Self Assessment for Large Taxpayers

by Kieran Holmes

Readers will be aware from previous articles that the Tax Authority is establishing a new administration dealing with the tax affairs of large taxpayers. The new administration is called the General Administration for Large Taxpayers but its shorter title in English is the Large Taxpayer Unit (LTU).

Who will be included in the new LTU?

The new LTU will contain the largest 1,000 taxpayers in Country X. These will be mainly companies but there will also be partnerships and sole traders included in the LTU. The primary indicator for inclusion in the LTU will be if a taxpayer is liable to be registered under the new GST law currently before the parliament. However some other large taxpayers that would not necessarily be registered under the new GST law will also be included in the LTU.

As the Tax Authority moves to establish a fully functioning and separate administration for large taxpayers, the issue of self-assessment requires discussion.

What is self-assessment?

Self-assessment is where the taxpayer completes a tax declaration for the period in question, calculates the tax base, calculates the tax due and sends the declaration along with the payment of the tax to the Tax Authority.

Self-assessment is different than revenue assessment, which is the current system used for income tax returns in Country X. Under a revenue-assessed system the taxpayer files a declaration, the Tax Authority receives the declaration, examines it and raises an assessment with which the taxpayer may or may not agree. Eventually the taxpayer will pay the tax due which will be either the original computation, the revised figure set by the Tax Authority or some other figure, all depending on how the appeal has been settled.

The main changes (and advantages) of self-assessment are as follows: -

- The declaration must include the taxpayer’s taxable income for the year and the tax payable on that taxable income,
- The declaration is treated as though it were an assessment,
- The declaration is accompanied by payment of the tax, and
- Audit takes place after the filing of the declaration thus allowing the LTU to audit selectively according to risk.

It can be seen therefore that self-assessment has the advantage of bringing the tax in to the Treasury sooner than would be the case under the present system. It also cuts down drastically on the interactions between the taxpayer and the Tax Authority. Provided the taxpayer has filed an honest declaration there should be no need for the taxpayer to meet with officials from the Tax Authority.

Declarations submitted to the LTU.

The LTU will receive declarations from taxpayers as follows: -

- TPCS declarations and, later, GST declarations,
- Employee withholding declarations, and
- Income tax declarations in respect of companies, sole traders and partnerships.

The first two classes of declarations are essentially self-assessed declarations. That is they are declarations where the taxpayer makes the calculation of the tax base and the tax and is obliged to send payment of the tax along with the declaration.

In order to put all the taxes on the same footing it will be necessary to amend the income tax law to allow for self-assessment to apply to large taxpayers. This should be done as soon as possible and in respect of the year of income ended 31 December 2000. Since it is proposed that the LTU will be up and running by the end of the year, the declarations for the year 2000, due by the end of April 2001, will be the first income tax declarations to be filed under self-assessment. That is, of course, if the necessary amendments to the law are made in time.

Adjustments to assessments

As mentioned above the great advantage of self-assessment is that it allows honest taxpayers to file their declarations and pay their taxes without having any interactions with the Tax Authority. The advantage for the Tax Authority is that the tax is paid earlier than would be the case under a revenue-assessed system. Another advantage is that the Tax Authority is now free to concentrate its resources on those taxpayers that it believes have not filed honest declarations or who indeed have not filed any declaration. Of course self-assessment must be backed up with a strong system of penalties for non-filing of declarations and for under-statement of income.

All declarations will be screened, checked for mathematical accuracy and other basic indicators and compared to a pre-determined set of risk criteria. Those declarations showing a high risk will be audited.

It is suggested that the Tax Authority would be allowed up to four years from the date the declaration is filed to conduct an audit. If the Tax Authority needs to make any adjustments to the declaration these can be done by means of an additional assessment within that time period. Of course an additional assessment may be made at any time in the case of tax evasion or fraud. There is no time limit on tax evasion or fraud.

To be fair it is also suggested that the taxpayer would be allowed up to four years to file an application with the Tax Authority for an amendment of a self-assessment.

Rulings

To provide for certainty of law within the system of self-assessment it is suggested that the Tax Authority would introduce a simple ruling system applicable only to self-assessment taxpayers. Under this system a taxpayer that was in any doubt about the tax effects of a particular transaction or transactions would apply, in writing, to the Tax

Authority for a ruling on the tax effects of the transaction. Providing the taxpayer has made a full and true disclosure of all aspects of the transaction and the transaction has proceeded accordingly, the ruling shall be binding on the Tax Authority. Of course if the taxpayer has not made a full and true disclosure of all aspects of the transaction or if the transaction did not proceed in all material respects as described in the taxpayer's application, the ruling would not be binding on the Tax Authority.

Conclusion

Self-assessment has advantages for taxpayers and tax administrators alike. The proposed new GST law is in effect a self-assessed tax and it is suggested that large taxpayers filing income tax declarations would also move to self-assessment. Introducing self-assessment for income tax declarations submitted by large taxpayers would bring consistency of assessment to the LTU. It would also mean a significant modernisation of the tax system as it relates to large taxpayers.

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