

## **Act in a transparent and predictable way towards taxpayers and other stakeholders**

When Tax Administrations act transparently and provide certainty and clarity in the treatment of certain tax transactions, there are opportunities to strengthen trust with taxpayers. The timing is very important as the taxpayer needs to know the position before the transaction takes place. Where the Tax Administration provides the clarity and certainty required, there will be no surprises for the taxpayer at a later date, a no surprise culture.

Tax Administrations can make a significant difference by simplifying for the taxpayer. For example, Tax Administrations can greatly assist taxpayers by taking complex tax law and regulations and translating them into plain, understandable language that the taxpayer can understand.

### **Transparency in both what we do and how we do it.**

When a Tax Administration acts in a transparent and predictable manner it provides certainty for the taxpayer. Tax Administrations should inform taxpayers of how the administration functions and how their processes work. Procedures can still create uncertainty for taxpayers if they are not transparent. A taxpayer needs to know what is expected from him or her and also what they can expect from the Tax Administrations.

This could be achieved by publicising information on the Administration's website, providing guidelines on tax issues, publishing an Annual Plan/Report, having rules on the tax treatment of particular tax issues and providing details on the availability and range of customer services, and so on.

### **Be reliable**

Making promises will achieve predictability and provide certainty to the taxpayer and this may contribute to reducing compliance costs and the administrative burden and increasing trust between the taxpayer and the Tax Administration.

In this regard, some Tax Administrations publish short summaries of appeal decisions or advance rulings or their regulations describing how they interpret tax codes or publish their organisational rulings e.g. organisational handbooks.

Announcing audits and signalling why certain business groups will be targeted for compliance checks provides transparency to taxpayers and could act as a preventive measure.

### **Providing assurances to taxpayers**

Tax Administrations should try to ensure that there are no surprises for the taxpayer. Tax is challenging for many taxpayers as the legislation is complex and also because of the language and jargon used. Legislation is often written in a way that is challenging to the ordinary taxpayer and it is necessary that information is provided in a format that the taxpayer can understand.

Tax Administrations should be open to using different methods to provide assurance to taxpayers regarding their tax obligations.

In many instances, decisions regarding tax legislation is not within the wherewithal of the Tax Administration. This can lead to more complexity in the tax system. Notwithstanding this, Tax Administrations have a responsibility to break the complexity down to make it comprehensible to the ordinary taxpayer. Engagement with the legislator and sharing insights from the taxpayer's perspective may assist in making any new tax legislation clearer and easier to understand. Tax Administrations should use their influence with the relevant stakeholders to implement changes that could provide more assurances and clarity to taxpayers.

## Country Examples

### **PORTUGAL:**

#### **The availability of the forms for submitting income tax returns and accounting and tax information 120 days in advance of the deadline**

The main objective of Portuguese Tax and Customs Authority (AT) is to ensure that its operations are increasingly efficient and effective by seeking to utilize resources efficiently to improve its productivity, using new management models, qualified personnel and digital solutions, and which it hopes will result in increased cooperation and trust between taxpayers and tax administrations, helping to improve tax compliance.

Building a relationship of trust between the AT and taxpayers is based beyond general principles on more specific practices that help taxpayers and tax administrations to work together effectively, and on principles such as transparency, availability, pragmatism and mutual trust.

It is now established by law, (since 2018), that the AT must make the digital forms relating to the periodic income tax returns PIT and CIT models, and the annual accounting and tax information declaration (IES) available at least 120 days in advance of the deadline.

Whenever AT does not comply with this deadline, the deadline for compliance with the corresponding reporting obligation is extended by the same number of days of delay.

The PIT and CIT declarations must be completed online through the AT website 'Portal das Finanças'. This obligation applies to all taxpayers who are required to submit these declarations (including cases of pre-filled PIT declarations).

The early announcement of the changes to be made to the abovementioned declarations will:

- prepare taxpayers, accountants and software suppliers for the necessary changes to be made to the computer programmes;
- that any doubts that may arise in relation to the completion of the declarations, on foot of the changes introduced, can be submitted before the deadline, involving all stakeholders in their definition, seeking to make them feel part of the solution;

- reduce tax litigation related to errors of interpretation arising from changes made;
- Achieve better levels of tax compliance, namely avoiding declarative errors that would lead to a loss of tax revenue or a delay in submitting declarations.

In conclusion, we can state that the objective of introducing this rule, reinforced by the option of using the definition of a legal standard for this purpose, is to communicate to the taxpayer that AT is seriously committed to the need to improve transparency and to make the rights and obligations easy to understand and comply with.

## **AUSTRIA:**

### **Financial documentation (Fandom) for administration, businesses and citizens**

Financial documentation (Fandom = short for financial documentation) is a comprehensive, up-to-date and free source of information on legal questions concerning tax and customs duties. This knowledge platform contains interpretation aids provided by the Federal Ministry of Finance as well as decisions by the Federal Finance Court (Bundesfinanzgericht), on tax and customs law.

Findok can be accessed and used directly online on the World Wide Web, and there is no need to register for the service. Different search functions will enable citizens and businesses to locate the information required quickly and easily. Content is updated on a continuous basis.

Through Findok the Federal Ministry of Finance provides legal opinions on:

- Directives
- Decrees
- Information
- EAS (Express Reply Service on matters of international tax law)

Thereby, Findok guarantees legal certainty, open legal information policy and more transparency. This makes it easier to apply the tax codes and directives for the staff of the tax administration and businesses and citizens, furthermore, are able to predict the outcome of their tax matters, which finally increases trust in the Tax Administration.

See: <https://findok.bmf.gv.at/findok?execution=e1s1>

## **SWEDEN:**

### **Transfer Pricing Roadmap**

In the autumn of 2018, the Swedish Tax Agency (STA) published a transfer pricing roadmap (in Swedish) on its external web page. Two years later the STA published the roadmap in English.

The purposes behind publishing the roadmap were to facilitate the cooperation between the STA and its customers (companies and permanent establishments), to clarify the expectations and requirements during an audit and to enhance the dialogue and transparency (predictability) during an audit.

The roadmap covers essentially three stages; 1. The STA starts an audit, 2. Performs an audit and 3. Concludes an audit. The aim is to provide a guide to how the STA perform such audits from the moment they begin until they are finalised.

The STA applies the methodology in the OECD Guidelines on how to approach transfer pricing issues. The full name of OECD Guidelines is “OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations”, usually shortened as OECD Guidelines or the Transfer Pricing Guidelines (TPG). According to the OECD Guidelines, the application of the arm’s length principle is based on a comparability analysis (with nine steps (first and second aspect), see 1.33 in the TPG). When it comes to attribution of profits to permanent establishments, the STA uses the “Report on the Attribution of Profits to Permanent Establishments” for guidance. It should be noted that the OECD profit allocation report also refers to the OECD Guidelines when pricing dealings with a permanent establishment. The nine-step approach is at the heart in stage 2.

Before the STA issue the audit decision, we prepare a draft timetable setting out the various steps of the audit. The STA discuss this preliminary timetable with the company during the first phone call and the first meeting. It is important that the company (or the Permanent Establishment) and the STA agree on a timetable considering reasonable and achievable timescales and expectations. The timetable is always a shared commitment.

During the comparability analysis, it is clear for every step what kind of information the STA is looking at and how it is gathered (sources of information). The roadmap emphasises the need for cooperation to clarify the facts and circumstances for the actual transaction/*dealing*. Since facts and circumstances varies from case to case it is a win-win situation to be detailed and transparent. This can reduce uncertainties and in the future ease a potential Mutual Agreement Procedure (MAP) for the Competent Authority.

During the examination, the STA has a number of predetermined risk assessments. These take place after step 2, step 3 and step 9 in the comparability analysis. The aim of an assessment is to summarise and analyse the facts up to that particular point and to use available information to update the risk assessment. Several indicators may affect the risk of mispricing at each stage. At all times the STA need to take various facts and circumstances into consideration when analysing a potential mispricing.

After each review, the STA provide feedback to the company. The purpose of the feedback is to:

- describe the Tax Administration’s conclusions
- ask any additional questions to the company
- confirm the transactions under review
- discuss next steps and propose a reasonable timetable.

In addition, the company has the opportunity to give its view on the conclusions made by the STA. The STA normally provide the feedback by telephone or, where appropriate, at a face-to-face meeting. See:

<https://www.skatteverket.se/foretagochorganisationer/skatter/internationellt/internprissattningochvinstallokering.4.3dfca4f410f4fc63c8680005982.html>

## **IRELAND:**

### **Engagement/Communications: PAYE Modernisation**

The Pay As You Earn (PAYE) system underwent significant modernisation in Ireland with the introduction of real-time reporting for employers (PMOD) on 1 January 2019. This represented the most significant reform of the administration of the PAYE system since its introduction in 1960.

The changes meant that every time employers pay their employees, they now report the pay and statutory deduction details to Revenue, the Irish Tax and Customs administration, as part of the payroll process. The reform of the PAYE system to real-time reporting brought significant efficiencies and improvements in accuracy and transparency to some 200,000 employers and pension providers, and 2.6 million employees and pension recipients.

Revenue engaged extensively with key external stakeholders as part of a co-design approach. This involved intensive coordination, cooperation, consultation with payroll professionals, tax practitioners, accountancy bodies, business representative organisations and payroll software developers. These groups operated in parallel with Revenue to ensure their payroll software, employer and agent systems and employer/operator readiness were prepared, tested and in place in a timely fashion.

The governance structure supporting this project was a cross Departmental project board where multiple Revenue areas worked in conjunction with the Department of Social Protection (the government agency with responsibility for the provision of income supports, employment services and other services) to ensure the projects' success. This approach continues and ensures transparency of actions, leverages experiences and provides a platform for improved and more timely data sharing.

The co-operation and collaboration within Revenue and with a range of external stakeholders was essential to the successful introduction of real-time reporting for payroll. Together the various stakeholders worked with Revenue to implement PMOD to the highest standards with a high level of data and reporting compliance and reduced levels of administrative burden on businesses.

The key driver in building these relationships and gaining the confidence of the private sector and public included:

- inclusion of partners in design and collaborative workshops
- early and full communications in clear and unambiguous language
- rapid responses to questions and issues
- transparency and integrity in plans and deeds

These well-developed relationships were critical in the successful implementation of a range of government supports to employers during the COVID-19 pandemic in 2020. This high level of engagement with employers allowed open and candid feedback in near real-time to systems developments and identified issues. This feedback allowed policy makers and Revenue to adjust the schemes to increase their societal and economic impact.

In 2019, Revenue's annual customer survey focused on employers. The results of this survey indicated that:

- 89% of employers agreed that PMOD makes it easier to submit tax returns and payments for their employees;
- 78% of employers agreed that PMOD means payroll takes less time;
- 70% of employers agreed that Revenue's 2018 outreach programme assisted preparations for the new regime.

## Research

### Higher service quality and lower tax complexity reduces evasion

A lack of transparency and predictability in the tax system can be bad for taxpayers' willingness to comply as well as create opportunities for evasion that would not otherwise be there under less complicated and uncertain conditions.

For example, **Hanousek & Palda (2004)** shows that a higher perceived quality of government services is related to a lower frequency of tax evasion. **Cummings et al. (2009)** also find that tax compliance increases with individual perceptions of good governance and, additionally, that responses to enforcement are enhanced by these perceptions. **Richardson (2006)** finds that complexity has the strongest impact on tax evasion compared to other important factors like education, income source, fairness and tax morale.

### Reducing uncertainty through information increases voluntary compliance

Through a lab experiment, **Alm, Cherry, Jones & McKee (2010)** looks into differences in compliance between a classic "enforcement" paradigm and a revised "service" paradigm, where participants are offered various kinds of assistance or "services" to help them figure out their tax liabilities. While the risk of being audited is constantly present, the experiment shows that uncertainty reduces the degree of both filing and reporting compliance while information provided by the tax authority to reduce uncertainty has a positive impact on both.

**McKee, Siladke & Vossler (2018)** also investigates effects of reducing uncertainty through tax administration assistance and services in the lab. In this experiment, variations in both the level of liability uncertainty and the cost and quality of information services are tested on a diverse set of participants comprising both students and non-students (whereas most social science lab experiments rely on students only). Results show a strong and positive effect of

information services on tax compliance, and that without information services, being audited actually means reporting a *lower* tax liability afterwards.

### **Information reduces unintentional mistakes and compliance costs**

Taking the study of information effects to the field, **Kosonen & Ropponen (2015)** shows that providing information about the tax code significantly helps firms to avoid making unintentional mistakes in their tax filing. They do so via a survey experiment, where information about VAT rules are mixed in between attitude questions in the version sent to the treatment group, while the control group receives the same survey only without these pieces of information.

Using survey data, **Eichfelder & Kegels (2014)** study how authority behavior affects the burden of firms in complying with tax regulations. They find that the most cost-relevant aspect seems to be the timely provision of helpful information – more so than problems with contact or contradictory statements from officials. And most importantly, they find that a customer-unfriendly administration increases the burden of complying with the tax law by about 27%.

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