



INTERNATIONAL ASSOCIATION  
OF YOUNG LAWYERS

## **General Communication with Tax Authorities in friendly or unfriendly ways**

**Tax Commission – of course...!**

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### **National Report of CYPRUS**

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## **1. Introduction**

Tax authorities – surely each one of us had the pleasure to deal with one: as taxpayer at least with the tax authority of the country you are resident of, as a lawyer helping others in tax matters you might have had the chance to deal with the tax authorities of other countries as well. If the latter is the case you might have seen some differences in the behaviour of the different tax authorities. You might have realized that the tax authorities in some or even the majority of the countries do treat the taxpayers not as their customers or clients but rather as subordinates. In such cases the communications tends to be rather hierarchical and often results in administrative proceedings against the tax authorities with more or less success.

Other countries have realized that treating the taxpayer in ways like we know from the tale of Robin Hood and the Sheriff of Nottingham only results in the tax payers trying to circumvent their tax obligations. Some countries, thus, have not only reduced the taxes in their countries. They also made their tax authorities treat the taxpayers as their clients e.g. in offering the taxpayers the possibilities for tax rulings and trying to take a more tailored approach towards their taxpayers .

These – sometimes very significant – differences are what we are focusing on in this year's tax report: We want to show that there are big distinctions in the behaviour of and the dealing with the tax authorities in different countries both in the stage of an advance agreement on a tax position as well as in an objection or litigation phase. For this reason AIJA members from several countries around the globe were so kind to volunteer as national reporters for this report which is crucial for such a comparative topic.

The General Reporters would like to thank you all in advance for your contributions and are already very interested in the results of this year's annual congress session of the AIJA Tax Commission.

## 2. Questionnaire

*Note:* General assumption is discussions with the tax authorities regarding (corporate) income tax or indirect taxes. If a difference would apply in the treatment between either of these, please indicate in your report. Also, if there are different levels of tax authorities for different taxes or issues, please mark that in your report.

### 2.1 Communication general

How does the General Communication with the Tax Authorities take place?

- a. Is a direct contact in between the tax payer and the Tax Authorities possible/common/advisable? *Possible and advisable and in certain cases tax consultants/accountants of the tax payer*
- b. If not, does the communication only take place via tax counsels?
- c. How can the communication regarding special matters be described? *Must be written and a ruling will be given in writing after a month or so*
- d. Does it take place only in a written form or are meetings possible? *Meetings are possible*
- e. Can the behaviour of the Tax Authorities in your country be described as all dominant, cooperative, customer-oriented or otherwise? *It depends on the Inland Revenue tax assessor. It may vary but usually especially for foreign interest companies is cooperative*

### 2.2 Agreements between tax payers and tax authority

- a. Is there the possibility of a tax ruling and, if so, which costs can be expected? *It is possible and free of charge.*
- b. What is the average time frame to get a tax ruling done? *On average one month*
- c. Are these consultations binding and, if so, which possible remedies do exist? *It is binding if in written form*
- d. Once a tax ruling between all the parties concerned has been achieved, can one rely on it? *Yes*
- e. What is the exact legal status of a tax ruling? *It must be applied by the tax payer and is legally binding*

- f. Is it common in order to get a tax ruling that the tax payer has to give up certain rights or explicitly agree to e.g. information exchange? **Yes**
- g. Is a tax ruling a public document or will it be treated confidentially by the tax authority? Does the taxpayer have an obligation to keep it confidential? **It is specific to the tax payer**

### **2.3 Remedies against decisions of the Tax Authorities**

- a. Is it common that one has to litigate if a decision has been made by the Tax Authorities and which remedies do exist? **Yes**
- b. Is there the possibility of addressing a court or is this an administrative procedure? **Yes if the tax payer feels that the ruling is unfair there is an administrative procedure. An objection can be filed to the tax authority within a certain period of time. If the ruling given is still unsatisfactory then the ruling may be contested at the Administrative court.**
- c. Which costs are to be expected in such a case? **Cannot be established, depends on many factors as all cases that are taken to court (duration ,complexity etc)**
- d. Is it compulsory to have a lawyer in case of any remedy? **A lawyer and an accountant or tax advisor**
- e. What timeframe can be expected in case of a remedy/litigation? **Around three to four months may be more depending on the case**
- f. Is it possible to postpone the payment of the tax debt as assessed by the tax authority until the end of a pending litigation with the tax authority? Will the tax authorities require guarantees for the postponement (Bank guarantees, mortgages etc.)? **It is possible. No guarantees**
- g. Is it possible that the tax authorities submit a report to the public prosecutor to investigate on possible criminal tax offences and under what circumstances? **Yes in the case of fraud**
- h. Is it possible to include a clause in an agreement to automatically amend this agreement in accordance with the outcome of a discussion or litigation with the tax authority (e.g. if an “at arms length payment” is not accepted as such by the tax authority or if interests are held to be dividends or a loan is seen to be a gift)? **Yes we can**

## 2.4 Sanctions

- a. What is the statute of limitations for tax related matters? **Monetary fines maybe imprisonment in the cases of VAT**
- b. What is the typical sanction/amount of fines in your jurisdiction? Is there a different fine level for direct or indirect taxes? **Usually interest on the owed tax amount**
- c. Is it possible for a taxpayer to prevent tax penalties to be imposed should he/she be able to prove her good faith or reasonable interpretation of the law? **Maybe**
- d. Is it possible to regularize your tax situation with reduced or no fines/sanctions? **Reduced maybe**
- e. May tax advisors/tax lawyers be held responsible by the tax authority for their advice to taxpayers? **No**

## 2.5 Tax information exchange

- a. Does a tax information exchange on the EU level or OECD level happen and how does it take place? **Yes**
- b. Does your country enter into tax treaties that oblige to exchange information spontaneously, automatically and/or upon request? **Yes. Upon specific request**
- c. Is the tax payer notified in case information is exchanged with foreign tax authorities? **Yes**
- d. Can the tax payer object against an exchange of information? **No**