

Background – general information

Guarantors of tax compliance, **tax audits carried out by the General Directorate of Public Finances (DGFIP)** aim to establish all breaches of tax law, whether committed in good faith or deliberately:

- For professionals, the base of the main commercial taxes is calculated in regards to the entity's profits (corporate tax - "*impôt sur les sociétés – IS*" or personal income tax in commercial ("*Bénéfices industriels et commerciaux*" - *BIC*), non-commercial ("*Bénéfice non-commerciaux*" - *BNC*) or agricultural ("*Bénéfices agricoles*" - *BA*) categories), sales (Value Added Tax (VAT) and taxes on sales) and assets (business tax and property taxes)
- For individuals, taxes are calculated in regards to income ("*Impôt sur le revenu – IR*"), assets (wealth tax and inheritance tax) and on rental values used to calculate local taxes (Residence tax ("*Taxe d'habitation*" – *TH*) and real property tax ("*Taxe foncière – TF*").

The tax audits have two main goals:

- A budgetary purpose that aims to collect quickly and effectively the tax evaded;
- A purpose to fight against fraud which penalizes the most fraudulent behaviors, financially or under criminal law.

In the tax audits' implementation, there is a distinction between taxpayers according to whether they are or not in good faith.

Regarding the fight against fraud, priority is given to repression of the most serious fraud, which can result in criminal prosecution (fictional tax residency abroad: unreported assets owned abroad; occult activities; VAT carousels ...).

In addition, priority in the fight against fraud also applies to tax havens and complex and abusive schemes implemented to evade taxes.

Tax audits include the research for unreported activities (occult activities or undervalued income reported in tax returns), the audit of individuals, usually from the office, and exceptionally on site, and the audit of professionals, individuals or entities, from the office or on site.

Research is the first link in the chain of tax audits

Its mission is to detect fraud schemes, collect, centralize and expand foreign intelligence and information scattered in the different tax services in order to engage tax audits.

Therefore the research services should try to establish:

- fraud from businesses (for example occult activities, fictitious offshoring, permanent establishments, headquarter frauds...) as well as fraud from individuals (for example fictional tax residency abroad, unreported foreign bank accounts...);
- the different manifestations of fraud, from the most common fraud (markdown of sales) to the most sophisticated (using front entities located in tax havens), whether it involves one individual/entity (concealed activity, false invoices...) or several individuals/entities (premium for employment scams, carousel...);

- fraud in all its geographic dimensions, on the local level (ticketing control of local shows...), the national level (fictitious subcontracting, occult activities through internet...) or even the international level (detection of carousels through the examination of invoices or intra-community trade of cars...);
- all at risk socio-professional sectors.

Research services direct their action towards the gathering of information to program external tax audits, to support auditors and to fight illegal activities and fraudulent schemes.

The examination of individuals

The examination of individuals is mainly based on the examination of documents from the office. This form of audit involves a comprehensive and critical analysis of filed tax returns and is made using all the information and documents in the taxpayer's file, and, where appropriate, additional information provided by the taxpayer upon request of the auditing service or collected from third parties (customers, suppliers, administration ...) using the right of communication.

The examination of documents' aim is to detect taxpayers who have failed to file their tax returns and to correct the errors reported in the tax returns by taxpayers, in regards to their income or their assets.

Similarly, all the high-stakes cases are monitored over a three year period as part of a cross-correlated audit of assets and income which involves a global approach of the taxpayer's situation.

Exceptionally, the French tax administration can implement an on-site audit procedure in regards to income taxes (" *examen de situation fiscale personnelle* - ESFP ").

The examination of professionals

The examination of professionals is based on the examination of documents from the office (with goals and terms identical to those of the examination of individuals) but also on-site tax audit or external tax audit which is the most visible type of audit.

This type of audit is mainly carried out by the national tax directorates, the Directorate of national and international audits ("*Direction des vérifications nationales et internationales – DVNI*"), the ten interregional directions of tax audit ("*DIRection du COntôle Fiscal – DIRCOF*") and regional and departmental directorates of public finances.