



*'Liquid Income Taxation System' as a Way to Tax Business  
Income based on Cash Flow Statements\**

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**SUMMARY:** **1.** PREMISE – **2.** OUTLINE OF THE HYPOTHESIS OF A BUSINESS TAX SYSTEM BASED ON 'LIQUID INCOME' COMPARED TO THE DOCTRINE OF «CASH FLOW TAX» («CFT») – **3.** THE CONCEPT OF 'LIQUID INCOME' AS A 'SCIENTIFIC THEME' **4.** – THE DETERMINATION OF 'LIQUID INCOME' AS A 'SCIENTIFIC METHOD' – **5.** "LIQUID INCOME' AND «ECONOMIC INCOME»: IN BRIEF – **6.** THE CONCEPT AND FUNCTION OF A GENERAL 'BUSINESS WITHHOLDING TAX' – **7.** PROCEDURES FOR THE TRANSITION TO 'LITS' AND ITS ASSESSMENT. – **8.** CONCLUSION

**1. Premise.** Observing the fiscal context in which companies operate, a host of questions spring to mind. How can the taxation of business income be adapted to the present scenario, reversing the out-dated legislative trend that prefers 'ethical' <sup>(1)</sup> statements, controvertible to infinity, to 'scientific'<sup>(2)</sup> ones, in practice incontrovertible? How can the psychological reluctance to invest in a

<sup>1</sup> The concept expressed by the adjective 'ethical' needs to be briefly clarified. 'Ethical' is used here in its oldest sense, that underlying the *id quod plerumque accidit* as ethically understood, in other words, as normal or collective behavior, the logical antecedents of which are found in ancient concepts examined and explained by A. GIULIANI, in "The Influence of Rhetoric on the Law of Evidence and Pleading," Juridical Review 62 (1969): 216-225, among others.

For the concept of 'ethical themes', see M. VRSIGLIONI, 'Mathematical Law', *Diritto e processo*, ESI, 2017, n. 1, 60 ss., where they are specified as themes that are controvertible within given limits or infinitely controvertible, inasmuch as they can be ascertained or determined by means of an argumentative or evaluative choice deriving from a prudent appreciation, the expression of discretionality or willpower. This choice is the consequence of the (informal) logic of controversy based on the equation 'truth = coherence', if the judgement is aimed at achieving the assessment of the truth, or, alternatively, on the equation 'truth = consensus' (if a deal is possible) or (if a deal is impossible) on the logic of 'the lesser evil for both parties'. In the latter cases the judgment is aimed only at eliminating the dispute without finding the truth.

For a different perspective, see A. AMBROSE, *A controversy in the Logic of Mathematics*, in *The Philosophical Review*, 1933, vol. 42, n. 6, 594 ss.

<sup>2</sup> For the concept of 'scientific themes' opposed, in a complementary way, to 'ethical themes', see M. VRSIGLIONI, 'Mathematical Law', *Diritto e processo*, ESI, 2017, n. 1, 60 ss. Scientific themes are 'absolutely incontrovertible' (as 'facts of mere knowledge' they can be known without assessment because logical and non-conjectural) or 'in practice incontrovertible' (they can be known only by an assessment because logical and conjectural). Moreover they are objectified by means of proofs based on the formal logic of 'truth = identity', as regards the first, and 'truth = correspondence', as regards the latter.

country where legal certainty is seriously threatened be overcome? How can the determination of taxable business income be made easier and the predictability of the consequences of tax behaviour more certain to avoid the negative effects that the current systems for assessing income, based on evaluations or legal presumptions, produce indirectly on consumer spending and employment? How can investment in assets, the provision of equity, the payment of creditors when credit is due, be encouraged? How can entrepreneurs be educated to take care of cash flow, as happens in many big European and international companies?

At the same time, observing the reality in which tax administrations operate, it is inevitable to wonder how the assessment and collection of taxes can be made more efficient; how greater resources can be assigned to the assessment of single 'scientific facts' and diverted from resources now engaged in valuations of complex 'ethical facts'; how the number of endless disputes can be reduced and the number of effective assessments increased; how the relationship between tax authorities and the taxpayer can be made truly collaborative, uncontroversial and educational.

In short, we need to find a way to combine the multiple positive factors that are not antagonistic in nature but made antagonistic by existing law and to discover a criterion for bravery that will enable us to look beyond the usual, adopt scary decisions, and overcome the difficulties with minimum risk.

**2. Outline of the hypothesis of a business tax system based on 'Liquid Income' compared to the Doctrine of «Cash Flow Tax» («CFT»).** Probably the criterion for bravery that a researcher must find is 'calculated courage'.

In fact, adopting this criterion, perhaps there is a way.

Maintaining present balance sheets and relative civil law provisions, it would be possible to determine business income for tax purposes on the cash principle, whatever the size or nature of the business activity.

In general terms, business income taxation could be based on a new taxation system, 'LITS', made up of two elements, one substantial - a new concept of taxable income ('Liquid Income' - 'LI') - and one procedural - a new concept of a general business withholding tax ('Business Withholding Tax' - 'BWT').

This futuristic system focuses on the well-known idea of Cash Flow instead of on the present concept of «Economic Income» («EI»).

Decades of doctrinal experience related to CFT demonstrate that, at first sight, any new business income tax system based on cash flow would seem able to accelerate economic recovery, make State Tax Revenue more stable and certain, simplify taxation and facilitate tax assessment and collection.

It is less clear how a similar method of taxation could make it possible to tax an index of ability to pay that would be more effective (i.e. more fair) and less controvertible (i.e. more certain). Besides, it is necessary to identify other factors conducive to generating a true consent to taxation and constituting the common bases (substantial and procedural) on which to set up a European or international new deal for a corporate tax base.

In any case, undertaking research of this kind means following the same logical path taken by the CFT Doctrine and meeting many of the same conceptual, economic and legal obstacles that shaped the unfortunate destiny of that model of business taxation (largely confined to theory).

Although the prototype of a CFT has been organically studied and proposed (since 1978, and even before) as an alternative to Corporate Income Tax (CIT), proving capable of defining the tax base more clearly and simply than present income tax practices, many scholars and researchers have observed that a CFT and its variants would require careful design. It has been noted, for example, that a CFT could create administrative problems related to tax avoidance and evasion through transfer pricing, inflation adjustments, and incompatibilities with existing international tax regimes. Thus, it remains theoretically attractive but difficult to implement.

In this perspective, LITS aims to improve the positive premises of the CFT Doctrine, trying simultaneously to overcome the problems, thought to be intrinsic and crucial: the debatable nature of a similar new tax and the uncertain type of index that this tax would assume as a base for taxation; the foreseeable difficulties that a new tax could create in the present system of conventions against international double taxation; the leap of faith that would be necessary regarding State Tax Revenue, given the fear of incurring a huge loss in revenues and creating obstacles to public spending, especially in the first fiscal year of transition.

For these reasons, LITS tries to find a new path and does not correspond to any of the three models of CFT elaborated by Nobel winner Prof. Meade in 1978 [i.e. R-BASE, S-BASE and (R+F) BASE]; models, that up till now, seem to have constituted the common basis or the accepted general premises of the CFT Doctrine.

To give an idea of its specific elements, suffice it to say that LITS, unlike CFT, would continue to tax an index of ability to pay that everybody calls income. Moreover, LITS would not involve the introduction of a new type of tax into present tax systems, whether domestic or international. Being firmly based on a new general 'business withholding tax', LITS would not imply tax revenue problems in the transition period like those anticipated for CFT and up till now considered almost insuperable.

The new hypothesis envisages a system of taxation of business income linked to cash and grounded on scientific facts (simple, individual, analytical facts, in practice incontrovertible and therefore endowed with high effectiveness) and no longer linked to accruals based on ethical facts (complex, general, synthetic facts, that are controvertible and therefore endowed with low effectiveness). It stems from the observation that the accrual method has become unfair at the substantial level because it is no longer ethically consistent with the principle of ability to pay and at the procedural level because uncertain and debatable.

Moreover, although LITS has no specific or direct reason to reduce tax evasion or avoidance, it should not cause a worsening of the current situations and in theory should, indirectly, improve them. Companies that regularly invest their positive surpluses of liquidity into the business activities would not pay final taxes but only a very modest withholding tax on account. Therefore, they should have no incentive to behave illicitly. Besides, the possibility of using digital tax assessments would discourage the arbitrages and delaying techniques that characterize accruals and, more particularly, the infinite set of tax assessments that this criterion of determination of 'Economic Income' involves.

Taxpayers would be required to pay the final tax only in the case that, during the fiscal period, they had achieved a net cash flow at least equal to the tax to be paid (calculated after deduction of the withholding taxes paid on account).

This should in itself demotivate the pathological behavior that accruals arouse in those taxpayers obliged to pay taxes without having achieved a net flow of liquidity at least equal to the taxes to be paid in the fiscal period.

**3. The concept of 'Liquid Income' as a 'scientific theme'.** LI aspires to represent an innovative type of taxable income that would originate from the succession of single financial inflows and outflows over a given period and coincide, at the end of the period, with an overall positive liquid difference between the two <sup>(3)</sup>, while an eventual negative difference could be carried forward. The mere qualitative modification of availability would obviously be neutral.

Compared to the current calculation of taxable income, expenses, naturally related to the business activity, would become deductible only at the time of payment and revenues would become taxable only at the time of receiving cash, irrespective of the nature of the single component (whether representing a profit, a loss, an asset, a debt etc.).

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<sup>3</sup> By the same logic, the concept of '*liquid added value*' could also be elaborated, *mutatis mutandis* (although the EU guidelines could present some extra difficulties, apparently not insuperable).

LI would seem more coherent with the principle of ability to pay than EI. In fact, it might rectify the distortion created by current ethics, which sees clients not being able to honor debts and banks reluctant to concede credit to entrepreneurs. While in an economy that “works”, accrual may be indicative of an effective ability to pay, in times of crisis it can no longer be so, that ability being assured only by the cash principle (obviously moving from the due premise that even an optimal regulation of losses on credit would always be inelastic to some extent). In short, the accrual principle appears to be suffering from ethically supervening invalidity (constitutional or international).

Nor would there seem to be insurmountable obstacles regarding the new concept of LI because it implies, in any case, possession of an income, even if specified in exclusively financial channels.

As for the determination of the tax base, unlike what happens today, the liquid business income would not depend in any way on the result of the income statement (intended for civil law). Again, unlike what happens for accounting purposes, to determine liquid business income there would be no need even to analytically identify the single items pertaining to the three main categories into which, in accordance with present standards, the components of the cash flow statement are classified (those of income, investment and finance, personal or third party).

The principle that considers any expense or cost to be deductible only if it is related to a business activity would however be maintained; in such a perspective, this well-known principle would simply change its object (outflows, in the financial sense, instead of expenses or costs, in the economic sense).

In brief, the concept of LI would present an extreme adaptability, in theory seeming able to function in a timely (incontrovertible) manner for all enterprises. Being a scientific concept, LI could easily be experimented both by big businesses, which are obliged to produce financial statements, and smaller ones, those with ordinary accounting, because obliged to produce accounting sheets of availability as well as those with simplified accounting, which have bank statements on hand.

The principles of taxation adopted for fighting CFC and similar systems of tax avoidance would become by and large superfluous.

Consolidated taxation would remain possible and opportune; in fact, it would seem more easily applicable, even in a wider perspective (European or international).

Moreover, once the necessary technical adjustments are in place, LI would seem compatible with any system of taxation of “dividends”<sup>4</sup> chosen by the legislator (partial or total exemption, tax credit, deduction, etc).

Lastly no decisive problems would appear to be conjecturable, at least at first sight, regarding international conventions against double taxation; in fact, as the tax base is constituted by a type of income, the nature of the taxes indicated in current treaties would not be altered in any way.

#### **4. The determination of ‘Liquid Income’ as a ‘scientific method’.**

Basing taxation on the scientific facts of payments received or made, the components constituted by ethical facts such as valuations would lose relevance; this would totally change the approach to present methods of income assessment.

As we have seen, LI becomes taxable only when the taxpayer collects a net positive cash flow almost equal to the amount of tax to pay (irrespective of the withholding tax) during the relevant fiscal period.

To put it briefly, in determining the tax base, expenses, obviously if related to the business activity, would become deductible only at the moment of payment made and revenues would become taxable only at the moment of payment received. The logic of the taxation of business income would become, in practice, *‘he who pays deducts, he who collects pays’*.

In other words, LI derives from the succession of cash inflows and outflows and its base is constituted by the liquid difference between: (+) final cash and cash equivalents at the end ( $t_1$ ) and (-) initial cash and cash

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<sup>4</sup> The word “dividends”, used here for the sake of brevity, is intended as comprising, among other things, the sums due by way of operating profits, drawn from officially recognized partnership members and organizations as well as from individual entrepreneurs.

equivalents at the beginning ( $t_0$ ). If the difference is positive, we have taxable LI; if the difference is negative, we have a 'Liquid Loss' ('LL') that can be carried forward.

In this way, components of LI are (-) any business-related outflow of cash (but any decrease in own equity is excepted) and (+) any business-related inflow of cash (but any increase in own equity is excepted).

Among the various ways to regulate the assessment of liquidity, it seems sufficient to use payments (made or received) that are registered in particular 'Qualified Bank Accounts' (QBA) previously indicated by the taxpayer to the tax administration as accounts destined for LITS purposes.

Leaving aside cash flows associated with the management of expenses, profits, capital gains and contingencies (examples of which are however given in the appendix) it seems opportune to examine in detail flows linked to investments and financings (again, examples are given in the appendix).

In the case of investment, the cost would be entirely deductible at the moment payment is made and depreciations (like advances) would disappear from the determination of business income. In the case of financings, the inflow from third party capital would contribute to increasing the LI and its outflow to reducing it; on the other hand, the inflow of personal capital would not generate any increase in the LI, whereas outflow would contribute to reducing it, except in the case of reimbursement of partners or of own consumption of assets related to the business activity.

Finally, observing the grounds of the statements from which LI derives, it is clear that the concept depends, formally and substantially, on the Cash Flow Statement (CFS), as required by civil law. This (scientific) link between LI and CFS (or Financial Statement) is simple and certain because both are exempt from valuations.

**5. 'Liquid Income' and «Economic Income»: in brief.** The two concepts are very different.

For instance, the inflow related to a loan is taxable for LI but neutral for EI. «EI components», such as depreciations and inventories, accruals and deferrals, and all evaluation components are not 'LI components'.

In addition, the dependence principle is based on different statements: Income Statements in the case of EI; Cash Flow Statements in the case of LI.

<b>'Liquid income'</b>	<b>«Economic income»</b>
TAX BASE	TAX BASE
(+) Inflows	(+) Positive components
(-) Outflows	(-) Negative components
OR	OR
(+) [Cash + Cash Equivalents ( $t_1$ )]	(+) Equity ( $t_1$ )
(-) [Cash + Cash Equivalents ( $t_0$ )]	(-) Equity ( $t_0$ )
STATEMENT	STATEMENT
Cash Flow Statement	Income Statement

The results reached by the two methods of taxation, even in relation to the same company and the same social year, are likely to be very different.

Such possible differences reflect the different characters of LI (non-valuational) and EI (valuational).

In the long-term, nevertheless, the LI and EI tax bases tend to become equal because the effects of their different nature are neutralized by 'the flow of

time' (in particular, the flow of taxation time), as it is possible to verify observing the table at the end of the article.

**6. The concept and function of a general 'Business Withholding Tax'.** Not disposing of national quantitative data that is certain, it is not possible at present to foresee the effects, in terms of yield, of the hypothesized modification of the concept of taxable income.

Understandably, ever since the beginning of the studies on the (similar) subject of Cash Flow Tax, the fear of a possible loss of State Tax Revenue, especially in the first fiscal period of transition, has represented the most important problem to solve while looking for a way to realize a new method of business taxation.

This critical issue leads back ineluctably to the basic question posed in the premise: "How to find a criterion for bravery"?

LITS, which looks to be a more efficient system than the one used at present, on the one hand would be perfectly reconcilable with a generalized proportional tax on business income and on the other, would permit a reduction of the rate in force today, in particular bearing in mind its aptitude for becoming the foundation of a generalized business withholding tax (BWT).

In effect, the focalization on the timely (scientific) element of payment would allow a BWT on every positive component of LI. Banks and other financial operators authorized to transfer money would apply a BWT on every transfer to a qualified bank account for the purpose of LITS at the moment of payment.

For business activities directed at final consumers, if the payment was made by credit card, the BWT would be applied by the company responsible for the card; if made in cash, the BWT would be applied by banks at the time of the deposit made by the entrepreneur in the qualified account.

From this point of view, even working with the insufficient data available at present, one could conjecture a BWT on account of a minimum amount (< 5%)

if the receiver of the payment was a resident subject taxable on the basis of LI or a final BWT of a larger entity, if the receiver was non-resident.

In practical terms, with reference to the probable Italian Tax Revenue in 2012, and even with all due reserves and the doubts, it seems that a BWT on account whose entity was of not more than 3% could produce a State Tax Revenue not lower than that currently obtainable from the taxation of all business activities on the basis of EI.

Naturally the other forms of withholding tax in force today would remain as they are and are compatible with the BWT.

Hopefully the above considerations have adequately illustrated how the functions and advantages of a BWT could be at least twofold. On the one hand, during the transition, the BWT would guarantee unvaried State Tax Revenue and, on the other hand, when operative, the BWT would contribute to the stable implementation of LITS; ensure a certain and constant State Tax Revenue; simplify and clarify taxation enormously; eliminate disparities between categories of taxpayers; reduce taxation to minimal rates (2% or 3%), obviously only for those who continue to invest in business activities.

**7. Procedures for the transition to 'LITS' and its assessment.** Such a radical change would imply having to consider the numerous problems of transitional law enforcement related to the abandonment, at time  $t_0$ , of the principle of accrual and the determination of the entity of available liquidity existing at the same time  $t_0$  (this entity is the starting point of LITS).

However, unlike a transition to a possible CFT, a transition to LITS would take advantage of the positive effects of the planned BWT, thus eliminating the risk of an immediate loss of state revenue; in this way, many difficulties that appear to be foreseeable for a CFT, would probably have no reason to exist in the case of LITS.

In fact, if at time  $t_0$ , the fiscally recognized net equity was positive, then, because of what has been said, it should probably be considered as a first inflow, equivalent to a contribution in kind and therefore neutral (the starting point

of LITS would be zero). If, on the other hand, the net equity was negative, it should probably be considered equal to its negative entity (the starting point of LITS would be this negative entity).

The simplicity of the criterion of determination of liquid income would imply a reshaping of the system of controls and assessments.

In effect, computerized (scientific) controls – particularly those related to cross-border flows – would be more important than present (ethical) assessment methods. The conjectural logic of presumptions would become recessive compared to the precise knowledge furnished by computers, which would provide data that was virtually incontrovertible.

The system would overcome the inefficiency of the traditional income assessment systems and make them irrelevant. If anything, the use of cash should perhaps be controlled and if necessary, limited, more than now, even envisaging the incentive of a special reduction of tax rates for those undertaking not to use it or to use it within a predetermined maximum quantitative limit.

However, once valuations have become irrelevant and the initial stock of liquid availability has been determined, LITS would generate an implicit and automatic effect of “fiscal regularization” of any differences existing between fiscally recognized values at time  $t_0$  and effective values existing at the same time.

**8. Conclusion.** The economic and financial crisis seems to have significantly altered the ethical configuration of the principles of ability to pay, solidarity and equality of treatment, especially in their most intimate expression, namely effectiveness.

In fact the ethic perception, common since the fifties, of the entrepreneur as an individual able to dominate the capital factor (as well as the work factor) and consequently face up to the demands of liquidity, or rather of cash, seems to have disappeared, especially in the economies worst hit by the financial crisis.

During this period, the constitutional (or international) legitimacy of taxation based on the criterion of (economic) accrual, could be explained and justified. But that logic no longer seems ethically relevant.

It appears evident, in fact, that any index of the ability to pay correlated to income hinges today on the liquidity (or on an effective aptitude to be liquidated in the short term) of what is economically separable from an organized asset, and can no longer be correlated, as in the past, to accruals of elements, the possession of whose monetary substance is eventual and uncertain and only guaranteed by a generic and ample power to organize productive factors, including capital.

Today, the common perception seems reversed: the entrepreneur (the small-time one at least) normally encounters the problem of liquidity and does not dominate it; on the contrary, he suffers from it. Even the payment of taxes is perceived as a financial problem and no longer simply as an economic obligation: to the extent that, although physiological, the financial problem contributes to the generation of evasion (avoidance or profit shifting).

Moreover, the problem of liquidity also derives from a scarce propensity to consumption and investment (negatively influenced by fear of fiscal assessment methods relying on the presumption of revenues or of incomes based on consumptions or investments) and an equally scarce propensity to payment (also correlated to the exploitation of the number and the length of civil lawsuits).

In this overall framework, the hypothesis of a taxation based on liquid income could perhaps contribute to overcoming these obstacles.

The 'scientific' nature of the notion (i.e its 'incontrovertible' nature) tends to eradicate the questions posed by the traditional and unsolved themes of dependence (material vs formal) and qualification (substance vs form). In fact, the 'incontrovertible themes' on which LI and BWT are based make both dependence and qualification neutral and irrelevant because LI and BWT tend to make 'material equal to formal' and 'substance equal to form'. In this

perspective, LITS, being able to reduce uncertainty, would be more attractive for foreign investments.

Furthermore, the simplicity of the determination (it is able to constitute a clearer and more stable basis for the application of sanctions and administrative and penal rules), the peculiarity of the components (the financial nature of which is often inopportunately neglected by the vast majority of small or medium business subjects), the fact that it is generalizable to all businesses (and to self-employment, in a unitarian system), the predisposition to overcoming fiscal assessment methods based on presumptions (and the associated negative effect on consumption, investment and employment), the incentive to investment, the injection of private means and the making of payments, all seem good reasons to sustain a change of direction.

All the more so considering that only a 'system' based on effectiveness and certainty (as LITS hopes to be) can achieve the two great goals of true consent to taxation and true harmonization of different countries' taxation «systems».

At the same time, LI must respect many unavoidable constraints: constitutional requirements (such as ability to pay, equality and solidarity); double taxation conventions (present conventions must remain unaltered); the general principles of EU law (from human rights, legal certainty and proportionality to no State aid, free competition, etc.).

The new policy, theoretically more efficient in terms of national tax revenue and enabling a generalized application of the BWT, would guarantee both the stability and entity of State Tax Revenue during the transition from the present system based on EI to a future system based on LI and, after that, during the normal period of application of the new method.

Obviously, some problems need to be solved and more experiments need to be made but, given LITS' ability to manage transition to the new system preserving the certainty of State Tax Revenue (if not making it more certain), couldn't it represent a way to try to overcome the crisis of the present economic situation? And couldn't the kind of calculated courage required be the criterion

that in many countries people are trying to find, looking dubiously to the future of the economy and the taxation of economic activities?

### Appendix

#### Experimental comparison of tax regimes based on “Economic income” and on ‘Liquid income’

	AMOUNTS	2015		2016		2017		2018	
		ECONOMIC INCOME	LIQUID INCOME						
<b>1 PAYMENT CORPORATE CAPITAL</b>	<b>50,000</b>								
<b>2 SALES OF GOODS</b>	<b>2,000,000</b>								
RECEIVABLES	2,000,000	500,000		650,000		250,000		600,000	
PAYMENTS RECEIVED	350,000		350,000						
PAYMENTS RECEIVED	400,000				400,000				
PAYMENTS RECEIVED	650,000						650,000		
PAYMENTS RECEIVED	600,000								600,000
PAYMENTS RECEIVED	0								
<b>3 PURCHASE OF GOODS AND SERVICES</b>	<b>-1,700,000</b>								
PAYABLES	-1,700,000	-425,000		-552,500		-212,500		-510,000	
PAYMENTS MADE	-297,500		-297,500						
PAYMENTS MADE	-340,000				-340,000				
PAYMENTS MADE	-552,500						-552,500		
PAYMENTS MADE	-510,000								-510,000
RESIDUAL DEBT	0								
<b>4 CHANGES IN INVENTORIES</b>									
INITIAL INVENTORIES		0		-150,000		-200,000		-180,000	
FINAL INVENTORIES		150,000		200,000		180,000		0	
<b>5 PURCHASE OF CAPITAL GOODS</b>	<b>200,000</b>								
PAYMENT DUE ON PURCHASES	200,000	0		0		0		0	
PAYMENTS MADE	-200,000		-200,000						
DEPRECIATION OF CAPITAL GOODS	-200,000	-50,000		-50,000		-50,000		-50,000	
<b>6 BANK FINANCING</b>	<b>150,000</b>								
DISBURSEMENT OF LOAN	150,000		150,000						
REPAYMENT OF LOAN	-150,000		-37,500		-37,500		-37,500		-37,500
TAXABLE INCOME (ANNUAL)	100,000	175,000	-35,000	97,500	22,500	-32,500	60,000	-140,000	52,000
TAXABLE INCOME (PROGRESSIVE)		175,000	-35,000	272,500	-12,500	240,000	47,500	100,000	100,000
WITHHOLDING TAX APPLIED (HYP. 2%)			10,000		8,000		13,000		12,000
TAX (27.5%)		48,125	0	26,813	0	0	13,063	0	14,438
TAX PAYABLE		48,125	0	26,813	0	0	0	0	0
EXCESS OF WITHHOLDING TAX			-10,000		-18,000		-17,938		-15,500
ALLOTMENT FOR SETTLEMENT COMPANY								75,063	107,000
LIQUID ASSETS PRE-TAX		15,000	15,000	37,500	37,500	97,500	97,500	150,000	150,000
LIQUID ASSETS POST-TAX		-33,125	5,000	-37,438	19,500	22,563	66,500	75,063	107,000
TAX REFUND									15,500
TAX ON NON CARRIABLE LOSSES								47,438	0

It should be noted that words written in ‘single inverted commas’ refer to concepts elaborated by the author of the present article. Words written in «angle quotes» refer to concepts found in traditional literature while “double inverted commas” follow common usage.

### References

There is a vast literature on cash flow taxation, which has been studied in many variants and called in different ways.

For an initial statement of the concept, see E. CARY BROWN, *Business-Income Taxation and Investment Incentives*, in *Income, Employment and Public Policy, Essays in Honor of Alvin H. Hansen*, 300-316 (1948).

Then, see N. KALDOR, *An Expenditure Tax* (1955), who spurred a renewed interest in the subject.

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As regards ‘Liquid Income’, see M. VERSIGLIONI, *Accertamento con adesione, autotutela e trasparenza fiscale*, in [http://associazionetributaristi.it/files/Atti\\_16\\_05\\_2008.pdf](http://associazionetributaristi.it/files/Atti_16_05_2008.pdf); ID., *Il ‘reddito liquido’: lineamenti, argomenti ed esperimenti*, in Riv. dir trib., 741- 762 (2014); ID., *Il ‘reddito liquido’ come attuale indice di effettiva capacità contributiva*, in Innovazione e diritto, 139 ss. (2014); ID., *La tassazione a partire dal ‘reddito liquido’*, in Il Sole 24-ore, 26 marzo (2015); ID., *Il ‘Sistema di tassazione sul reddito liquido’ (‘LITS’)*, in Dialoghi di diritto tributario, 2016 (ivi, R. LUPI, *Riflessioni sul ‘reddito liquido’, tra superamento del principio di competenza e garanzia di effettività della ricchezza da assoggettare a tassazione*); ID., *Dal ‘reddito liquido’ le soluzioni ai problemi del regime per cassa*, in Il Sole 24-ore, 3 aprile 2017; M. VERSIGLIONI, *Imprese minori ‘compecassa’ e ‘Liquid Income Taxation System’*, in <http://www.rivistadiritto tributario.it/2017/06/23/impreseminori-compecassa-liquid-income-taxation-system/>

## Presentations

The LITS hypothesis has been presented and discussed:

1. in a National Fiscal Congress organized by A.N.T.I. held in Riva del Garda in September 2014;
2. in a Master class on tax law organized by the Università Bocconi in Milan in November 2015;
3. in a conference on the crisis of the accrual principle and the prospect of a taxation of ‘Liquid Income’ at the Università degli Studi Suor Orsola Benincasa in Naples on 25 May 2016;

4. in an international conference on the topic “Corporate tax base: towards a European new deal?” at the Università degli Studi in Turin, Dipartimento di Management, 5 and 6 May 2017;

5. in a conference on the topic “The new OIC accounting policies in business income” at the Università LUISS in Rome on 21 June 2017.