

## **Being targeted; or rather who and in which area will be particularly audited by the tax authority in 2016?**

Just like every year, the National Tax and Customs Administration (NAV) published its information notice regarding the audit targets until 20 February this year, notifying tax payers as to whose activities engaged in which sectors will be principally audited by NAV in the current tax year. Please find below a summary of the fields and directions of audit targeted most of all.

The year of 2016 opens a **new area** in terms of audits to be conducted by the tax authority, as from January onwards NAV will “classify” taxpayers. The so-called “reliable” taxpayers defined in legislation and published in the press will be audited for preventive purposes, and the compliance with the rules will be promoted primarily by providing information. However, in respect of the so-called “risky” taxpayers, dissuasive and coercive sanctions will be applied while large taxpayers can expect audits on a continuous basis.

### ***Audit of value added tax***

In addition to the audits of EKAER (Electronic Trade and Transport Control System) and online cash registers, considered as evergreen target, the tax authority intends to particularly audit the actors of **online** commerce, online services market, as well as the so-called sharing economy based on the aforesaid (Community accommodation services, catering, transport etc.)

In the areas affected by reduced VAT rate or reverse charge, investigations covering the entire product path can be expected in order to establish whether VAT has been paid for the entire product path upon calculating the price.

### ***Affiliates are in focus in respect of audits regarding income and property taxes***

In addition to the traditional areas of corporation tax audits (such as screening of unreasonable costs and expenditures, examining of the legality of tax base adjustments), the accounts for costs and expenses **between affiliates** will be **principally** investigated by NAV this year along the practice of applied transfer pricing policy.

With regard to personal income tax, individual enterprises will be primarily audited by NAV that are making loss on a continuous and permanent basis and/or failed to fulfil their obligations to file their tax returns, as well as taxpayers engaged in retail trade will be particularly audited where there is a significant disproportion between the values of their declared income and the value of their stocks sold.

### ***Audit of the fulfilment of employment-related tax liabilities***

In 2016, manpower leasing arrangements will be particularly investigated by NAV; the audit is aimed at screening arrangements designed to conceal real employment. Taxpayers having chosen alternative forms of tax payment, such as small taxpayers (**KATA**), small enterprises (**KIVA**) and simplified businesses (**EVA**) can also expect tax audit.

It is also worth examining the schemes of “employment” of executive officers of companies because the payment of social security and contributions implied in connection with these legal relationships are especially targeted by audits this year, too.

The major scope of activities expected to be audited in 2016 is as follows:

- animal husbandry, logging, meat processing and preservation, meat commerce
- designing and construction of buildings, provision of other accommodation, restaurants and mobile catering, passenger transport, beauty services, business consulting, manpower leasing, road transport
- retail and wholesale trade of textile and footwear, trade services of domestic heating oil, retail trade of electrical household appliances, retail trade services of ICT products, trade services of wood, construction materials and sanitary equipment, wholesale trade of communication equipment, wholesale trade of electrical household goods, wholesale and retail trade of food, beverages and tobacco products, retail and wholesale trade of computers, software, electronic and telecommunication equipment and other office machinery, trade and repair services of motor vehicles and motorcycles

As it is stressed in the information notice regarding audit targets, NAV especially endeavours this year to ensure that taxpayers behaving in compliance with the law, committing minor irregularities are treated differently during audits in respect of whom due diligence, good faith can be evidenced, as well as intentional tax evaders will be treated in a different way. In fact, NAV particularly seeks to “protect” legally operating taxpayers from their competitors gaining illegal competitive advantage by tax evasion.

This approach declared as more of “being partners”, hopefully coming into reality in practice, also highlights that **high priority will be given during audits (also) in the future whether taxpayers are able to prove that they have acted with due diligence in planning and administering transactions also for tax purposes.**

**Therefore, optimally, it is expedient to assess and model each transaction, before implementation, not only for business and law but also for tax purposes in order to ensure that the most optimal scheme possible is elaborated and implemented being in compliance with business plans, legislation and tax laws. Since it is allowed to perform self-audit until the commencement of tax audit, it is worth “overtaking” the tax authority also in respect of implemented transactions by making adjustments, if subsequent risk assessment has discovered shortcomings or faults.**

**Should you need assistance in prior or subsequent assessment of risks regarding any transaction, or in the elaboration of a proper scheme, please feel free to contact us. Our professionals are willing to help!**