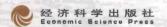税收筹划理论与实践

Theory and Practice of Tax Planning
Proceedings for International Conference On Tax Planning

税收筹划理论与实践
——税收筹划理论与实务国际研讨会论文集

陈志勇 薛 钢／主编

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陈志勇　薛　钢　主编

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第一部分　税收筹划理论研究

Using Computer Assisted Verification in the Detection of Tax Evasion

Peter Best

Affiliation: University of Southern Queensland,

Faculty of Business, Australia

1. Introduction

Since 1986, Australia has had a 'self-assessment' taxation system, where taxpayers determine their own taxable income, often with the assistance of a registered tax agent. Taxpayers prepare and submit their own taxation return. This, of course, raises the opportunity for 'tax planning', designed to minimise taxable income, and the possibility of 'tax evasion', where the taxpayers deliberately lie to the Australian Taxation Office (ATO) about their activities to reduce their tax liability or fail to pay tax that is due.

Taxpayers may evade tax by failing to declare assessable income, claiming deductions for expenses that are fictitious or are not deductible, claiming input credits where goods and services tax (GST) has not been paid, treating domestic sales as export sales to avoid the requirement to remit GST on such sales, etc.

Tax evasion is a serious concern since it results in the loss of government revenue which is intended to fund social services, health, and education, and gives taxpayers who evade tax an unfair advantage in the market and the community.

As a result, the Australian Taxation Office (ATO) has extensive audit processes to deal with these threats. Tax auditors conduct examinations of tax returns to detect failure to comply with the requirements of legislation. Taxpayers are selected for audit automatically based on the risk of tax evasion or error. A computer-based audit selection system scores taxpayer returns against thresholds and industry data, and highlights returns

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with greatest audit potential.

When auditing a taxpayer's return, the auditor may use manual procedures, such as physically examining documents. However, the ATO also uses Computer Assisted Verification (CAV) software to improve the efficiency and thoroughness of audits of returns.

This paper examines the nature of tax auditing, the audit objectives which guide such audits, and the role played by CAV software in audits of tax returns. The application of CAV software is explained with reference to a case study.

2. Nature of tax auditing

Auditing may be defined generally as follows (Arens et al., 2007):

Auditing *is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be performed by a competent, independent person.*

This definition of the auditing process is very broad. It applies to auditing of a company's financial statements as required by legislation. It also applies to audits of taxation returns. Some common elements are present in each case.

Information and established criteria

Audits involve the comparison of information with criteria. The information may be the financial statements of a company. The relevant criteria for the audit are international accounting standards. The auditor checks that the financial information has been prepared in accordance with those accounting standards.

In taxation auditing, the information is the taxpayer's income tax return, and the criteria are the income tax legislation-in Australia, the *Income Tax Assessment Act*. In both types of auditing, the criteria for evaluating the financial information are very specific.

Accumulating and evaluating evidence

Evidence is information collected and used by the auditor to determine whether the information is consistent with the relevant criteria. Evidence may include the examination of internal and external documents, inquiries of the auditee, calculations per-

formed by the auditor, and examination of assets. Some evidence is more persuasive than others. Evidence obtained independently by the auditor is more persuasive than that oral responses to questions by management. The auditor should obtain sufficient appropriate evidence to support his/her conclusion on the information. This means a sufficient volume of evidence must be obtained, and it should be appropriate evidence. This is determined by the specific criteria. In auditing, these criteria normally take the form of a set of audit objectives, such as completeness, accuracy, etc.

Competent, independent person

The auditor must be competent and independent of the auditee. He/she must be qualified as an auditor and competent to know what and how much evidence is needed to reach the proper conclusion on the information. Being independent is very important for the audit conclusion to be credible. This means that the auditor should have no association with the auditee. In auditing of financial statements, an independent external auditor performs this task. Audits of taxation returns are performed by tax auditors employed by the Australian Taxation Office.

Reporting

Reporting is when the auditor communicates his/her conclusion on the information. The auditor's report informs readers of the correspondence between the information and the criteria. In audits of financial statements, the auditor's report is part of the company's annual report, distributed to investors and other stakeholders.

Figure 1 summarises the important characteristics of auditing by illustrating an audit of an individual's tax return by a tax auditor. The taxation return is examined to determine whether it meets the requirements of the *Income Tax Assessment Act*. To accomplish this, the auditor collects and examines sufficient, appropriate evidence. On completion, the tax auditor issue an assessment showing taxable income, taxation owing, taxation paid, and refund or amounts still to be paid.
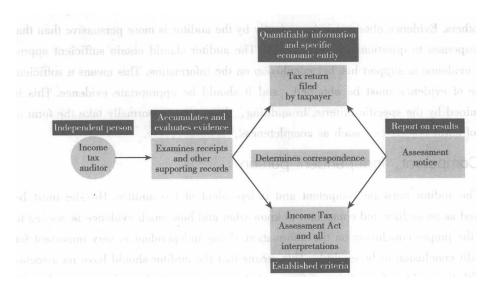
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Figure 1   Audit of a Tax Return

Source: Arens et al., 2007, P. 12.

3. Assertions and audit objectives in taxation audits

Assertions are implied or expressed representations by taxpayers about the transactions included in a tax return. When a taxpayer prepares a tax return, he/she is asserting several things about the data included in the return (see table 1).

Five such assertions by taxpayers are:

(1) **Occurrence** In this assertion, the taxpayer is asserting that the transactions reported actually occurred in the period. For example, the taxpayer asserts that reported purchase transactions represent exchanges of goods or services that actually took place.

The occurrence assertion is concerned with the risk that transactions are included that should not have been reported. Thus, violations of the occurrence assertion relate to **overstatements**. Reporting a purchase transaction that did not occur is a violation of the occurrence assertion, and results in the overstatement of an expense, understatement of taxable income and understatement of tax payable.

(2) **Completeness** This assertion is concerned with whether all transactions that should be included in the return, are in fact included. For example, the taxpayer asserts that all sales of goods and services are recorded and included in the return.

The completeness assertion addresses matters opposite from the occurrence assertion. The completeness assertion is concerned with the risk that transactions were omitted that should have been reported. Violations of the completeness assertion relate to understatements. The failure to report a sale that did occur is a violation of the completeness assertion, and results in the understatement of income, understatement of taxable income and understatement of tax payable.

(3) **Accuracy** The accuracy assertion addresses whether transactions have been reported at correct amounts. Reporting the wrong amount for a transaction is an example of a violation of the accuracy assertion. This results in the incorrect calculation of expenses and income, incorrect taxable income and incorrect tax payable. Incorrect calculation of GST on purchases and sales transactions also violates the accuracy assertion.

(4) **Classification** The classification assertion addresses the risk that transactions are not recorded in the appropriate categories. Recording a sale as a domestic sale instead of as an export sale is one example of a violation of the classification assertion. Pricing of sales using incorrect product codes results in incorrect sales, taxable income and tax payable.

(5) **Cutoff** The cutoff assertion addresses whether transactions are recorded in the proper fiscal period. Cutoff is a particular concern near the end of the fiscal year. Reporting a purchase in June that belongs in July (i. e. the next fiscal year) violates the cutoff assertion. This has the effect of increasing the purchases in the current fiscal year, thereby reducing taxable income and tax payable.

When conducting audits, auditors use a set of audit objectives that correspond to these assertions. These objectives are hypotheses that can be tested by collecting sufficient, appropriate audit evidence. These audit objectives are applied to each type of transaction reported in a tax return. This is illustrated below for sales transactions. An example of an audit procedure to test each objective is provided.

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Table 1   Audit Objectives and Procedures for Sales Transactions

Assertion	*Audit Objective for Sales Transactions*	*Audit Procedure to Test the Audit Objective*
Occurrence	Reported sales are for shipments actually made to customers	Trace a sample of sales transactions to supporting documents, including invoices, shipping documents, and customer orders, to check that the transactions actually occurred
Completeness	All existing sales transactions are reported	Trace a sample of shipping documents to sales records to check that all are recorded as sales
Accuracy	Reported sales are for the amount of goods shipped and are correctly billed	To check sales amounts, recalculate these amounts using prices and quantities for a sample of recorded sales
Classification	Sales transactions are properly classified	Check the classification for a sample of sales transactions
Cutoff	Sales are reported in the correct fiscal year	Compare dates of a sample of recorded sales with shipping dates to check that they are recorded in the correct fiscal year

4. Computer Assisted Verification

Taxpayers who are businesses normally have an IT system for recording transactions and reporting, and producing financial statements and other reports to the ATO, e. g. a Business Activity Statement. The ATO has acknowledged that it is cost-effective to perform some audit procedures for an auditee using CAV software. This involves:

(1) Obtaining electronic records from the taxpayer's IT system; and

(2) Using specialised CAV software to perform audit procedures to test the occurrence, completeness, accuracy, classification and cutoff audit objectives.

The ATO uses IDEA and ACL, which are industry-leading auditing software. Under legislation, the ATO has full and free access to taxpayer records, including electronic information. With the assistance of ATO staff, the taxpayer's electronic records are extracted from their IT system. Many accounting systems have functions for 'exporting' data and this is most commonly used for data extraction. In certain cases, reports are exported as pdf files. This data is then imported into the CAV soft-

ware. Further information can be obtained from http: //www. ato. gov. au/content/ downloads/ BUS_40607_n10428122007. pdf.

Many audit procedures must be performed manually. For example, where source documents must be examined, this is a manual procedure. Such procedures are usually limited to the examination of a sample of transactions. Where procedures can be performed electronically, however, they can be applied to all records. It is also common to use CAV software on procedures that would be impossible to perform manually. For example, comparing accounting records with bank statements, to detect duplicate records or omissions is usually not feasible if done manually because of the large volumes involved.

To demonstrate the capabilities of CAV software, we will use the audit of a busy restaurant as an illustration.

Toscani is a large Italian restaurant. IT systems are used for the kitchen and for the accounting records. Each table in the restaurant is numbered for identification and tracking of orders. Orders for meals and drinks are taken by waiting staff using a personal digital assistant (PDA) device that communicates directly over the wireless network with the kitchen IT system. Chefs use the kitchen system to schedule food preparation for each table. The cashier refers to the kitchen system when billing customers. Approximately 75% of sales are paid for using credit cards; the remaining 25% is paid for in cash. Accounting clerks take the records of sales from the kitchen system and enter the transactions in the separate accounting system. Cash is periodically banked.

When planning the tax audit of a restaurant like Toscani, auditors focus on specific risks associated with audit objectives. For example, common approaches to evade tax include understating restaurant sales by not recording all kitchen sales in the accounting system, and overstating purchases of meat, vegetables, etc. Sales paid for by credit card are easily traced by the tax auditor to bank records, but cash sales can be untraceable if they are not recorded in the accounting system. Purchases of ingredients for cooking meals can be overstated by entering overstated amounts, entering duplicate transactions or by purchasing excess meat and vegetables for the kitchen, but taking these for consumption at home.

CAV software can be used to perform many different types of tests and other functions when the auditee's data is in electronic form. These are described in Table 2, with examples relevant to the audit of Toscani. It is assumed that electronic records from the

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kitchen system, accounting system and bank statements are available.

Table 2　　　　　　**Tests in Toscani audit using CAV software**

Function	Description	Test using CAV for Toscani	Audit Objective
Verifying extensions and totals	Independent calculation of amounts and totals	Independent calculation of sales for each customer using kitchen orders and pricing. Independent calculations of total sales for each day using kitchen data for comparison with similar totals recorded in the accounting system	Accuracy Completeness Classification
Filtering	Displaying records that meet specified criteria	Identifying payments to vendors within 4 days of the end of the fiscal year for examination for proper cutoff	Cutoff
Joining	Combining and/or comparing files with common fields.	Comparing individual sales through the kitchen system to recorded sales in the accounting system. Comparing payments to vendors in the accounting system with payments reported in the bank statements	Completeness Occurrence
Sampling	Applying statistical sampling methods to select items for further examination, and to project sample results to the population	Selecting a statistical sample of purchase transactions for tests of proper authorisation, and occurrence, emphasizing large amounts but with a random sample of smaller amounts. Projecting sample errors to the population for comparison with tolerable errors	Occurrence
Summarisation	Summarising records with subtotals	Summarizing sales figures for each day of the week, for each week and over time	Completeness Classification

CAV software is now widely used by the ATO. It has proved to be a useful complement to normal manual procedures. All tax audit staff will eventually be trained in CAV software. A specialist CAV support division is available to assist the auditee in data extraction and audit staff in application of the software.

Some examples of the successful use of CAV software by the ATO include:

● Detection of sales wrongly classified as export sales. No Goods and Services Tax (GST) is to be remitted to the ATO on export sales. CAV software can be used to exam-