



## **AUDIT OF TAX DEPARTMENT**



### **AUDIT OFFICE OF THE REPUBLIC SPECIAL REPORT no. ΤΦ/01/2021**

**9 April 2021**

# **AUDIT OF THE TAX DEPARTMENT**

**AUDITED ENTITY**  
**TAX DEPARTMENT**

## 1. Executive Summary

Within the framework of the provisions of article 116 of the Constitution of the Republic of Cyprus, the Audit Office performed a financial audit of the Tax Department, for the years that ended on 31.12.2018 and 31.12.2019, as well as compliance audit.

The most significant findings of the audits, are the following:

- ◆ Cancellation of the appointment of the Tax Commissioner and Deputy Tax Commissioners by the Administrative Court.

**We recommended the issue to be referred to the Attorney General, the soonest possible, for legal guidance, since any delay in its solution, may have significant financial consequences for the State.**

- ◆ Accumulation of overdue revenues more than one billion euro.

**We recommended that the Department utilises all the available tools, including the new measures, according to the provisions of the Law 80(I)/2014, to limit the uncollectible taxes.**

- ◆ Accumulated taxes under objection.

**We recommended that an effort is made for the examination of the older objections, the soonest possible and the new objections to be examined without delay.**

- ◆ Non-submission of income tax returns by individuals and legal entities for a number of tax years and non-imposition of taxes by the Department, based on the Commissioner's judgement, as provided by the relevant legislation, resulting to loss of state revenues.

**We recommended, among others, that the Department asks the submission of income tax returns for all the years and the imposition of relevant taxes and penalties, according to the legislation.**

- ◆ Delay regarding the examination and issuance of taxation by the Department.

**We recommended to issue the relevant taxation early and at least within the six-year deadline provided by article 23(1) of the Assessment and Collection of Taxes Law.**

- ◆ Companies, registered with the Department of Registrar of Companies and intellectual Property (DRCIP) but not registered in the Register of the Tax Commissioner - Direct Taxation (do not have income tax file) and do not submit income tax returns. **We recommended, among others, that the Department proceeds with the reconciliation of the data regarding companies that is included in the computerized system of DRCIP and Tax Department (direct and indirect taxation) to detect any undeclared income.**

- ◆ Overseas companies registered with the Department of Registrar of Companies and intellectual Property but not registered in the Register of the Tax Commissioner and thus, did not submit relevant tax returns, as opposed to the relevant legislation.

---

**We suggested that all necessary actions are taken for their registration to the Tax Register and application of the relevant legislation.**

- ◆ Detection of cases of companies, which are licenced to provide betting services with a turnover that was reported for purposes of direct taxation being different from the revenue reported at the National Betting Authority (NBA).

**We recommended the imposition of taxation, according to the legislation, and the Tax Commissioner to receive relevant information every year by the NBA.**

- ◆ Detection of cases of companies with a turnover reported for purposes of indirect taxation, which however, was not reported for purposes of direct taxation or it is higher than the one reported for direct taxation.

**Our recommendation is to investigate all the specific cases and to impose taxation, where required. We also recommended that the Tax Department uses all the data available and compare, on a regular basis, the VAT data with the Income tax data, to increase its tax collection efficiency and minimize the tax evasion.**

- ◆ Companies registered with the DRCIP remain unknown to the **Tax Department**.
- ◆ Non-comparison/use of information of the systems of the Department (DOR Vs VAT) and non-use of the information from other Governmental Departments.

**We recommended that the Tax Department uses appropriately both the computerized systems of the Department, as well as the information provided by other governmental Departments and it imposes relevant taxation, where necessary, according to the legislation.**

- ◆ Civil servants (CS) were detected holding shares and/or holding the position of Director/Secretary in private companies, who did not secure the relevant licence, as opposed to the provisions of the Public Service Law and/or the practice implemented regarding the temporary employees.

**We recommended full compliance with the relevant legislation and for this purpose, if it is deemed necessary, to have consultation with the Auditor General and to send relevant circular for compliance and/or taking disciplinary measures for those that did not secure the relevant licence.**

- ◆ Internal setting off of significant VAT amounts, without performing on - site audits (spot checks) and desk audits.

**We recommended the Department to specify strict procedures for performing relevant audits in cases of high amounts of setting off and/or VAT returns, emphasizing on the taxpayers that are handled by the Large Taxpayers Office.**

- ◆ Delay in the VAT return by the State, resulting to the payment of a significant amount of interest.

- ◆ Weakness regarding the overdue taxamounts of the Department and mainly the relevant update of the direct and indirect taxation systems and the reconciliation issue of the overdue debts system with the computerized systems of the Department.

**We recommended, among others, the Department to regularly perform reconciliation of the overdue debts system with the direct and indirect taxation systems.**

- ◆ Weaknesses noted in VAT collections via MOSS.

**We recommended that the Department exercises the necessary controls to ensure that the companies that are registered in the MOSS Register of Cyprus do not come from high-risk countries for tax purposes and to collect the relevant tax, where necessary.**

- ◆ Politically Exposed Persons that do not comply with their tax obligations.
- ◆ Identification of weaknesses after the audit of the tax information exchange system by the European Court of Auditors (ECA).

**We recommended the Department to implement the recommendations of ECA for effective operation of the information exchange system.**

- ◆ Additional revenues arising from complaints submitted by citizens to our Office.
- ◆ Taxpayers that hold property, which was acquired before their professional activity and/or it is not justified by their income, as well as persons that do not state all their revenues or state part of these, with a significant revenue loss for the State.

**We recommended, among others, the tax investigation of specific cases, including capital statement examination and imposition of taxation, according to the legislation.**

- ◆ Low percentage of audit visits to the premises of the registered persons in the VAT Register.

**We recommended, among others, to intensify the visits to the premises of the taxpayers to prevent tax evasion, safeguard public revenue, create tax awareness and generally implement the of relevant legislation.**

#### **Issues regarding the Cyprus Investment Program**

- ◆ Detection of a receipt without a serial number, issued outside the computerized system, in the name of a person that was not registered in the tax register at that time, a fact causing concerns regarding the completeness of revenues.
- ◆ Posting of a collection as income tax withheld by the employer (PAYE), at the time, those specific persons have never been employed by that specific company.
- ◆ Use by the investors of the Cyprus Investment Program of the reduced VAT rate (5%) for the private house theybuy/build, for which our office does not agree, based on the European Directive.
- ◆ Impementation of the circular of the Tax Department no. 21 of 1987 for contracts of construction/properties delivery or for foreign investors, within the framework of the Cyprus

Investment Program, as a result, allowing the Department to postpone the collection of a significant amount of tax to a future point in time, and endangering the collection.

**We recommended issuing a revised circular.**

- ◆ Some cases were dedected that applied for exemption according to the article 8(23) of the Income Tax Law, that did not probably fulfill the prerequisites of the said article.
- ◆ Possible loss of tax revenue by undeclared income of serviceproviders and land development companies, due to the invoicing of expenses by related companies outside Cyprus, due to the returns and setting off of high amounts of VAT, without carrying out spot checks and due to the naturalization of persons by grace.