



Tax compliance simplified Time for cash accounting

It is accepted that the economy of Cyprus lacks bank liquidity which results in bad economic indicators. The increased taxes unwisely imposed as a result of the agreement with Troika have worsened the situation. Recession is worsened by tax increases. Tax reductions help economic rejuvenation. Basic economics which our creditors deliberately ignored.



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The suggestions to reduce taxes are stubbornly and unjustifiably ignored. The competitiveness of Cyprus as an International Business Centre has suffered severely. The negative economic climate will only be reversed with spectacular radical tax reduction measures. Such measures do not seem being discussed at present (promises are not enough) therefore I have decided in this article to present a recommendation that will simplify the tax compliance procedures in an attempt to make life easier for the businesses.

SOME FACTS RECORDED

1. All companies, regardless of their size have an obligation, arising from the tax law, to prepare audited financial statements (AFS). The Companies Law requires the preparation of AFS only by large companies.

2. The AFS are not accepted as they stand for tax reporting purposes. They are corrected / modified in what is known as the tax computation in order to comply with the tax law. **Thus the tax legislation requires taxpayers to prepare something that is not needed.**

3. The cost of preparing the AFS is disproportionately high for businesses especially for

those who have no such an obligation under the Companies Law.

4. The AFS have not prevented the collapse of stock exchanges, banks, corporate giants in Cyprus and abroad.

DECREASE BUSINESS COSTS - CHANGE THE TAX LAW

In this negative economic climate that exists which affects all companies regardless of their size, a gesture/measure is needed which will relieve businesses from a significant compulsory but unnecessary expense, this expense being the cost of preparing AFS by those businesses that have no obligation under the Companies Law. As already explained in 2 above the AFS as they stand are not accepted for tax reporting purposes.

A simple modification of the tax legislation is required. **It is suggested that for tax purposes the enterprise should have an obligation to maintain only a cash book.**

The difference between cash received and cash paid will be declared in the tax return. Where receipts are greater than payments this will be the profit to be taxed.

Where payments are greater than receipts this will be the loss to carry forward to the following year.

The law must have a precise definition of what is taxable as income and a precise definition of what is deductible as an expense. The discretion of the Department of Taxation must be reduced drastically. Discretion breeds corruption and complicity.

The cash book will be subjected to audit in order to certify the correctness of the tax return. No other audit will be required by the tax law. If this suggestion is adopted the tax compliance costs of business will be reduced drastically. The cost of processing tax returns by the tax office will be also reduced drastically. In other words, both the taxpayer and the state will have significant cost savings. The whole economy will benefit. A costly requirement with no added value will be eliminated.

Maintaining any other records will be at the discretion of the business and will entirely depend on what each business considers necessary for its own requirements. If adopted, this proposal will benefit many businesses to operate more prudently.

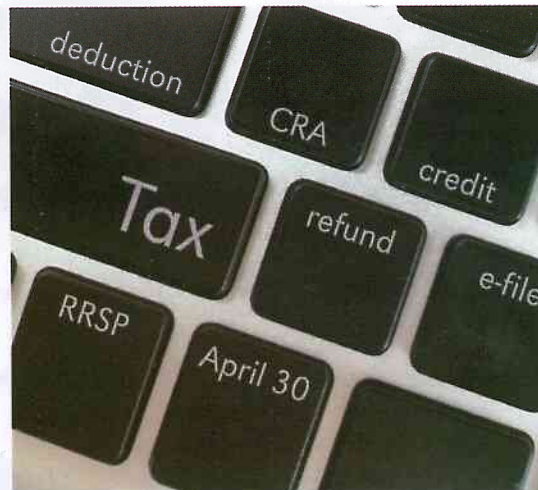
ACCRUAL BASIS ACCOUNTING - A BAD BUSINESS TOOL, A BAD TAXATION BASIS

The current tax system accepts accrual basis accounting. Expenses not paid are deducted from taxable income. This encourages reckless spending / borrowing. Whereas under a tax system that allows as an expense only what is paid, the entrepreneur behaves more wisely and spends only when cash is available.

The well-known supermarket chain (cash based business on the sales side), which went bankrupt, dragging with it many of her suppliers, would have certainly been more prudent if the tax legislation provided that unpaid purchases and generally all the unpaid expenses could not be deducted from income for tax purposes. On the other hand, unpaid suppliers would not have paid tax on sales revenue not collected. A tax system that deducts costs not paid and imposes tax on revenue not collected, to say the least is twisted.

THE INTERNATIONAL DIMENSION

It is noted that Germany, France, England, Italy, Spain (five largest EU economies) and the Netherlands, Ireland (competitors to Cyprus)



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accept tax returns from small companies without preparing AFS.

The recent changes in the Russian tax legislation, affecting companies registered in Cyprus with Russian shareholders, require complete rethinking of the content of the AFS. Preparing an audit as per tax legislation (instead of accrual basis) will neutralise the negative effect of the new Russian legislation.

What is actually happening currently in the Banking sector and the way non performing loans are recognised is close to cash basis accounting. In my view this is proof that accrual accounting is redundant. Or is it not?

OPEN MINDED DISCUSSION

The writer does not intend to extend to more complex and detailed argumentation as to the suitability of his recommendation. I keep the text simple to be easily understood by the great mass of small entrepreneurs who are obliged to keep records and books that do not serve any purpose. Certainly they do not serve the purpose of preparing the tax return.

I reserve the detail for those who as responsible authority (Ministry of Finance, Parliament and Department of Taxation) will want to explore with an open mind this recommendation. I expect much opposition because the suggestion is radical and removes vested interests. On the other hand it is time the state cared for businesses by eliminating unnecessary costly procedures. ■