

Avoidable Mistakes Are behind Failed Tax Inspections

ENTREPRENEURS TEND TO UNDERESTIMATE THE NEED FOR GOOD PREPARATION. THEY COULD BENEFIT FROM MEMBERSHIP OF A NETWORK OF EXPERTS.

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very year, the first quarter is the time that businesses are mostly pre-occupied with filing their tax returns.

However, companies should bear in mind, that they can still be subjected to a tax inspection by the authorities – in most cases, an inspection starts with a notification from the tax authority, with the date, and extent of the inspection, along with a list of the required documentation.

THE NEED FOR GOOD PREPARATION SHOULD NEVER BE UNDERESTIMATED

Entrepreneurs should make sure that all the required documentation is thoroughly prepared. “We are not only talking about internal documentation, such as invoices, internal documents, or payroll documents, but specifically additional documentation that provides evidence of the taxable transactions that took place and how business-related expenses were spent,” says Ing. Milan Kúdela, MBA., CEO of ETL/GINALL & ROBINSON s. r. o., as he explains the proper procedure for an inspection.

Another problem may occur when the entrepreneur applies certain guidelines within their company that are not in compliance with the applicable legislation. Kúdela warns that in such cases, the taxpayer may face a fine, even if in reality, they do not follow those guidelines. He also highlights the importance of the need for evidence, that there is proof of everything within their tax documentation.

The general rule is that an expense is proven if there is a credible supporting accounting document, and the company included it in its books. When applying this principle, businesses should bear in mind that the tax administrator cannot ask the tax subject to prove any arbitrary accounting record – they may only ask for evidence of something that the business included or allegedly included in the tax return. That being said, the tax administrator may ask for proof of any other circumstances necessary to make a correct tax assessment.

To ensure that the defence of expenditure is successful,

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the company must also pay close attention to the so-called qualified proof basis. “For instance, during a business trip, it is necessary to prepare a report that lists all the clients or potential business partners visited, or alternate records that demonstrate the goals or circumstances of the business trip, pursuant to the law,” the CEO and owner of ETL/GINALL & ROBINSON, M. Kúdela, explains. He follows by saying that managers often overlook this type of documentation and are not willing to prepare it.

PRACTICAL SHORTCOMINGS

This is not the only mistake made by taxpayers. M. Kúdela often encounters incorrectly completed or erroneous carryover of balances in financial accounts, which must be attached to the income tax return form, as well as incorrect accounting in the accounting journal as the main accounting ledger. Entrepreneurs also struggle to distinguish between accounting for revenues and expenditures, and with accounting for the depreciation of assets. “Many entrepreneurs forget to properly separate finances for business purposes and personal use,” the CEO and owner ETL/GINALL & ROBINSON claims. Then there are other shortcomings, such as failures to record the complete information of accounting documents, incorrect recording of VAT, a failure to keep the correct ledgers, such as a book of payables and receivables, and incorrectly recording travel allowances for motor vehicles.

Besides the elimination of these errors, entrepreneurs should also focus on submitting their own proof and explanations and ask the tax administrator for their interim findings. According to experts, this step is crucial, as it allows the taxpayer to answer all the questions of the tax inspectors to their satisfaction. During this process, the tax payer decides how deeply they will allow the tax inspection to investigate the specific issue of business operations or the essence of their business transactions, in order to avoid the violation of trade secrets.

Experts particularly emphasise the principle of the free assessment of proof, which will also be applied by the tax authority. This principle allows the tax administrator to determine the facts of the situation as accurately and exhaustively as possible. As the decision of the District Court in Košice from 1997 says: “The process of the evaluation of proof is a matter of the legal and administrative consideration of the tax administrator, who will, as part of his scope of work, evaluate whether a certain event may be considered as proven, whether the proof provided was sufficient or whether more proof needs to be submitted.” Nevertheless, the tax administrator must justify their evaluation of the proof submitted in their reasoning related to the specific decision.

COOPERATION IS IMPORTANT

Should the entrepreneur have any concerns regarding the evaluation

What Should Companies Do before a Tax Inspection?

Companies should ensure that their documentation is complete, especially that related to business trips, marketing expenses, receipt of goods, import/export of goods, shipment of goods to other EU member states, business transactions with a related subject, high risk transactions – based on their size, country of origin of the business partner or a high risk commodity, items on financial statements, the use and planning of business resources, the records of discounts and credit notes provided to customers, and internal guidelines, specifically to ensure they are fully up to date.

SOURCE: ETL/GINALL & ROBINSON. s. r. o.

The greatest level of importance is the principle that everything must be provable. A business should apply this principle to all of their tax documentation.



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SOURCE: ETL/GINALL & ROBINSON, s. r. o.

but are not limited to, external documentation, such as bank statements of the tax payer's account or financial documents from the municipality where the tax payer has their registered address. Businesses should also realise that there is no deadline for the tax authority to provide the results of the inspection. It is only responsible for delivering the inspection protocol along with an invitation to comment or negotiate.

However, once it is delivered, the tax payer may raise an objection to the inspection procedure. They are then required to comment on the protocol within 15 days, with no possibility of delay. "If the taxpayer fails to provide the necessary proof and additional tax is levied, or the competent authority imposes sanctions and the taxpayer disagrees, they have the right to corrective measures. They are also entitled to commence legal proceedings at the relevant court to demand a re-evaluation of the lawfulness of the decision of the tax inspection," concluded M. Kúdela.



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The company ended 2023 with an increase in consolidated sales of over 6 mil. euros, and expanded its services to Žilina, Liptovský Mikuláš and Prešov. One of the most successful events of the last year was the first ETL conference, led by Emineo Partners, which is planned to take place again this year, both in Slovakia and internationally. The company is also planning exchange trips for its employees, intended to help them to improve their work-related and language skills,

SOURCE: ETL Slovakia

Entrepreneurs should communicate with the tax administrator, otherwise the tax authority will calculate the tax base and determine the tax due without their input.

or other steps taken within the inspection, they may file an objection. However, he should not forget that he must communicate with the tax administrator, regardless of the degree of tax inspection. Otherwise, the tax authority may calculate the tax base and determine the tax due through various means. The most frequently used tool to determine the tax base for the purposes of income tax are VAT tax returns. Secondary sources of proof include,

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