did not justify its statement, probably assuming that this line of interpretation is so doubtless it does not require any explanation. As it was proved, it is not so obvious. What is more, meaning of “rules of social coexistence” is not certain, as it is a general clause. Definition given before is very basic and actually as it refers to “correctness” and “honesty” without explaining both of those terms, is lumbered with error *ignotum per ignotum*. Moreover, acts that are “immoral” or “not ethical” are recognized as included in this category, but in majority of jurisdiction of courts or documents of tax authority decisive entity does not focus on the meaning of “morality” or “ethics” itself, assuming that it is certain. Finally, in described interpretation tax authority cited previous verdicts and literature, suggesting that the only entity that is formally enabled to decide if an act infringes “rules of social coexistence” is decisive authority (for example judge), who shall refer to his (or hers) “common sense, decency and taste” in surrounding, constantly changing conditions. Noteworthy, such standpoint is not so common, as majority of doctrine views assumes that the court is bound by the rules of social coexistence in the given society. It is important to highlight that view presented in discussed interpretation affects the principle of certainty of law, as it encourages the situation in which two taxpayers in the similar factual circumstances may be taxed differently, dependently on a “common sense” or “decency” of decisive entity in his or hers case. Doubtlessly, such solution is unacceptable, as it causes risk of various interpretations of the same legal rule in case when – especially when it is about requirements of harmonized system of VAT – application of law shall be simple and equal in similar conditions, as principles of VAT demand.

Summary

To summarize, it may be clearly seen that morality and ethics influence scope of taxation and their infringement may result in exclusions from subject matter of tax acts. What is problematic is the fact that minority of decisive entities focus on explanation of those terms. Additionally, there is a lack of *consensus* if some of acts that are regarded as immoral shall be taxed or not. In case of VAT it is less challenging, as jurisdiction of CJ presented line of interpretation of exclusions from taxation. However, as the same exclusion – “acts that can not be a subject of legally enforceable contract” - is included in acts of PIT and CIT, interpretation of this term and scope of influence of morality and ethics on application of statute becomes more challenging in this sphere. It raises from different characteristic and subject matter of those taxes, as they are not harmonized at the territory of EU and

¹⁹³ Interpretation of Chair of Tax Chamber from 7th of April 2015, IBPBII/1/4511-14/15/ASz.

jurisdiction of CJ does not have impact on the application of them. As such, in this case they shall be interpreted in the accordance with “in the middle” approach, but without additional requirements, such as the need to ensure fiscal neutrality or lack of competition between legal and illegal goods. If so, number of *designatum* of exclusions from taxation in VAT is lower than in PIT and CIT. I assume that wording of this rule is plausible, so my postulates do not refer to the change of legislation. What I would like to present is acknowledgement that such terms as “morality”, “ethics”, “decency”, “correctness” are not certain and as their influence on taxation is significant, they shall be defined so the line of interpretation was strict. I am fully aware that this paper does not include definitions of those terms, but I assumed that it was not the core of the problem that I intended to discuss firstly. If so, it is a starting point for a future research that would focus on this issue.

O autorze

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Streszczenie

Celem tego artykułu jest udzielenie odpowiedzi na dwa główne pytania badawcze: czy "moralność" i "etyka" mogą mieć wpływ na rozmiar opodatkowania, a jeżeli odpowiedź brzmi "tak", w jaki sposób. Podstawą dyskusji jest podatek od towarów i usług (VAT). Zgodnie z polską regulacją tego podatku, czynności, które nie mogą być przedmiotem prawnie skutecznej umowy są wyłączone spod zakresu przedmiotowego ustawy. Ze względu na brak definicji ustawowej, znaczenie tego pojęcia jest dyskusyjne. Trudności interpretacyjne potęguje fakt, że VAT jest zharmonizowany na terenie Unii Europejskiej. Zwolennicy najbardziej rozpowszechnionego poglądu zakładają, że zakres znaczeniowy spornego pojęcia odnosi się do tych czynności, które w żadnych okolicznościach, niezależnie od spełnienia wymogów formalnych, nie mogą być przedmiotem prawnie skutecznej umowy. W doktrynie podnosi się, że omawiane pojęcie jest związane, między innymi, z "moralnością" i "etyką", a to w ten sposób, że to co "niemoralne" lub "nieetyczne" nie powinno być przedmiotem opodatkowania. W orzecznictwie sądów i organów podatkowych przyjmuje się, że definicja tego, co "moralne" lub "etyczne" nie budzi wątpliwości. W niniejszym artykule wykazę, że takie założenie prowadzi do znacznych różnic interpretacyjnych, a niepodejmowanie prób przedstawienia przyjętej definicji "moralności" lub "etyki" przez organy decyzyjne jest błędem.

Summary

The main aim of this paper is to answer two basic research questions: if morality and ethics may have an influence on taxation and if the answer is "yes", how this influence is shaped. Base of this discussion is Value-Added Tax. Polish regulation of Value-Added Tax states that "acts that can not be a subject of legally enforceable contract" are excluded from taxation. As statute does not include legal definition of this term, its meaning is highly disputable. What is more, as Value-Added Tax is harmonized at territory of European Union, additional difficulties arise. The most popular approach – "in the middle" – assumes that subject term refers to all of those acts that regardless the circumstances can not be a subject of legally enforceable contract. Scholars and decisive entities suggest that it refers to, among all, morality and ethics. Noteworthy, no focus is given to definition of "morality" and

“ethics”, as it is assumed that their meaning is certain. If so, this paper discuss and highlight the need to solve this issue.