Funding the Future

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Accountancy has moved to 'fair value accounting' since the introduction of International Financial Reporting Standards. Let's put what this means in a nutshell.

It used to be that the profit and loss account was the most important statement in set of accounts. The result was that movements in the balance sheet were explained by what happened in the profit and loss account.

Under fair value accounting the balance sheet is the most important statement in the accounts. The profit and loss account now explains movement between two balance sheets.

The difference is important. The focus shifts from measuring what you earned over a period of time to explaining the difference in your worth between two points in time.

What has to this to do with tax? Well, quite a lot - but actually I don't intend to discuss IFRS and tax here, now. What I wanted to note was a move by the Serbian tax authorities. They have decided that tax declarations by some of their wealthiest people are, shall we say, a little short of the truth. In other words, they've misstated their profit and loss accounts. So, they're opting for the fair value accounting approach. The result is that "are visiting the homes of some 10,000 of Serbia`s wealthiest people to visually verify property and declared income to stem tax evasion."

What baffles me is that this technique is not used more often. It's the method that put Al Capone behind bars. And of course it is used by tax inspectors when they start an investigation of a person's return which they think to be wrong in the UK. But a systematic review of tax returns with visible wealth seems a necessary part of any tax system. And yet it is not in the UK.

It's my opinion that it should be, and that the presumption should be that it is for the taxpayer to prove that they could afford the resources they control from within the declared income they have earned, having allowed for provable receipts from other sources, such as inheritances. The result would be a serious weapon against tax evasion and other crime. When it is being reported quite widely in the UK that fraud is increasing rapidly, this seems a necessary weapon to assist prosecution.

Or does it step beyond civil rights?