

## Report to the federal Parliament

### Taxation based on signs and indications

**In its report to the Federal Parliament, the Belgian Court of Audit examines how the tax administration applies taxes on the basis of “signs and indications” of wealth suggesting that the filed income is not correct. These verifications lead to rather poor results. The Court of Audit recommends, on the one hand, to assess the annual verification results and relevancy and, on the other hand, to optimise the exchange of information between the various tax administrations.**

In case of “signs and indications” of a greater wealth and higher lifestyle than what appears from the reported income, the tax administration may legally assume that these additional means stem from unfiled taxable income. Rebutting this legal presumption by means of concrete and verifiable data rests then with the taxpayer.

The Court of Audit has examined how tax returns are selected for additional indication-based verification, how indication-based taxation actually occurs and whether the results are assessed.

In the past, indication-based taxation used to depend mostly on the local tax inspectors’ own judgment. Today, the tax administration is selecting returns following a thorough risk analysis based on risk profiles, which have continuously been refined ever since using as much new information sources as possible as well as the know-how of the heads of local inspection offices. Apart from these improvements, the exchange of information between the various tax administrations still needs optimisation, especially in the field of real estate transactions, donation and inheritance.

Since 2015, the files selected for indication-based verification have been categorised into three priority levels (very high – high – normal). When the local offices do not have sufficient means to verify every selected return, they “deselect” the lowest priority files. The reasons for “deselection” are accurately defined and the administrative supervision on this matter is sufficient.

These uniform “deselection” rules, the centralised return selection system and the verification patterns for indication-based taxation are important factors that guarantee consistent treatment for taxpayers.

Indication-based taxation quality control is first and foremost the task of the heads of local offices. Yet, the Court of Audit hardly found any clue as to the existence of an internal or quality control by the management. The new administrative software named *Quality Control* should remedy the situation as from 2016.

Besides, the inspection services of the General Administration of Taxation rarely ask for the bank secrecy to be lifted. The Special Tax Inspection does so more regularly – though to a limited extent – by invoking the existence of “signs and indications” in order to start the actual tax investigation.

Furthermore, the registrations and movements on current accounts that may influence the indication-based situation of a company CEO or manager are not sufficiently verified. The Court recommends to improve the coordination and strengthen the interactions between personal and corporate income taxes.

Finally, the Court observes that indication-based taxation results are not measured nor followed up. Only the results of the annual verification actions carried out by the central administration are measured and reliable.

The Court’s audit has also shown that an indication-based verification hardly results in a purely indication-based taxation, but also generates other types of tax revenues.

The return on indication-based verifications is rather moderate. The returns with a positive outcome concern mostly the self-employed but, due to their carried forward losses, the tax revenues as such are ultimately lower than for the employees and company managers.

There is no analysis of indication-based taxation. The Court recommends the tax administration to perform regularly a thorough result analysis, so as to determine whether it is relevant to organise indication-based taxation actions every year for each taxpayer category (employee, self-employed and CEO).

The report *Taxation based on signs and indications* is now available (in either French or Dutch) on the Court’s website ([www.courtofaudit.be](http://www.courtofaudit.be)).