

Tax Simplification for Small Firms: The View of Portuguese Accountants and Tax Auditors

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The purpose of this paper is to analyse preferential features for a simplified tax regime (STR) in the view of two important players in its application: chartered accountants and tax auditors. Portuguese Chartered Accountants (PCA) have a key role in recommending the STR to small firms and in its accounting and fiscal monitoring. Tax auditors, working for the Portuguese Tax Authority, control the regime's application, and are also important agents in the STR's functioning. A questionnaire was used as primary data collection method. Out of the 435 questionnaires considered valid, 315 were answered by PCA and 120 by tax auditors. Preferences for the STR's design are the use of presumptive or indirect methods, specifically when the computation of tax to be paid is made on the basis of turnover and activity sector. Respondents also venture that it should not be coordinated with the value added tax (VAT) cash accounting; it must be optional and keep in place mandatory certification by PCA.

INTRODUCTION

Small and medium enterprises (SMEs) have an important economic role, both in the European Union and Portugal. In the European Union, SMEs account for 99.8% of the total number of enterprises; and micro-enterprises account for 92.4% of total firms. (Muller, Gagliardi, Caliandro, Bohn, & Klitou, 2014). In Portugal, SMEs are also the basis of the economic structure (99,9% of total enterprises), and play a significant role in employment (80.5% of the total). Portuguese micro enterprises represent 96.2% of the number of companies and the level of employment accounts for 47% of the total (INE, 2015).

Tax policy usually favours simplification for some types of firms, particularly very small ones (OECD, 2009). Possible approaches to simplification consist in setting up simplified tax regimes (STR), simplifying some accounting or tax returns and reducing the frequency of filling. A STR can reduce compliance costs, mainly through presumptive taxation (by dispensing many steps to record and check the tax status of revenues and expenses), and can also be less demanding with regard to accounting and reporting obligations. These special regimes aim at reducing compliance costs and fight fraud and evasion. (OECD, 2007; WBG, 2007, 2009). A STR for small businesses, in the context of income taxation, should be coordinated with other taxes, particularly the value added tax (VAT) (Chittenden, Foster, & Sloan, 2010).

In Portugal, a first version of a STR, covering firms subjected to the corporate income tax (CIT), was applied between the 2001 and 2010. One of the main opponents of that STR were the Portuguese

Chartered Accountants (PCA). For PCA, simplification was considered a risk, as it could reduce the technical relevance of this category of professionals and diminish their fees (Ribeiro, 2009).

A CIT reform, enacted in 2014, introduced a new STR. The new system tried to avoid some pitfalls of the former one.

The purpose in this paper is to analyse what are the STR's features mostly preferred by PCA and tax auditors, by asking their views on the regime's design. Portuguese Chartered Accountants have a key role in the recommendation of the STR to small firms and in its accounting and fiscal monitoring; tax auditors, working for the Portuguese Tax Authority, check the regime's implementation and have a downstream perspective of its application, mainly regarding its impact on taxpayer's behaviour and fiscal options.

This paper is organized into six sections. In the introduction, we outline the paper's objectives. In section 2, different designs that a STR can exhibit are explained. In section 3, the characteristics of the new Portuguese STR are described. In section 4, the methodology applied in this study is presented. Section 5 is dedicated to results. Finally, in the section 6, some concluding thoughts will be highlighted.

DESIGN OF SIMPLIFIED TAX REGIMES

The use of special arrangements for certain groups of taxpayers is an important example of simplification and tax modernization. However, simplified schemes for SMEs often raise concerns about equity and economic efficiency (WBG, 2009). The heterogeneity of SMEs may also require differentiation measures for micro and small businesses (OECD, 2009). Some simplified systems for small businesses only require the simplest accounting records. The exemption or the simplification of some tax obligations is commonly used, as well as reduced reporting obligations (Jousten, 2007; OECD, 2009; Shaw, Slemrod, & Whiting, 2010; WBG, 2009). There are several methods of simplification. However, the classification of different methodologies differs.

Aguiar and Lopes (2007) argue that simplified taxation should be divided into two basic lines: the first, is to simplify the computation of taxable income, inside the paradigm of computing real or actual income. It means using financial accounting standards to arrive at actual profit, and then adjusting it by CIT legal rules.

The second, is based on taxing a presumptive income, by dispensing many accounting operations and relating the taxable base to physical variables, financial indicators, or both.

The first approach, based on the actual profit and not on presumptive revenue, can be applied in several, alternative of simultaneous ways: (i) accounting simplification, with the use of cash accounting and (ii) simplification of accounting records, and iii) the exemption from reporting obligations.

The second approach, based on the computation of presumptive profit, implies that taxation is based on indicators such as turnover, purchases, or physical variables, such as the number of machines, employees, etc.

Santos and Rodrigues (2006, pp. 133-135) offer a different proposal, considering four technical modalities in implementing the alternative schemes for SMEs, namely: (i) the "presumptive normal profit", a frequently used method, which considers the "normal profit" that a company would have in regular economic conditions. In this case, variables like the sector where the firm is operating, its size, and indicators such as purchases or sales, can contribute to fine tuning the effective tax burden; (ii) the "indicator-based tax", is designed to capture the relation between observable physical indicators like, for example, factory area, number of employees, number of machines, electricity consumption and the level of expected profits; (iii) the use of "technical and financial indicators", in which the calculation of the tax base is complex, because it requires knowledge of sector averages of total sales or services or any other indicator and (iv) the "minimum tax", which is based on the payment of a mandatory minimum tax. This can be the same for all taxpayers, or be differentiated according to the activity, sector, geographical location or any other appropriate criteria.

Pope (2008) suggests a special treatment for small businesses that would be divided into several concrete topics: increase registration threshold (e.g., registration for VAT or similar taxes); reduction of

tax rates (e.g., reduced income tax rate for small businesses); flexible reporting deadlines (e.g., extended time for small businesses); simplified accounting rules; and exemptions (e.g., auditing exclusions).

Other possible configurations of STR are used in a study on SME's taxation prepared by OECD (2009). This study offered several measures that can be implemented when simplifying income tax computation, and considered three simplifying designs (OECD, 2009). First, the presumptive and indirect methods used as proxies to the actual tax base. Within this method, the following alternatives can be considered: single combined tax (this single tax can replace the CIT and VAT, or even social security contributions); physical indicator based tax (example of such indicators-based can be considered: the number of workers, physical space, power consumption, the number of machines and other variables that may show a relationship with income) and tax based on turnover. Secondly, simplified financial accounting, by reducing formal recording requirements, or by using cash accounting. Finally, less frequent filing requirements for small firms.

Given common strategies that can be identified in research, we venture the use of presumptive methods, accounting simplification and less frequent interim filing requirements are present in most of them, and can be the cornerstone of successful tax simplification for small firms.

THE PORTUGUESE SIMPLIFIED TAX REGIME DESIGN

According to the Portuguese STR scope defined by art. 86-A of the CIT code, resident taxpayers, not exempted or subjected to a special tax regime, engaged primarily in an activity of commercial, industrial or agricultural nature and that fulfil the following conditions:

- i) a gross annual amount of income not exceeding EUR 200,000;
- ii) total assets not exceeding EUR 500,000;
- iii) adopt the accounting standards regime for micro-entities; can opt for this regime.

The accounting regime for micro-entities is a simplification to companies that have a gross annual amount of income and total assets that do not exceed EUR 500,000. This regime has a mandatory regular accounting bookkeeping and PCA certification.

The STR is optional. The taxpayer, even if fluffing the mentioned conditions, can still be on the regular method (actual income computation) of taxation.

For the computation of the tax base, in the STR, the coefficient method is used. It works by applying a fixed coefficient to any type of revenue.

For example, to arrive at the taxable income derived from sales, a coefficient of 4% is used. In the case of capital gains, the coefficient is 95%. These values imply that, in the case of sales of products, a 96% average cost structure is implied or presumed. In the case of capital gains, only 5% is imputed as necessary cost to obtain it. (The net capital gain, not the gross value or the asset sold).

Therefore, this scheme can be considered presumptive in nature (Ribeiro, 2009).

Taxpayers who opt for the STR are not subjected to the payment of municipal surcharge and are not required to pay the special advanced tax. However, these companies are subjected to a minimum tax base, equal to 60% of the annual amount of the Portuguese minimum wage, i.e., EUR 4,242 (EUR 530 x 14 x 0.6) for the year 2016. The new STR "can make tax calculation simpler and could represent a reduction of tax payable" (Dâmaso & Martins, 2015, p. 78).

Given the legal and economic characteristics of STR, one could expect that, for SME, given their regressive compliance costs, these regimes would be a success, covering a large proportion of firms. In fact, the first Portuguese STR, from 2001 to 2010, was considered a failure.

The main reason is that, in SME world, accountants are a kind of gatekeepers between tax law and its application. Thus, as STR have the potential for diminishing the relevance of PCA's, their advice is based on the actual reduction in tax paid by comparison with the standard regime of taxation. That is, only if a STR produces, *ceteris paribus*, a clearly reduced tax burden for SME it has any change of a significant endorsing by PCA. Thus, analysing PCA's perceptions of STR features that enhance its adoption is a worthwhile research topic in the tax policy area.

On the other hand, tax auditors could see STR as an auditing saving mechanism. Tax base computation is more automatized, requiring less auditing effort in cost variables. However, the STR can also be seen as taking auditing control out of tax authorities' staff. Thus, knowing how these professionals view of the STR is also quite relevant in terms of tax policy for SME.

METHODOLOGY

PCA and tax auditors are key players in the use of STR. In an upstream perspective, the Portuguese Chartered Accountants (PCA) have a key role in the recommendation of the STR and in its accounting and fiscal monitoring; in a downstream perspective, tax auditors check the regime's application. The views of important players on the features that a STR must incorporate is, consequently, very important.

The purpose of this paper is to answer the following research questions:

Research Question 1 - *What are the PCA's preferences regarding the legal design of a STR?*

Research Question 2 - *What are the preferred characteristics of a STR for tax auditors?*

Research Question 3 - *Are there differences in perceptions of other STR characteristics between PCA and tax auditors?*

We based our simplification proposals on OECD (2009), as it includes several simplification methods proposed by many authors. For a better analysis, we consider each simplification method individually. These methods are: (i) presumptive and indirect methods (ii) simplified financial accounting and (iii) less frequent interim filing requirements for small firms.

We also analyse other characteristics suggested in the literature, such as the use of a reduced CIT for small businesses. Respondents' views were collected through a 5 points Likert scale.

A questionnaire was used as the primary data collection method. Out of 435 questionnaires considered valid, 315 were answered by PCA and 120 by tax auditors. The questionnaire was available online from October 6, 2014 to December 31, 2014, in LimeSurvey platform. The Chamber of the Portuguese Chartered Accountants made the questionnaire available on its website, accessible to all members. We had the collaboration of the Chamber - and also the Portuguese Association of Accountants - for face-to-face data collection performed in their training weekly/monthly sessions, in several locations. The latter method of collection was used to increase the number of valid questionnaires.

RESULTS

Perceptions of the Portuguese Chartered Accountants

Table 1 shows PCA views on the desirable characteristics that a STR should exhibit relating to presumptive or indirect methods.

In the presumptive methods, the single combined tax option gets a strong rejection. Responses were very antagonistic to this method, even if this is calculated including CIT and VAT, or even social security contributions, with response rates of about 45% and 55% respectively. When tax is calculated on the basis of indicator-based the PCA, respondents are mostly indifferent.

A preference arises when tax is calculated according to turnover and the activity or sector, obtaining the highest response rates in agreement and total agreement with approximately 46% and 28%, respectively. It is noteworthy that this is the model currently used in Portugal, and it merits a general agreement of PCA. Contrarily to the findings of Portela (2010), tax calculation based on turnover, activity, sector and location, was not the option obtaining the highest percentage of agreement.

TABLE 1
PCA PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD
EVIDENCE – PRESUMPTIVE METHODS

1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	1	2	3	4	5
Presumptive methods									
The STR should be reflected in the application of a single combined tax that would include CIT and VAT					45,4%	14,3%	11,7%	18,7%	9,8%
The STR should be reflected in the application of a single combined tax that would include CIT , VAT and social security contribution					55,2%	16,8%	14,6%	9,5%	3,8%
The STR should translate into a tax calculated on the basis of turnover and activity or sector					5,7%	6,7%	13,7%	45,7%	28,3%
The STR should translate into a tax calculated on the basis of turnover , activity sector and localization					15,6%	12,1%	21,9%	35,6%	14,9%
The STR should translate into a tax calculated on the basis activity or sector and other indicator-based (e.g., number of workers, physical space, power consumption)					22,2%	15,9%	27,0%	22,2%	12,7%
The STR should translate into a tax calculated on the basis of turnover , activity or sector and other indicator-based (e.g., number of workers, physical space, power consumption)					18,4%	19,4%	25,4%	23,5%	13,3%

Table 2 shows results regarding desirable characteristics that a STR should have, according to PCA, concerning simplified financial accounting and less frequent interim filing requirements.

TABLE 2
PCA PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD
EVIDENCE – SIMPLIFIED FINANCIAL ACCOUNTING AND LESS FREQUENT
INTERIM FILING REQUIREMENTS

1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	1	2	3	4	5
Simplified financial accounting									
The STR should translate into a tax calculated on the basis of CIT cash accounting					45,4%	18,1%	18,1%	12,4%	6,0%
The STR should translate into a tax calculated on the basis of CIT cash accounting coordinated with the VAT cash accounting					45,1%	17,8%	20,0%	13,0%	4,1%
Less frequent interim filing requirements									
The STR should lighten some reporting obligations for the Tax Authority (e.g., exemption from sending the e-invoice)					21,6%	8,9%	17,1%	23,5%	28,9%
The STR should include extended deadlines reporting obligations and tax payments					35,6%	12,1%	25,4%	14,0%	13,0%

Simplification, by CIT cash accounting, coordinated or not with VAT, obtained a percentage higher than 45% of *totally disagree* opinions, in both cases. Portela (2010) shows a different result, evidencing no such opposing opinion about cash accounting. However, Marsden, Sadiq, and Wilkins (2012), in Australia, found a major preference for the cash accounting alternative when chartered accountants were asked what to recommend for small businesses. It appears that, distinctly from Portugal, cash

accounting is well-accepted by companies and is recommended by chartered accountants in other countries.

Once again, PCA may view cash accounting as a solution reducing their professional services, by rendering accounting records and financial statements simpler, and thus diminishing potential fees to be charged to small firms.

Respondents have positive feelings for lightening some reporting obligations. However, they do not hold a concurring opinion with extended deadlines for reporting obligations (about 36% of respondents selected “*totally disagree*”). These results are similar to the findings of Smulders, Stiglingh, Franzsen, and Fetcher (2012), in which increasing deadlines for sending VAT returns to four months, was considered useful by only 15.2% of respondents.

Cullen and Cunliffe (2003) found that 50% of surveyed entrepreneurs consider the adequate lapse of time for the payment of VAT would be bimonthly.

Table 3 shows the relative frequencies of PCA responses about *other characteristics* that a STR could have.

TABLE 3
PCA PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD
EVIDENCE – OTHERS CHARACTERISTICS

	1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	1	2	3	4	5
Others characteristics										
The STR should result only in a CIT reduction rate , up to maximum limit of turnover						17,1%	14,0%	23,5%	27,3%	18,1%
The STR should result only in a CIT reduction rate , up to maximum limit of profits						22,2%	12,7%	28,6%	24,8%	11,7%
The limit to adopt the STR should be EUR 500,000 annual amount of gross income (currently EUR 200 000)						22,2%	15,6%	23,2%	24,4%	14,6%
The STR would be similar to the current but coordinated with the VAT cash accounting						40,3%	17,1%	26,0%	12,7%	3,8%
The STR should be mandatory						69,8%	12,1%	12,4%	2,5%	3,2%
The STR should dispense the regular accounting bookkeeping						51,7%	15,6%	11,4%	10,8%	10,5%
The STR should dispense the PCA mandatory certification						61,6%	14,6%	9,8%	6,3%	7,6%

According to results, rate reduction, up to a maximum limit of turnover, has a percentage of partial agreement of about 27%, this being the modal value. However, if the limit is related to profits, the mode is on the "indifferent" option. Thus, reducing CIT rate is apparently not enough for a STR to become attractive to PCA.

Different results are presented by Portela (2010), where the use of a reduced rate was considered the most relevant measure (34% of respondents considered it very important).

Concerning the possibility of the STR being adopted by firms with a turnover up to EUR 500,000, percentages are fairly distributed among all options. However, partial agreement is the one obtaining the highest rate of PCA's respondents' answers, 24.4%, followed very closely by *indifferent* response, with 23.2%. The increase of the limit implies a larger number of companies capable of using the STR, and the perception of PCA may follow from a feeling of diminished relevance of their services in the context of simplified accounting and tax duties. PCA have a defensive attitude towards STRs, especially if they are perceived as rendering their services less relevant.

Data show a high level of disagreement (40%) of PCA in case STR is coordinated with VAT cash accounting. PCA respondents have a negative opinion about cash accounting or its coordination with STR.

Results show that respondents totally *disagree* with the last three items: the STR should be mandatory (69.8%), dispense with regular accounting bookkeeping (51.7%) and dispense with the PCA mandatory certification (61.6%). The fact that STR must be optional implies the following reasoning: adopt the STR if tax paid is lower than the amount assessed by the regular tax regime.

The requirement for regular accounting bookkeeping and PCA mandatory certification are expected (Portugal, 2008; Ribeiro, 2009). Simplification can reduce the importance of this category of professionals. These results provide additional important insights about the fear that PCA exhibit, by seeing simplification as a potential source for the reduction of their role in small businesses and, therefore, their income. Policy making - mainly in designing a STR – cannot ignore this issue. On the other hand, it could be said that, although simplification is a catchword for PCA, its implantation can face several obstacles, if it is seen as threatening their professional income.

From obtained results, we presume it is possible to answer the research question 1: *what are the PCA's preferences regarding the legal design of a STR?*

The preferred simplification method is the presumptive, calculated on the basis of turnover and the activity sector. This is the present method of the Portuguese STR. Respondents have no positive opinion on using the presumptive method through a single combined tax, and are indifferent when the tax is calculated on an indicator-based system. The CIT or VAT cash accounting do not get a positive reaction. The PCA have concordant opinions to lighten some reporting obligations and the use of a CIT reduced rate, with a turnover limit. Finally, respondents consider that regular accounting bookkeeping and PCA mandatory certification should be maintained, as well as the optional adoption of the regime.

Design Perception of Auditors Working for the Portuguese Tax Authority

Table 4 shows results of the tax auditors' perceptions regarding the desirable characteristics a STR must show.

TABLE 4
TAX AUDITORS' PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD EVIDENCE – PRESUMPTIVE METHODS

	1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	1	2	3	4	5
Presumptive methods										
The STR should be reflected in the application of a single combined tax that would include CIT and VAT						72,5%	8,3%	4,2%	8,3%	6,7%
The STR should be reflected in the application of a single combined tax that would include CIT , VAT and social security contribution						80,8%	8,3%	4,2%	5,0%	1,7%
The STR should translate into a tax calculated on the basis of turnover and activity sector						12,5%	15,8%	10,0%	45,0%	16,7%
The STR should translate into a tax calculated on the basis of turnover , activity sector and location						17,5%	14,2%	7,5%	43,3%	17,5%
The STR should translate into a tax calculated on the basis of activity sector and other indicator-based (e.g., number of workers, physical space, power consumption)						16,7%	19,2%	4,2%	40,0%	20,0%
The STR should translate into a tax calculated on the basis of turnover , activity sector and other indicator-based (e.g., number of workers, physical space, power consumption)						13,3%	12,5%	11,7%	35,0%	27,5%

Tax auditors exhibit a total disagreement perception of the single tax used in the STR in both options, with 73% and 81%, respectively. On the other hand, an agreement view is shown when indicator-based or turnover methods are offered. Their major preference is granted to tax calculated on the basis of turnover and activity or sector.

Table 5 shows the perception of auditors concerning features that a STR should incorporate, regarding simplified financial accounting and less frequent interim filing requirements.

TABLE 5
TAX AUDITORS' PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD EVIDENCE – SIMPLIFIED FINANCIAL ACCOUNTING AND LESS FREQUENT INTERIM FILING REQUIREMENTS

1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	1	2	3	4	5
Simplified financial accounting									
The STR should translate into a tax calculated on the basis of CIT cash accounting					53,3%	24,2%	8,3%	12,5%	1,7%
The STR should translate into a tax calculated on the basis of CIT cash accounting coordinated with the VAT cash accounting					51,7%	25,0%	11,7%	10,8%	0,8%
Less frequent interim filing requirements									
The STR should lighten some reporting obligations for the Tax Authority (e.g., exemption from sending the e-invoice)					52,5%	19,2%	4,2%	17,5%	6,7%
The STR should include extended deadlines reporting obligations and tax payments					64,2%	22,5%	7,5%	5,0%	0,8%

Results show that simplification by cash accounting obtained a percentage of total disagreement over 51%, in both cases. Auditors have a strong disagreement with lightening reporting obligations and extended filing deadlines, corresponding to percentages of 52.5% and 64.2%, respectively.

We interpret these findings as reflecting auditors' fear that, by reducing filing requirements, the possibility of controlling SME's taxes are impaired. Auditors tend to view tax returns as a data mining source, and reducing filing requirements is perceived as a mechanism that negatively affects their task. Moreover, as Portugal is under a very stringent public financial situation, tax receipts are a key fiscal variable. Tax auditing is quite relevant to check evasion and fraud. Thus, lightening report obligations can be seen less dramatically by PCA than by tax auditors, given different perspectives and roles adopted by each professional group.

Auditors' perceptions of other characteristics that a STR should incorporate are presented in Table 6.

Results show tax auditors have, in any case, a marked disagreement with a reduction of the CIT rate, with percentages of 42% and 50%, respectively.

Regarding to the possibility of increasing STR turnover limit (from EUR 200,000 to EUR 500,000) auditors have a strong disagreement. This result may, once again, indicate that tax auditors fear that the STR may mean loss of control of small taxpayers or the reduction of the reporting quality.

Also with the highest response rate in "total disagreement" (35%) auditors do not favour the possibility of the current STR to be coordinated with VAT cash accounting. Auditors have marked disagreement perceptions in all options that suggest cash accounting methods. A potential explanation is that cash accounting may be interpreted as reducing the quality of financial information to tax authorities. That would diminish the quality of audit sampling, and the possibility of identifying potential tax adjustments.

TABLE 6
TAX AUDITORS' PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD EVIDENCE – OTHERS CHARACTERISTICS

1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	1	2	3	4	5
Other characteristics									
The STR should result only in a CIT reduction rate , up to maximum limit of turnover					41,7%	24,2%	13,3%	15,8%	5,0%
The STR should result only in a CIT reduction rate , up to maximum limit of profits					50,0%	25,8%	15,8%	5,8%	2,5%
The limit to adopt the STR should be EUR 500,000 annual amount of gross income (currently EUR 200 000)					35,0%	21,7%	18,3%	18,3%	6,7%
The STR should be similar to the current but coordinated with the VAT cash accounting					45,0%	19,2%	25,0%	9,2%	1,7%
The STR should be mandatory					50,8%	14,2%	7,5%	10,8%	16,7%
The STR should dispense the regular accounting bookkeeping					40,0%	14,2%	10,8%	18,3%	16,7%
The STR should dispense the PCA mandatory certification					43,3%	19,2%	10,0%	15,0%	12,5%

Auditors are still in total disagreement with the last three characteristics: mandatory (50.8%), dispensing of regular accounting (40%) and dispensing PCA mandatory certification (43.3%). These results indicate that auditors consider the requirement of regular accounting and PCA certification improve the quality of financial information to tax authorities. In addition, dispensing both requirements could increase fraud and tax evasion in small companies, which could mean loss of control and a more complex task for the Tax Administration.

Results obtained allow us to answer the research question 2: *what are the preferred characteristics of a STR for tax auditors?*

The tax simplification method better perceived by tax auditors is the presumptive, computed on the turnover and the activity or sector (currently the prevailing method in Portugal). The respondents have a not favourable opinion of the presumptive method through a single combined tax.

Tax auditors have a visible unfavourable opinion regarding simplification through the cash accounting method. The same negative perception arises regarding the possible coordination of the current STR with VAT cash accounting. Auditors have negative views on the reporting simplification and CIT reducing rate. Finally, they consider that regular accounting and mandatory PCA certification should be maintained, as well as their characteristic optional adoption.

Comparative Design Views Between Portuguese Chartered Accountants and Tax Auditors

Comparing views of the two respondent groups can help us to understand differences between who advises and uses the STR (PCA); and agents who audit its application (tax auditors).

Table 7 compares the highest frequencies of answers given by each group of respondents (i.e., mode), with the perceptions that a STR must show, regarding presumptive methods.

TABLE 7
CPA AND TAX AUDITORS' PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD EVIDENCE – PRESUMPTIVE METHODS

1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	PCA	Tax auditors
Presumptive methods						
The STR should be reflected in the application of a single combined tax that would include CIT and VAT					1	1
The STR should be reflected in the application of a single combined tax that would include CIT , VAT and social security contribution					1	1
The STR should translate into a tax calculated on the basis of turnover and activity sector					4	4
The STR should translate into a tax calculated on the basis of turnover , activity sector and localization					4	4
The STR should translate into a tax calculated on the basis of activity sector and other indicator-based (e.g., number of workers, physical space, power consumption)					3	4
The STR should translate into a tax calculated on the basis of turnover , activity sector and other indicator-based (e.g., number of workers, physical space, power consumption)					3	4

The highest frequencies indicate both groups of respondents are in remarkable disagreement with a STR implemented by a single combined tax. These results are different to what happens, for example, in Brazil. There, the single tax is considered a success, as an increase in small business registration and contributions to social security followed its introduction (Fajnzylber, Maloney, & Montes-Rojas, 2011; Monteiro & Assunção, 2012).

Results also show both groups have similar perceptions in relation to the tax being computed on the basis of turnover. Thus, the tax calculation method currently in use in Portugal gets favourable views from both groups.

Table 8 exhibits the mode for both groups of respondents concerning simplification of financial accounting and less frequent interim filing requirements.

Financial simplification through cash accounting doesn't gather the preferences of any group of respondents. Contrasting to other countries, such as the USA, where small businesses can use the CIT cash accounting, or the United Kingdom, where there is accounting simplification since the Companies Act 1985, Portuguese respondents have negative views on this issue.

We venture that the existing accounting simplification, in particular by a special accounting standard and financial reporting for small companies, and the accounting standard regime for micro-entities, are considered adequate by respondents; with no need for further simplification. By adopting the STR, firms have also to adopt the accounting standards regime for micro-entities, thus an automatic accounting simplification happens.

Results show divergent perceptions regarding the lightening of some reporting obligations. PCA show the highest percentage of agreement, while tax auditors reveal, mostly, disagreement. There is possibly, in the case of auditors, a concern for the loss of relevant tax information with the simplification of reporting obligations. However, they have similar views, and total disagreement, with respect to extended deadlines for reporting.

TABLE 8
CPA AND TAX AUDITORS' PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD EVIDENCE – SIMPLIFIED FINANCIAL ACCOUNTING AND LESS FREQUENT INTERIM FILING REQUIREMENTS

1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	PCA	Tax auditors
Simplified financial accounting						
The STR should translate into a tax calculated on the basis of CIT cash accounting					1	1
The STR should translate into a tax calculated on the basis of CIT cash accounting coordinated with the VAT cash accounting					1	1
Less frequent interim filing requirements						
The STR should lighten some reporting obligations for the Tax Authority (e.g., exemption from sending the e-invoice)					5	1
The STR should include extended deadlines reporting obligations and tax payments					1	1

Table 9 shows the highest frequencies for other characteristics.

TABLE 9
CPA AND TAX AUDITORS' PERCEPTIONS OF DESIRABLE CHARACTERISTICS THAT A STR SHOULD EVIDENCE – OTHERS CHARACTERISTICS

1 Totally disagree	2 Disagree	3 Indifferent	4 Agree	5 Totally agree	PCA	Tax auditors
Others characteristics						
The STR should result only in a CIT reduction rate , up to maximum limit of turnover					4	1
The STR should result only in a CIT reduction rate , up to maximum limit of profits					3	1
The limit to adopt the STR should be EUR 500,000 annual amount of gross income (currently EUR 200 000)					4	1
The STR should be similar to the current but coordinated with the VAT cash accounting					1	1
The STR should be mandatory					1	1
The STR should dispense the regular accounting bookkeeping					1	1
The STR should dispense the PCA mandatory certification					1	1

CIT reduction rate exhibits a quite different perspective from both groups of respondents. On the one hand, tax auditors fully express a disagreement opinion about reducing the tax rate. On the other hand, PCA have a more approving view to a possible CIT reduction rate, when the threshold is defined by turnover.

Tax auditors totally disagree with the possible increase of the limit to adopt the current STR from EUR 200,000 to EUR 500,000. The PCA, on the other hand, despite the fact that the highest percentage

of responses is framed in the agreement options, present a significant percentage of indifferent views. Increasing the limit means expanding the number of companies that can use the STR. For PCA it means some loss of clientele; for tax auditors, decreased reporting quality may imply loss of control.

Regarding the coordination of STR with VAT cash accounting, both surveyed groups have total disagreement perceptions.

Regarding the last three characteristics, both surveyed groups exhibit a total disagreement. That is, they both consider that the STR should not be mandatory, nor should it dispense regular accounting and PCA mandatory certification. These characteristics can signal quality of financial reporting, since computing the tax base of the STR does not take into account the effectively incurred expenses. The neglect of incurred expenses had already been considered, in the former STR, a potential enhancer of fraud and evasion (Cupertino, 2005; Morais, 2009).

The STR now in place maintains the requirement of regular accounting and PCA certification. Some authors consider these as unfavourable points, increasing SME compliance costs (Madeira, 2014; Seara, 2014).

The preference of PCA for the maintenance of accounting bookkeeping is an expected result, and is followed by tax auditors. These results imply this is an important issue in the design of the STR. The regime adoption is normally recommended to firms and then officially formalized by PCA (Alves, Portela, & Sanches, 2012; Dâmaso & Martins, 2015; Marsden et al., 2012). The favourable opinion of these professionals is crucial to the STR success, and their opposition condemns it to fringes of taxpayers.

Considering the results obtained we may answer the research question 3: *are there differences in perceptions of other STR characteristics between PCA and tax auditors?*

According to our survey, from 17 characteristics presented in the questionnaires that a STR may evidence, 11 of them have similar levels of agreement in perceptions of the PCA and the tax auditors. However, the lightening or reporting obligations, rate reduction and an increase in turnover limit to adopt the STR, reveal areas of divergent views.

CONCLUSIONS

The use of STR for small businesses is often part of simplification strategies and can be integrated in fiscal reforms. This paper analyses the views of PCA and tax auditors regarding the new version of the recently enacted Portuguese STR.

The CPA are important to the adoption of the STR, through the recommendation, use the fiscal monitoring; tax auditors are the primary agents that check the regime's application.

The preferred features are: the STR should use presumptive methods based on the computation of tax base and should consider the activity or sector; it should be optional and require regular accounting bookkeeping and, therefore, mandatory PCA certification. Finally, should not be coordinated with VAT cash accounting.

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