



ISSUE 31

# TAX TRIBUNE

Magazine of the Intra-European Organisation  
of Tax Administrations

8 Technical  
Articles

“2014 General Assembly  
Special Edition”





Mr. Miklós KOK  
Executive Secretary of IOTA



TAX TRIBUNE  
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editorial  
column

## 2014

**Dear Readers,**

This edition of the Tax Tribune is completely devoted to the presented and discussed issues at the 18th General Assembly, held in Belgrade from 3 to 4 July 2014.

The theme of this General Assembly was “Be there on time – Best impact with right timing: engaging taxpayers’ and using information, data and interventions to influence compliance behaviours”.

The Assembly was attended by over 150 delegates from IOTA Member and non-Member Tax Administrations, European Union, Organisation for Economic Co-operation and Development, International Monetary Fund, representatives of other international organisations, tax practitioners and special guests.

The meeting provided the opportunity to examine initiatives that contribute to improved support for voluntary compliance and targeted interventions to confront non-compliance. This included engaging taxpayers at the appropriate time and in an appropriate way to positively influence compliance behaviour. Also, discussed was the efficient and effective use of information to inform risk assessment in the prioritisation of interventions.

This special General Assembly edition of the Tax Tribune contains several presentations from speakers covering the views of academics, IOTA tax administration experts and partner international organisations.

I would like to express my sincere gratitude to the authors of articles contained in this special edition of Tax Tribune. I would also thank you for your interest in IOTA and I look forward to your participation in our future activities.

Miklos Kok,  
Budapest, December 2014



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**Alakbar MAMMADOV**

**AZERBAIJAN**

Advisor to Minister of Taxes of the Republic of Azerbaijan on international relations, taxpayers' services and training activities dealing with formulation of tax policy and tax administration on relevant spheres providing realization of this policy as well as carrying out important activities towards improving the activity of the Training Centre under the Ministry of Taxes and providing methodological supervision and control upon its activity.

Today the main purpose of any tax administration is to provide the budget with more tax revenues. Each tax body is aimed at achieving this target with minimal administrative expenses. The only way identified by all professional fora to achieve this target is:

***Transition from compulsory tax collection to voluntary compliance.***

Compliance is not just compulsion, rather the integration of compulsion, service, liabilities, communication and education. Otherwise, the awareness of taxpayers concerning normative and legal acts on taxation (Knowledge - Education), the availability of tax moral, i.e. the desire and skills to observe these acts, remain to be among the main preconditions of compliance. Non-compliance in tax liabilities is caused by disregard, imprudence, incompetence, the problem of conscience, incapability to observe or existence of different views on compliance.

Voluntary compliance creates opportunity for people to identify their tax liabilities properly, to submit their income statements in time, by free will, voluntarily and thus, this is the system imparting payment of taxes duly. The development of voluntary compliance requires the integral application of enlightenment, raising awareness, propaganda activities and education as well.

Since 2003, monthly mobile activities as "Tax service day" in the regions and cities in the Republic of Azerbaijan were held with no tax organs involved. Within 10 years about 7000 "Tax service day"s were held, where tax services were rendered to about more 100,000 taxpayers.

Currently, this method – mobile tax service - was removed by a more innovative method, that is the establishment of stationary Taxpayer Service Centres (their number reaches 40) rendering all e-services (altogether 50) applied at the Ministry of Taxes of the Republic of Azerbaijan.

Between 2003-2006 the Call Centre of the Ministry of Taxes of the Republic of Azerbaijan covered just the capital, Baku city, and taxes were paid via banks and post offices only. Since 2007 e-declarations (92 % of total) and since 2010 e-payment as well as Mobile Signature (ASAN Imza) are applied.

The application of new innovative service methods increases voluntary compliance level of taxes annually. Currently, voluntary compliance level (excluding the oil sector) accounts to 89.2 % (by 7.2 % more than last year) in Azerbaijan.

Relations between tax organs and taxpayers have become established in a new manner, on the grounds of partnership relations. Partnership Agreement has been signed with about 2 entrepreneurial subjects. A partnership agreement stands for:

- creating fair, flexible, efficient and rational tax control,
- minimizing tax risks,
- ensuring cooperation and mutual trust,

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**Alakbar MAMMADOV**

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Education of the  
young: developing  
the exemplary  
taxpayer

By  
**Alakbar MAMMADOV**

**AZERBAIJAN**

- increasing voluntary compliance level.

*“Education (tax knowledge/awareness) plays a role in the tax compliance behaviours of taxpayers”*

Education outlines duties of each taxpayer, teaches them methods for executing these duties and, in such a way, the systematic, efficient, qualitative and continuous education trains the exemplary taxpayer.

Who are the “Exemplary Taxpayers”? Exemplary Taxpayers are well-known in their businesses, with certain experience, who duly and properly observe tax liabilities, possessing transparent businesses and transparent incomes, i.e. taxpayers with voluntary and transparent compliance of tax duties.

Education teaches the taxpayer to choose the necessary tax information from the existing database and change them into the proper knowledge as well as explains them their duties and methods for fulfilling those.

Education reduces compliance risks, strengthens motivation, and demonstrates the techniques for using the acquired knowledge. Therefore, it is very important to possess the right and the opportunity of education in due time.

The purpose is obvious (influencing behaviours of taxpayers through education, and training the exemplary taxpayers), but, there are certain problems on the way towards achieving these objectives:

- the existing contradiction between private and public interests,
- the lack of social responsibility,
- the restricted knowledge on normative and legal acts in the field of tax and taxation (there is enough information, the problem is in converting this information into knowledge),
- the restricted skills for usage of information technologies,
- tax education is mostly exercised theoretically lacking practical application at secondary and high schools, etc.

Young people are the target group in the acquisition of tax knowledge:

- Youth – secondary, high school students
- Young taxpayers (including young ladies in business)
- Young tax officers.

A high level of compliance depends on taxpayers and behaviours of tax officers as well. Therefore education of young tax officers bears special importance in Azerbaijan. Why the young? Because, an educated young person is the future exemplary taxpayer, or, the observer of voluntary compliance, or the future well-educated tax officer.

Our aim with tax education for young people is to train the exemplary taxpayer, formulate tax morality and culture in the society, train proper tax behaviours from an early age, change voluntary tax compliance into a life standard in society,



and impart a mentality of compliance from the beginning.

The major tools used for enriching education are tax knowledge for the young, awareness-raising, advocacy, training activities, workshops, conferences (forums).

### **Tax education of the young in the Republic of Azerbaijan**

The ways towards voluntary compliance are:

- Optimal tax policy (the key priority of tax policy in Azerbaijan – reducing tax burden, enlarging tax base)
- Strengthening tax administration ( meaning that Azerbaijan pursues its policy to minimize contacts of officers and entrepreneurs by increasing the variety of e-services and establishing partnership relations)
- Fostering taxpayers' services – enlightenment, awareness-raising, advocacy, education by implementing modern information technologies.

### **Information sources of taxpayers in the Republic of Azerbaijan:**

- website of tax organs, social media (Facebook, YouTube, Twitter)
- Call Centre
- Taxpayers' Service Centres

*A bulk of information hardly means proper knowledge! Here, the role of education is indisputable. Therefore, proper compliance requires combined actions, which are education and the establishment of relations with taxpayers.*

In the Republic of Azerbaijan tax knowledge is provided from the junior levels of education:

- Secondary schools
- Vocational training schools,
- Higher schools.

In the past 10 years a drawing competition “Taxes through the eyes of children” was annually held. The higher graders of secondary schools' students, the third-graders are introduced to the subject “Tax knowledge”. “Tax Methodological Cabinets” and “Tax Training Rooms” are functioning at secondary and vocational training schools. Annually Tax Knowledge Olympiads are held at higher schools. In its turn, to enrich tax knowledge/education of the young, the winners of different projects (“Tax knowledge Olympiads”, tax competitions, contests, etc.) are promoted at recruitment to tax organs, when their achievements/results are taken into consideration.

**TAX FRIENDS** -To strengthen awareness raising, enlightening and propaganda activities, to render addressable services to taxpayers, to form tax morality and

**By**  
**Alakbar MAMMADOV**

**AZERBAIJAN**



By  
**Alakbar MAMMADOV**

**AZERBAIJAN**

culture in society in the remote settlements and villages out of Territorial Tax Offices and Taxpayers Service Centres.

- To carry out awareness raising, enlightening and propaganda activities concerning taxes at places among the population;
- To raise awareness of taxpayers on e-services applied by the Ministry of Taxes of the Republic of Azerbaijan (sending letters, statements and declaration, checking e-boxes and tax debts);
- To explain children and youth about tax notions, the importance of taxes for the state, to elicit their interest in tax;
- To expand the activity on the website, of the “195” Call Centre and Taxpayers Service Centres of the Ministry of Taxes, and so, spread information on their usage;
- To spread booklets, brochures, handbooks, calendars highlighting tax data and issues as well as other advocacy and awareness-raising means;
- To attend meetings and trainings to be held at the Tax Methodological Cabinets created at Territorial Tax Offices, Taxpayers Service Centres and secondary schools;
- To regularly inform Territorial Tax Offices on the work done, to avoid actions damaging someone’s own and that of the tax organ’s authority

54,2 % of the employees at the Ministry of Taxes of the Republic of Azerbaijan are young (up to 40 years). Young people at recruitment sit for special test exams topped with an additional 1 year trial period. Within the trial period they are involved in a preliminary training course (a 28 days’ course at lecture-rooms) at the Training Centre of the Ministry of Taxes, and then, sit for an exam. In years to come, they accordingly attend the extension courses with specialists; middle, senior and general managers’ training groups as well as participate in retraining courses and other training. The education of young tax officers is coordinated with their needs and, also, to be assigned in appropriate time. The training days per person accounts to 4,7 persons/day per year (in 2011 this figure accounted to 3,6 persons/day, by IOTA data – 5 persons/day).

#### **Increasing tax knowledge of the young - Education perspectives**

- Expanding activity in general media, Application of “On-line teacher”, “Tax news” projects,
- Application of a personal tax calendar,
- Improving activity of “Tax training rooms” at the secondary and vocational training schools, strengthening the material and technical basis,
- Theoretical and practical application of tax knowledge at secondary and higher schools,
- Application of new training techniques such as e-learning (m-learning), b-learning and e-exams.



## Ingemar HANSSON

SWEDEN

Mr. Ingemar Hansson has been the Director-General of the Swedish Tax Agency since 2010. He is also Professor of Economics at Lund University. He has had various assignments within the Ministry of Finance, for example Head of the Division for Tax Economics and Head of the Economics Affairs Division.

He was the Director-General at the National Institute of Economic Research 1999-2006. Between 2006 and 2010 he was the State Secretary for Tax Issues in the Ministry of Finance.



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Cash Sector  
initiatives in  
Sweden

### 1. Background

The cash sector, including restaurants and retail, is one of the high risk sectors for tax non-compliance in most countries. It includes a lot of small businesses and by being business-to-consumer (B2C); it gives lower incentives to keep proper records.

In Sweden, like many other countries, we have also had problems with manipulated cash registers where certain software could be used for underreporting income. Auditing the cash sector has historically been rather cumbersome, as indirect methods often had to be used for assessment of income (business ratios, calculating margins on supplies etc.)

The trade sector itself in Sweden – after seeing results of our audit initiatives – acknowledged that their sectors had problems with non-compliance. It affected not only taxes, but also created an environment where it was difficult as a "fair trader" to survive without under declaring income. The sector – as well as the Tax Agency – was in support of new administrative measures to increase fair competition.

Therefore, some new legislation was introduced to reduce non-compliance and increase fair competition:

- Staff ledgers in 2007
- Certified cash registers in 2010

Both new legislations also included some new administrative powers for the Tax Agency.

### 2. How does it work?

#### *Staff ledgers*

The staff ledger is a simple booklet that was introduced for sectors where risk for undeclared work was considered high – restaurants and hair-dressers. The Swedish Tax Agency provides a standardized ledger to be used and electronic versions are available on the market.

For each day, all employees working that day should be noted in the ledger. The ledger should be kept at the traders premises, available for inspection.

#### *Cash registers*

All cash traders – with some exceptions – (above a threshold, certain industries

By  
**Ingemar HANSSON**  
  
SWEDEN





By  
**Ingemar HANSSON**

**SWEDEN**

like taxi etc.) have to use a cash register that is accepted by the Swedish Tax Agency. Large traders or franchises with "good internal control" (e.g. supermarkets and fast food chains) could also apply for exemption. "Cash" also include bank card (debit/credit) transactions.

The Swedish Tax Agency has set up technical specifications for the cash registers including a secure "black box" for storing of all transactions. Manufacturers on the free market then produce registers and boxes in line with these specifications for trade to use.

The information in the registers will not be sent in to the Tax agency, but the Tax agency has access to the information during inspections.

### *New powers*

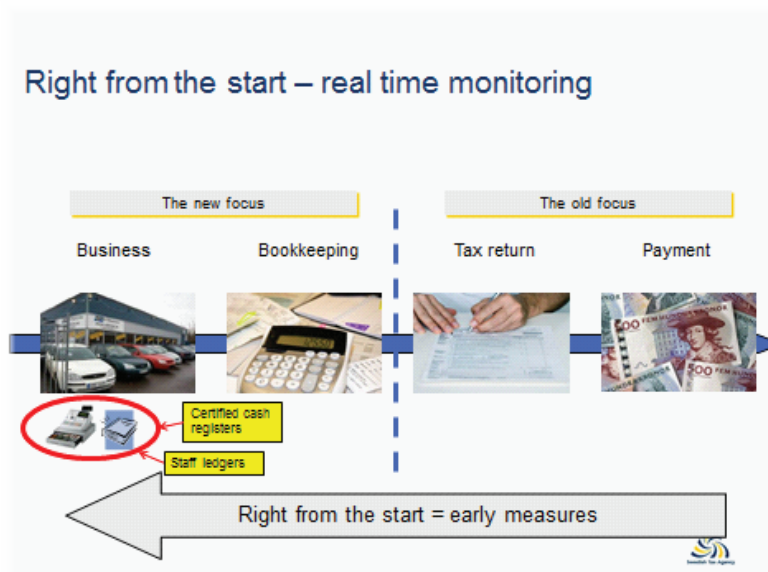
Adding to our normal measures of desk and field audits, the Swedish Tax Agency was given the powers to make unannounced inspections visiting the premises of the trader for checking:

- The ledger - to secure that all employees at the premises are recorded into the ledger
- The cash register – to make sure the register is used for all cash transactions

There is a penalty of 1000 € in case of non-compliance. The double amount is charged if there is another attempt within six months.

### 3. Right from the start

These initiatives fit very well into our overall strategy for tax compliance – "right from the start". We try to move from checking tax returns to more measures up-



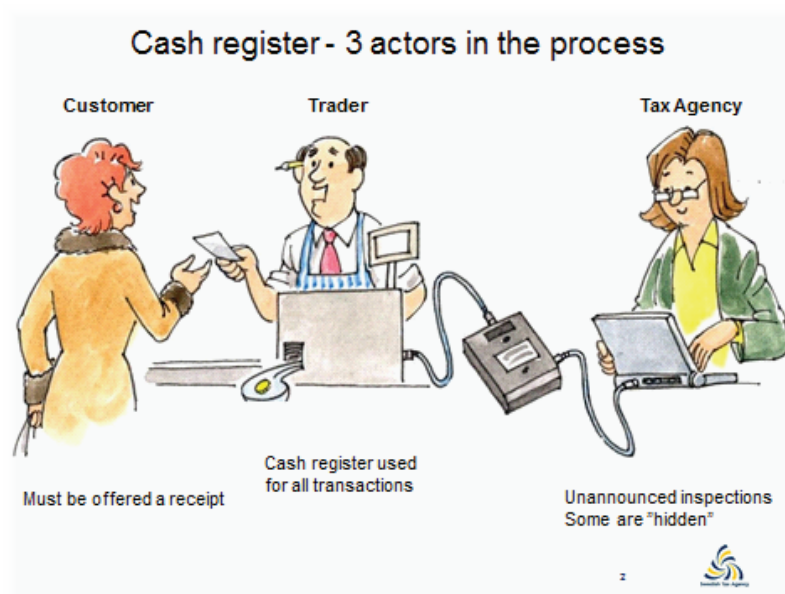


front in real time.

The "Right from the start"-strategy includes education etc. but also to secure transactions in real time before bookkeeping and before the tax return is submitted. Cash registers and staff ledgers make this possible; – real time income (Cash Registers) and real time costs (Staff Ledgers, i.e. employees).

#### 4. Three actors

For cash registers, several actors contribute to "secure the system".



By  
Ingemar HANSSON  
  
SWEDEN

- **The customer** - has an important role to play. They must by law be offered a receipt, but is not obliged to demand it. We have seen that more customers now demands receipts and we are also getting more tip-offs from the public when they have not been offered a receipt. These can trigger further inspections.
- **The trader** - buys a cash register and report the type and physical location to the tax agency. The trader uses the system by keying in the transaction(s) in the register and offers a receipt to customer. The receipt also includes an encrypted code which is produced by the "black box". The tax agency solely can encrypt the code which holds information of non-manipulation. The summary report of cash transactions for the day is then put into the bookkeeping. According to the legislation, the maximum cost for the cash register should be below 1000 €. Some complaints from traders at start but prices have gone down since the introduction.
- **Tax Agency** - keeps a register of all cash registers and their location. We also produce a list of certified cash registered models at our website. The tax



By  
**Ingemar HANSSON**

**SWEDEN**

agency makes unannounced inspections – checking that the trader has obtained a cash register and use it according to the legislation. Some inspections are anonymous – counting customers, checking if receipts are given, buying goods/services to get a receipt and so on. A penalty is given if certain conditions are not met, but it needs to be more than just a single receipt. For restaurants and hair-dressers, the cash register and staff ledger are normally inspected at the same time.

If several penalties are given for a certain period, it could be escalated to a full-scale audit.

#### **5. Activities during the period 2010-2013**

In the beginning (2010), the primary objective was to get all traders "on board" and have them obtain registers. At start, tax inspectors roaming the streets to check that cash registers were installed, but a soft approach was used at start with fewer penalties the first 6 months. Since then, our focus has been narrowed more to traders with the highest risk of non-compliance.

We have regular meetings with the trade associations to inform them about new developments, our priorities and gather reactions from them to improve our working methods and making it easier for their members. Having invested a lot of money in cash registers, there was an initial demand from the trade associations and in the legislation for high volumes of inspections.

We have made a lot of inspections but consider them cost-effective – about 8 inspections/day, compared to 5-10 days for an audit. By giving a penalty early on, the aim is that the trader will not fall into regular non-compliance in the longer run. About 15-20 % of the inspections results in a penalty. These figures have been fairly stable over time because our inspections have moved towards being more risk-based.

We also had a lot of cooperation with manufacturers. We acknowledge that new technology is emerging and adapt our specifications accordingly to make it easier and cheaper for the trade, while keeping high security. Tablet solutions and digital receipts are some examples.

#### **Campaign towards the public (2011)**

To support the initiative, we had a campaign to inform the public during 2011. The objective was to create awareness among the public that they should always demand a receipt. The message was – "Support fair competition – Demand a re-



ceipt” (taxes were not mentioned).

We also used banner advertising, had a printed message on the tax agency envelopes and a campaign video. Evaluation after the campaign showed that customers more often demanded receipts, especially in restaurants.

## **6. Impact on compliance**

So, what is the result so far? We have made 2 in-depth evaluations of these initiatives to see their impact on compliance.

### **Staff ledgers (2009)**

For staff ledgers, an evaluation was carried out in 2009 looking into changes in the restaurant and hairdresser sector before and after the introduction of staff ledgers. We found an impact of approximately 100-150 million € per year, which could be translated to about 4000-6000 previous undeclared jobs that is now being declared. In fact, we even saw an increase in compliance in the months before the legislation was put into force.

The evaluation also included interviews with traders on how they perceived an inspection and the behavior of our tax officers. Some of these interviews were filmed and used in training sessions for our staff.

### **Cash registers (2013)**

An extensive evaluation was carried out in 2013 – including statistical studies, random checks and a survey to trade. The result indicated increased taxes (VAT/Income tax) for at least 300 million € per year, even if general factors like economic growth were considered.

The Trade Association perceives that unfair competition has decreased, but there is a demand that the Tax Agency continue to make inspections.

No system is fool-proof, but so far we have seen no indication that the “black boxes” have been “cracked”. Instead, if a trader wants to be non-compliant he has to simply not key in the transaction (having the till open). This is still happening, the evaluation shows. We cannot check everything, but the public is aware and could help by demanding receipts.

General information about cash registers is also available in English on our website (The brochure SKV 613B): <http://www.skatteverket.se/download/18.46ae6b26141980f1e2de94/1381845390478/613B.2.pdf>

There is also a report – “The development of the tax gap in Sweden” – avail-

**By**  
**Ingemar HANSSON**  
**SWEDEN**



By  
**Ingemar HANSSON**  
  
**SWEDEN**

able in English on the website. It includes an evaluation of Staff Ledgers and Cash Registers (page 70-71): <http://www.skateverket.se/download/18.15532c7b1442f256baae28/1395223863738/The+development+of+the+tax+gap+in+Sweden+2007-12.pdf>

## 7. Future initiatives

These experiences have inspired us also to consider similar future initiatives in other sectors:

- **The taxi sector** - is exempted from cash registers, but it is a sector where we also see high risk of non-compliance. As in other cash sectors, trade associations are pushing for more fair competition. A new legislative proposal is currently in parliament, supported by the tax agency and the trade association. The proposal means that all taxi companies should submit their taximeter data (for each car) to a certified third party provider for storage. This information is then made available for the tax agency for matching with tax return data.
- **The construction sector** - staff ledgers are proposed for the construction sector. A proposal, currently in Parliament, includes that staff ledgers should be maintained at each construction site, including all workers at the site and all subcontractors. All construction sites should be registered at the Tax Agency (the start and the stop of activity) and the tax agency should also – as in the restaurant and hair-dressing sectors – be able to make unannounced physical inspections at each construction site. As for the other initiatives, there is a strong trade association support here as well.

The suggestion is to put both these in to force from 2016.

## 8. Key lessons learned

### Trade cooperation

This is a key for success. In our view, support of the trade was a prerequisite to pass the legislation in Parliament. The overall political objective is to reduce the administrative burden for trade, but associations wanted the legislation to support fair competition – even if it meant an increased administrative burden.

Get input in the work process – how to design our working methods ensuring lowest possible disturbance to trade operations.

Get feedback – how are our inspections perceived by trade.



### **Training of staff**

A large part of the training was concentrated on respectful treatment and being service-minded. For some traders, this could be the first (face-to-face) interaction with the tax administration. Therefore, the tax officer should not be seen just as an "inspector", more as an officer representing the whole tax agency, with a focus on taxpayer service and fair competition.

### **High initial focus**

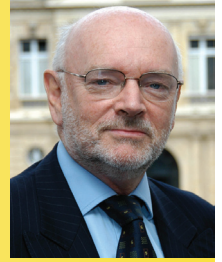
In our experience, initiatives like this demand high focus and a high number of inspections to secure the system and getting everyone on board when they are introduced. By securing these systems and having evaluated them, we can now to some extent move towards decreasing our number of staff engaged in this sector, moving on to other high risk areas for non-compliance.

**By**  
**Ingemar HANSSON**  
**SWEDEN**



**Prof. Dr. Jeffrey OWENS**

WU



Jeffrey Owens completed his doctoral work at Cambridge University in the United Kingdom in 1973. In addition to his economic degrees, he is a qualified accountant. He is now the Director of the WU Global Tax Policy Center at the Institute for Austrian and International Tax Law, WU (Vienna University of Economics and Business). In addition to his academic role Mr. Owens is also the Senior Policy Advisor to the Global Vice Chair of Tax at EY, advisor to the World Bank, a number of regional tax administration organizations and a research fellow at the ITIC. Jeffrey Owens continued an academic career (Visiting Professor at the American University of Paris, Bocconi University, Italy and Queen Mary's College, London) with his career as an International Civil Servant. He has focused his attention on questions of tax policy and tax administration, with particular emphasis on international taxation and related domestic issues. He has established a major taxation program at the OECD and extensively developed the OECD contacts with non-member countries. His earlier work dealt with the development of international currency markets and the implications for monetary policies. He has made numerous contributions to professional journals, has published a number of books and has been the author of many OECD publications on taxation. His position at the OECD and his frequent participation in international conferences, have provided him with a unique international perspective on tax policy.

By  
**Prof. Dr. Jeffrey  
OWENS**

WU

**1. Introduction**

Over the last year there has been unprecedented attention focused on the role of tax administrations encountering base erosion and profit shifting. Much of this attention has been on the question of whether or not multinational enterprises (MNEs) and high net wealth individuals (HNWIs) pay the right of amount of tax. There has also been a renewed interest in tax gap analysis. Yet, in many countries governments are cutting back on the resources available to tax administrations and, at the same time, asking them to do more, including the delivery of expenditure programmes. This article places this current political debate on tax evasion and avoidance in this broader perspective.

It suggests that, despite the current focus on adopting a tougher stance on tax enforcement, effective tax compliance will only be achieved if it is combined with good taxpayer service and where there is a constructive and transparency dialogue between tax authorities, taxpayers and their advisors. It also counters the impression that nations, such as the United Kingdom and the United States, have become nations of tax evaders. The reality is that the vast majority of taxpayers pay the right amount of tax, in the right place and at the right time.

**2. Change in Attitudes on the  
Part of Tax Administrations**

In the latter half of the 20th century, the traditional approach of tax administrations to tax compliance was very much based on what I call a military analogy: identify the target (evaders), take them out. The focus was to detect and deter evasion primarily by blanket auditing. Tax administrations were the "cops" in the



system: their role was to police the system. Audits, usually confrontational, were at the centre of the strategy. Success was measured by the yield from these audits; the number of assessments made; the number of court cases won, or in some cases even lost; the extra revenue brought in. Most tax administrations were headed by either lawyer, with a natural inclination to litigate, or tax technicians that had worked their way up through the audit chain. Tax administrations found it relatively easy to gain more resources: most tax administrations were much larger in 2000 than they were in 1980.

Tax administrations are now moving towards developing a more behavioural response to compliance: shifting towards prevention rather than just detection and non-compliance. Why this change? The reasons include:

- recognition that the majority of taxpayers want to voluntarily comply and the tax administrations main task is to help them do that;
- taxpayers are becoming more assertive and insisting that they have rights as well as obligations;
- taxpayer segmentation, in the acceptance that different groups of taxpayers have different types of needs;
- a move away from a tax-by-tax approach to more of a taxpayer-by-taxpayer approach;
- most tax administrations, certainly in the developed world, are now under severe pressures to do more with less; and
- a recognition that the informal economy cannot be dealt with effectively just by stricter enforcement.

### **3. The Pressures on Tax Administrations**

Over the last three decades, the role of tax administrations has changed. Tax administrations have become not just collection agencies but also spending agencies. Many are now responsible for implementing social programmes, for example, family credits and student loan schemes. Many governments also look to the tax administration to implement part of their structural programmes to exit from the crisis. Increasingly, tax authorities are taking on the role of regulators, for example, in the environmental area.

All of this has changed fundamentally the way that a tax administration operates,

**By**  
**Prof. Dr. Jeffrey**  
**OWENS**

**WU**





By  
**Prof. Dr. Jeffrey  
OWENS**

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the profile of the staff needed and the political risks for tax administrations. Few citizens complain if their tax bills are late, but they complain loudly if their benefits payments are late. Some Tax Commissioners are ambivalent about this trend and we are beginning to see a reversal, with some tax administrations curtailing their functions as spending agencies.

Tax administrations now have to live in a global environment where MNEs operate as global entities, with more tenuous links to their own countries. They operate and plan on a global basis and this applies to their tax affairs. Similarly, the advisory profession has become increasingly global. Nowhere is this process of globalization stronger than in the financial sector. Foreign exchange controls have largely disappeared; controls on inward and outward investment have gone. Technology has enabled financial institutions to move vast sums of money around the world at the click of a mouse. Despite the challenges globalization poses for tax administrations, one should not underestimate the benefits of globalization: benefits for citizens; for governments; for business. But we must make sure that the costs and benefits of globalization are fairly shared.

This globalization of national economies poses new challenges for tax administrations, as they have to operate behind national barriers.

Another transformation in the global environment is the growth of new types of HNWIs. We have always had the very rich, but what we are now seeing is a tendency to move towards what some investment bankers have called the "ultra-rich"; or what many call "Davos men", and, generally, they are men rather than women. These are individuals who have much weaker ties to any jurisdiction; who are more aggressive and hands on in managing their wealth. And who are more "footloose" and more at ease with each other than their fellow citizens. They are also more prepared to take more risks in their management of their portfolios, including in their tax planning.

We have also seen governments putting more pressure on tax administrations to reduce compliance costs for taxpayers. This is not new, but it has taken on a new dimension with the recognition that compliance costs can be a factor in defining the competitiveness of a country.

This new environment has, nevertheless, opened up new opportunities for tax administrations:

- new technologies which enable tax administrations to provide e-services to a wider range of taxpayers;
- software that makes it far easier for tax administrations and taxpayers to calculate the amount of tax due;



- acceptance that in a global economy there is a need for greater tax transparency and the elimination of bank secrecy as a shield behind which tax evaders can hide; and
- new opportunities for tax administrations to learn from the experiences of each other, to intensify their cooperation and coordination.

#### **4. How Have Tax Administrations Responded to These Pressures?**

Tax administrations today are very different organizations to what they were even ten years ago. Some of the major changes are considered below.

Tax administrations have moved away from a tax-by-tax approach to an integrated approach to dealing with the taxpayers. Today, there are very few OECD member countries that have not integrated direct and indirect tax departments and many have also brought in social security. For large taxpayers, we increasingly see that VAT, corporate income tax and other taxes are dealt with in a highly integrated approach, with many countries having relationship managers that are dedicated to a particularly large company. We have also seen the move towards the creation of independent revenue services, especially in non-OECD countries, and this has minimized political influence, encouraged a move towards a more realistic pay scale and also made a clearer distinction between policy formulation and policy implementation.

In addition, we have seen most tax administrations establish special units to deal with groups of taxpayers which are particularly important in terms of revenue contribution. Many tax administrations now have large business units and these are generally responsible for dealing with MNEs. A growing number of countries have created units which focus on HNWIs and some have specialized units to deal with small and medium-sized enterprises (SMEs). We can expect this to tendency towards taxpayer segmentation to continue.

Increasingly tax administrations are adopting a more sophisticated approach to risk management, which can be seen as part of the segmentation approach referred to previously. The basic idea is simple: by focussing resources on higher risk segments and taxpayers, tax administrations can make a more effective use of their limited resources. This requires a systematic approach to the identification, assessment, prioritization and treatment of compliance risks.

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**Prof. Dr. Jeffrey**  
**OWENS**

**WU**



By  
**Prof. Dr. Jeffrey  
OWENS**

WU

Successful risk management requires:

- better access to information both domestically and offshore, and information that is needed to identify both low and high risk taxpayers;
- this, in turn, requires the ability to integrate information from different sources; and
- a communication strategy, explaining why a taxpayer is in the high risk category, what are the criteria, and what are the consequences.

This approach recognizes that the taxpayers' attitudes towards compliance are more complex than just being driven by the fear of detection. Behavioural scientists and economists have developed a new approach; largely pioneered by Australia (the Australian Tax Office (ATO) was far-sighted enough to support academics undertaking research in this area). The key idea is that those taxpayers who want to comply should be helped to do so, whereas the persistent evaders should be targeted for investigations and subject to strict penalties.

The ATO developed a compliance pyramid that placed taxpayers into the following four categories:

- those who do not wish to comply;
- those who do not comply, but will do so if the tax administration focuses on them;
- those that try to comply but do not always succeed; and
- those that are willing to do the right thing and end up doing so.

This model went on to identify the five factors which may influence taxpayer behaviour:

- the business type, i.e. sole trader, MNE, etc.;
- the industrial sector, for example, whether or not the sector is heavily regulated;
- the economic environment, i.e. what the macro economic situation is like;
- the psychology of the taxpayer, i.e. fear, concepts of fairness, etc.
- sociological factors.

The implications of this new approach are that it generally enriches the tools available to tax administrations to achieve good compliance that go way beyond just enforcement. It encourages them to educate taxpayers on their rights and obligations; to put in place mechanisms to improve service; to move towards more targeted enforcement activities.

For far too long tax administrators talked just to tax professionals, whether in the advisory community or in business. This is changing. Commissioners are now spending more time talking to Chief Executive Officers (CEOs), Chief Finan-



cial Officers (CFOs), Audit Committees and corporate boards. Getting them to see that good tax compliance should be part of their good corporate governance strategy, and this is not an easy time when the financial crisis is putting pressure on corporations.

The attractiveness of this approach is that it forces corporate boards to discuss more frequently tax issues and to take ownership of a company's tax strategy. Boards are more likely than tax directors to weigh up the financial and reputation risks associated with an aggressive tax strategy against a potential saving in tax. Some boards may decide to continue to pursue an aggressive strategy, others may not, but at least the debate goes beyond just minimizing the effective tax rate.

When the OECD started to explore this new approach in its Forum of Tax Administration (FTA), many Commissioners were sceptical. Some countries had rules that forbid the Commissioner to go into a board room; some Commissioners were concerned about being accused of doing "sweet deals". And some felt that this was not part of their job description.

Not unexpectedly, there was also reluctance on the part of the business community and the advisory profession. They argued that tax was just too complex to have the board engage in detailed discussion.

The corporate governance community, as represented in the OECD's Corporate Governance Group, was reluctant to make the link between good corporate governance and good tax compliance. But after five years of work by the FTA, things are changing. Increasingly, Commissioners are spending more time talking to board members and this has resulted in a move towards boards accepting they must respect both the letter and the spirit of the tax laws. A view reinforced by the recently revised OECD "Guidelines on Multinational Enterprises",<sup>1</sup> which now explicitly refers to the need for MNEs to respect the spirit and the letter of the law.

This message has also been reinforced by the way in which civil society has taken up the issue of tax transparency and good tax compliance. And governments, both of the left and the right, have been responsive to these campaigns (the effect of the "Occupy Wall Street" and "Tax uncut" campaigns cannot be overestimated). Tax Commissioners and Tax Directors need to reflect on how they can operate in this new, more politically inclusive environment.

**By**  
**Prof. Dr. Jeffrey**  
**OWENS**

**WU**

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<sup>1</sup> OECD, Guidelines on Multinational Enterprises (OECD 2011), available at [www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/oecdguidelinesformultinationalenterprises.htm](http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/oecdguidelinesformultinationalenterprises.htm).



By  
**Prof. Dr. Jeffrey  
OWENS**

WU

Tax administrations have built on the political support from the G20 and other groups towards more transparency in taxation and the elimination of bank secrecy as a shield behind which tax evaders can hide. Tax administrations are putting in place voluntary compliance initiatives to encourage taxpayers to come forward and declare their assets held illegally offshore. Other countries are putting in place tax amnesties. Some countries now require taxpayers to disclose uncertain tax positions. All of these initiatives recognize that we must deal with the legacy of the past if we are to move on to a new, more, cooperative future.

We have also seen a tougher approach adopted towards aggressive tax planning. Many governments have put in disclosure rules. Others have targeted not just the users of the schemes but also the promoters and many countries are using sophisticated communication campaigns to show why it is socially unacceptable to engage in these types of practises.

### 5. Upcoming Challenges

In the context of the current media and political campaign to counter tax evasion and aggressive avoidance, tax administrations will come under unprecedented pressure to adopt a tougher approach to non-compliance. How effective they are in responding to these pressures will, in part, depend on how effective governments are in dealing with some of the broader challenges that will face tax administrations over the coming decade. What are these upcoming challenges? There are many which will materialize, but I will identify the following nine that may be particularly problematic:

1. The risks of breaches of confidentiality. While welcoming the spread of tax information exchange agreements, whether bilateral or multilateral, and the move towards automatic exchange, it is clear that in this new environment there is a risk that information will be leaked which could jeopardise the move to better exchange of information.
2. The increasing role of medium-sized enterprises in cross-border trade will also challenge tax administrations. These enterprises are far less familiar with the international tax rules and, therefore, may find themselves in a situation of non-compliance, in part, because they are not familiar with the rules. Tax administrations will need to consider how they can actually help these taxpayers, particularly in the area of transfer pricing.
3. (Working closely with other tax enforcement agencies. Tax administrations need to accept they have a role in counteracting all forms of illicit activities and that information shared with other government departments does not represent a breach of confidentiality. There has been significant progress here



over the last 18 months with the Financial Action Task Force making tax crimes a predicated offence. We have also seen unprecedented cooperation between tax and other law enforcement agencies but again, this does pose risks for tax administrations and does change the nature of their work.

4. The emergence on the global scene of MNEs that are from the BRICS (Brazil, Russia, India, China and South Africa) and other economies in transition. Since 2006, the Boston Consulting Group has been producing an annual list of "global challengers" from emerging economies. In 2006, its top 100 challenges was dominated by 84 large companies from the BRICS, with 34 being China based. By 2013, the number of companies from the economies in transition other than BRICS had increased from ten to seventeen and there was a much broader range of activities carried out by these companies with the emergence of high tech and more consumer orientated groups. These new global challengers are buying up firms in OECD member countries as a way of acquiring new skills and entering new markets and are particularly strong in developing markets, for example, Chinese contractors now account for 37% of the African construction market. They are also making a significant contribution to OECD economies, for example, TATA, the Indian conglomerate, now employs 45,000 individuals in the United Kingdom. These examples show how non-OECD-based MNEs have begun to go global and are now some of the fastest growing MNEs in the world. Inevitably, they have less familiarity with the international rules of the game whether in the area of treaties or transfer pricing and, therefore, perhaps may inadvertently or consciously non-comply with these rules; some may have weak corporate governance cultures.
5. Pressure to produce a business friendly tax environment. We can expect this pressure to increase as governments recognize that a competitive tax environment is not just a question of putting in place the right policy environment, but it is also a question of how the rules are administered in practice. The challenge for tax administrations is to avoid that a business friendly tax environment becomes an excuse for weak tax compliance as a means of attracting business.
6. Recruiting and maintaining high quality staff. A tax administration is only as good as its staff. Yet, today we see many tax administrations with an aging workforce facing the risk of a generation gap. Morale is weak and training programmes are being cut. A worldwide shortage in qualified tax professionals is emerging and governments will find themselves competing with the private sector for this diminished pool. One response may be to adopt more of a revolving door policy, whereby it becomes acceptable for tax experts to move freely between the private and the public sectors.
7. Maintaining taxpayers' trust in the system. A tax system is only as good as it is perceived to be. There must be a relationship between taxpayers, tax advi-

**By**  
**Prof. Dr. Jeffrey**  
**OWENS**

**WU**



By  
**Prof. Dr. Jeffrey  
OWENS**

WU

- sors and tax administrations that is based on trust; a mutual understanding. An inclusive and constructive dialogue on issues is the most effective way of preventing that these issues become problems.
8. Outsourcing of functions. Already we have seen many administrations undertake a substantial outsourcing of information technology (IT) functions, but there are also other functions that are being outsourced. Financial institutions are being asked or required to play a more important role, not just in the collection of tax (the traditional role of withholding agencies), but also as assessors of tax due and verifiers that the tax obligations are met. You can see this with the US qualifying investments (QI) arrangements and with the US Foreign Account Tax Compliance Act (FATCA),<sup>2</sup> initiatives. You can also see it in the Rubik agreements that are being pushed by Switzerland.<sup>3</sup> In addition, we are seeing the beginning of a process by which tax authority's role as the collectors of data becomes less important as they rely on the information stored in the "Cloud".
  9. Attitudes are changing towards tax disputes. Today, tax administrations and taxpayers increasingly recognize that they have a shared interest in minimizing and resolving quickly tax disputes and a recognition that this requires focussing not just on one particular issue, but on the whole process by which they can avoid disputes. This requires engaging taxpayers in the process of policy formulation and implementation. It requires identifying and discussing issues before they become problems. It requires pre-filing resolution, the type of programmes that we see in the United States (the compliance assurance program (CAP)) or the Netherlands horizontal monitoring programmes.<sup>4</sup> It also requires a greater use of informal mediation, particularly in the area of establishing the facts in transfer pricing case. And it requires a wider use of advance pricing agreement (APA) type of programmes and mandatory arbitration. All of this will require a new type of commitment from tax administrations and willingness to devote scarce and highly trained officials to resolve tax disputes.
  10. Dealing with the implementation of BEPS recommendations: tax administrations will be at the forefront of implementing the 15 action points and of the BEPS study – this will undoubtedly require increased resources and unparalleled cooperation between tax administrations. Care would have to be taken

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<sup>2</sup> US: Foreign Account Tax Compliance Act. This Act represents US: Internal Revenue Code of 1986 (IRC), chapter 4 and was introduced as an amendment of 18 Mar. 2010, enacted as Title V of Public Law 111-147 or the Hiring Incentives to Restore Employment Act.

<sup>3</sup> For a critical view of Rubik agreements, see P. Pistone, Exchange of Information and Rubik Agreements: the Perspective of an EU Academic, 67 Bull. Intl. Taxn 4-5 (2013), Journal IBFD.

<sup>4</sup> For more on the latter, see L. van der Hel-van Dijk & M. Pheijffer, A Tailor-Made Approach to Fiscal Supervision: An Evaluation of Horizontal Monitoring, 66 Bull. Intl. Taxn. 10 (2012), Journals IBFD.



to avoid that the emphasis is just on enforcement. Many of the BEPS issues will be far easier to deal with if there is a constructive relationship between large enterprises and tax administrations - also, if commissioners can succeed into putting tax into the board room, making the link between good tax compliance and good corporate governments and in getting MNEs to respect not just the letter of the law, but also the spirit. This is also, in the long term case, many of the BEPS pressures. At the same time, tax administrations will certainly be at the forefront of looking at the implications of the digitalisation of our economies for the way that the tax base is divided between countries and to exploit the new opportunities opened up for a different type of relationship between tax payers, tax administrations and tax intermediaries. (see action point 1 BEPS).

### **Conclusion**

Better cooperation between tax administrations can help to resolve some of these challenges. Many of these challenges come about from the intensification of the process of globalization and that in turn requires an increased cooperation between tax administrations. We have to accept that this will be a messy process with different actors playing different roles. Those who advocate that the solution to this is to create a "World Tax Organization" have to recognize that whilst, in abstract, this may be desirable, in practice it is a political non-starter.

We will continue to have many actors on the scene, regional groupings (the Intra-European Organisation of Tax Administrations (IOTA), the European Union, the African Tax Administration Forum (ATAF) and the Centre for Inter-American Tax Administrators (CIAT), The Commonwealth Association of Tax Administrators (CATA); smaller groupings (the BRICS), and more global groupings like the FTA, the UN Tax Committee and the Global Forum on Tax Transparency (at the last count, there were more than 15 organizations working on tax administrations around the world). In an ideal world, these organizations would come together under an umbrella organization (an approach that I tried with the creation of the Committee of International Organizations of Tax Administrations (CIOTA) in the 1990s, but which failed, although the International Tax Dialogue does bring together many of these organizations and has the potential to play this role). Nevertheless, we need much closer cooperation between these organizations. We need a sharing of best practices and global benchmarks for the performance of tax administrations. This requires a South-South as well as North-South dialogue.

We also need to move from cooperation towards better coordination between tax administrations: moving beyond the exchange of information, having simul-

**By**  
**Prof. Dr. Jeffrey**  
**OWENS**

**WU**





"BEPS: What's in  
it for Tax  
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By  
**Prof. Dr. Jeffrey  
OWENS**

**WU**

taneous examinations, joint audits all of which offer new and exciting opportunities for coordination. The legal framework is there in the Multilateral Convention on Administrative Assistance, which now has over 70 signatories. We also need more effective mechanisms to share information on aggressive tax planning schemes. So yes, tax administrations will remain national, but they can overcome these geographic barriers by better cooperation and better coordination.

Finally, for tax administration to effectively implement the tax laws and to ensure that MNEs and other taxpayers pay the right amount of tax, in the right jurisdiction and at the right time requires the governments provide a clear legal framework and the resources that they need to achieve this. It also requires a coordinated approach by governments to review the existing international tax arrangements to ensure that the division of the tax base between countries reflects the economic contribution that each part of an MNE has made to global profits of an MNE and it requires a common understanding on what constitutes fair and unfair tax competition. Hopefully, when G20 Leaders meet in Brisbane in November to discuss on base erosion and profit shifting (BEPS) they will provide this new framework.



**Jonathan Leigh PEMBERTON**

OECD

Jonathan has led the work on tax administration issues at the OECD since April 2011. Before that he worked for HMRC in the UK, joining as a tax inspector in 1982. Before joining the OECD he held a range of senior operational and tax policy posts.

When I spoke on this subject at the General Assembly in July, we were still working on the first set of reports and recommendations to address seven of the actions in the Base Erosion and Profit Shifting (BEPS) Action Plan. The BEPS Action Plan that was agreed by the OECD and G20 countries in 2013 has a demanding timetable but we are on track to deliver and, as planned all, seven reports were published this September. This reflects the priority the work on BEPS has and the way the OECD and G20 countries are working together on an equal footing. Developing countries and other non-OECD/non-G20 economies have been extensively consulted too and their input has been fed into the work.

As the BEPS project progresses, the focus will begin to shift to implementation. In part this is about legislation, as national governments adopt the relevant measures needed, for example to address hybrid mismatches. But tax administrations will need to respond as well. One of the seven reports just published is particularly relevant to the theme of the General Assembly and the use of information to influence compliance behaviours. I have in mind the report on Action 13: “Guidance on Transfer Pricing Documentation and Country-by-Country Reporting”. This is a major step forward in transparency, which will increase the information available to tax administrations. Tax administrations need to think how they will make best use of the information and also how they can work together more effectively on cross-border tax issues. This is one of the tax issues on the agenda of the G20. At the most recent meeting in Cairns the G20 Finance Ministers and Central bank Governors said that “We support further coordination and collaboration by our tax authorities on their compliance activities on entities and individuals involved in cross-border tax arrangements”. The OECD’s Forum on Tax Administration (FTA) will be discussing how to deliver that greater coordination at its next meeting this autumn.

The second phase of the BEPS project will also have a major impact on the data available to tax administrations to improve compliance. For example, Action 12 will result in recommendations regarding the design of rules that require taxpayers to disclose their tax planning arrangements. As the Action Plan acknowledges, there is a link with the work we have been doing on co-operative compliance. As the FTA report “Co-operative Compliance: A Framework” acknowledges, the trend towards greater transparency is clear and irreversible. Tax planning that relies to some degree on non-disclosure, or a “hide and seek” strategy, is already high risk and Action 12 will make it much more so. Against that background, the commercial certainty and efficiency that can be achieved through a co-operative relationship with the tax administration will become even more valuable.

Alongside BEPS we are also delivering big changes to the system of exchange of tax information between countries and automatic exchange in particular. Re-

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OECD



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**PEMBERTON**

**OECD**

markable progress has been made since 2009, when the G20 leaders declared that the era of banking secrecy was over. The Global Forum on Transparency and Exchange of Information now has more than 120 members and that is resulting in much greater compliance with the agreed standards of transparency. As a result, it is increasingly hard to hide your assets and that is encouraging more and more taxpayers to regularise their affairs. Since 2009 more than half a million taxpayers have voluntarily disclosed income and wealth hidden from their tax authorities. Countries have identified in excess of EUR 37 billion in additional revenue from voluntary disclosure programmes which the OECD encourages countries to consider. And now the Common Reporting Standard for Automatic Exchange of Tax Information has been finalised, which is a landmark achievement. More than sixty countries, including a majority of FTA members, have already committed to swift adoption of the standard and more than 45 to an accelerated timeline for implementation. That means large amounts of information will begin to flow soon. Tax administrations need to ensure that they have the systems in place, both to ensure that the information can be transmitted between them efficiently, simply and securely and that it can be used effectively once it is received.

The theme of the General Assembly reflects the way in which tax administration is increasingly data driven. Across the world tax administrations are being asked to maintain or improve the flow of revenue and more often than not to reduce their costs of operation too. This is causing tax administrations to rethink the way they operate. Data is central to this effort. In tax administrations' IT systems there is a wealth of data about taxpayer behaviour, the interactions they have had with the tax authorities and with what results. More and more countries are in the process of accessing that data and using it to better target their actions so that they maximise their effectiveness. To do this they are making use of the analytical techniques developed in the private sector to ensure that they automatically offer potential customers products and services that will appeal to them. Tax debt management is one of the areas where analytics is having an impact.

The FTA has just completed a study, led by the Netherlands, on current practice in tax debt management and we were very grateful to be able to draw on IOTA's work in this field. In the past it has been commonplace to treat all tax debtors similarly, progressing cases through a predictable series of actions of escalating severity. The problem with this is that many of the early actions will have no effect. The FTA report “Working Smarter in Tax Debt Management” describes how analysis of historic data is enabling tax administrations to target debtors from the outset with the action that is most likely to secure payment. Some are going further and using the data to predict when a taxpayer is likely to face payment problems, so that they can engage before the problem arises and take preventive action.



Technology is not just changing the way tax administrations make use of data; it is also changing the ways in which businesses operate. This offers new opportunities to engage with businesses, especially small businesses, and positively influence their compliance. Recognising that business tax compliance is a process that starts with the way a business records transactions, tax administrations are looking to influence the design of that process to improve tax reporting. Increasingly small businesses are using automated systems to keep their business records and the development of cloud based services allows them to do so in real time and when on the move. Another FTA study, “Tax Compliance by Design”, discusses this trend and how tax administrations are looking to exploit it to improve tax compliance and reduce their costs and those of business taxpayers too.

These are just a few illustrations of how the theme of this year’s General Assembly is so relevant to the key priorities for tax administrations, now and in the immediate future.

For more information about BEPS visit [\[link\]](#) and to learn more about the FTA go to [\[link\]](#).

IOTA General Assembly 2014 – “Be There on Time – Best Impact with Right Timing: Engaging Taxpayers and Using Information, Data and Interventions to Influence Compliance Behaviours” – A perspective from the OECD.

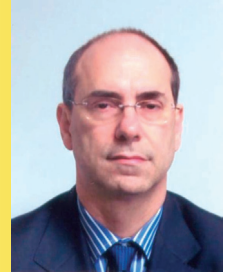
**By**  
**Jonathan Leigh**  
**PEMBERTON**

**OECD**



**Miguel Silva PINTO**

CIAT



Correspondent for Portugal at Inter-American Center of Tax Administrations (CIAT) Deputy Director-General for VAT at Portuguese Tax Authority

#### **A. AT, the new Portuguese Tax Administration**

In the beginning of 2012 a new tax administration – The Tax and Customs Authority - was set in Portugal, resulting from the merger of the former Customs, Taxes and Information Technology administrations.

AT was assigned with the overall mission of managing taxes, customs' duties and other levies as well as controlling the external border of the EU. AT is headed by a Director-General and a Board of Deputy Director-Generals, covering such areas as tax inspection, tax collection, customs, direct, indirect taxes and property taxes, justice, planning and communication, human and financial resources and Information Technology (IT). AT's structure includes services organised at central, regional and local level and the corresponding total staff is above 11 000 officials.

In particular, the organisation has been driven by two major objectives: reduction of the tax gap and promotion of voluntary compliance. The actions undertaken are intended to increase the tax base by bringing more companies and individuals into the system, identifying the situations of non-compliance beforehand and influencing taxpayers' behaviour in the right direction, providing them with assistance and information.

#### **B. Reducing the tax gap**

In order to meet the budget challenges established in the last couple of years, revenue objectives have been met not through the increase of tax rates but by broadening the tax base. In this respect, compliance strategies related to PIT (Personal Income Tax) and VAT (Value Added Tax) were developed.

In the context of PIT, the obligation for employers to declare since 2013 on a monthly basis the amounts paid and the tax withheld, through an income tax return – DMR – allowed the early capture of data on the most important component of PIT revenue (the withholding tax corresponds to more than 90% of PIT revenue), therefore making taxpayers aware that they are under a close monitoring by the AT. Cross-checks with amounts withheld in different years triggered a series of actions aimed at reducing gaps, both at employers and employees' levels. These measures have provided AT with tools allowing it to perform a segmented analysis, identifying risk areas and targeting individual taxpayers identified as non-compliant.

The following table illustrates the evolution of tax compliance on PIT, in terms of the number of withholding tax returns submitted and the resulting revenue. Concerning VAT, an invoice capturing exercise was launched in 2013 destined to promote voluntary compliance and in the same time intended to fight back

By  
**Miguel Silva PINTO**

CIAT



| Year of payment | Number of withholding tax returns | Value (M€) | Withholding tax as % of PIT revenue |
|-----------------|-----------------------------------|------------|-------------------------------------|
| 2011            | 700 855                           | 11.238     | 88                                  |
| 2012            | 521 639                           | 10.337     | 87                                  |
| 2013            | 708 449                           | 13.542     | 90                                  |

shadow economy. It provides the AT with invoices' details prior to the submission of VAT returns, consequently allowing a massive cross-checking of data and the early detection of mismatches in the information provided by both business partners (supplier and client). The exercise also involves final consumers, whom, by being given a PIT tax benefit in relation to the VAT included on the invoices with their TINs (tax identification number) are encouraged to ask for the invoices to be issued.

Under this project (named "e-fatura"), companies with an electronic invoicing system may submit to the AT the main elements of the invoices through the web-service, between companies' electronic systems, communicating in real time the invoices' data at the moment of their issuance.

In case companies dispose of an invoicing system certified by the Portuguese tax administration, they can submit a SAF-T file in the tax administration site on the internet.

Otherwise, the invoices can be communicated through the direct insertion of the invoices' data in the tax administration site on the internet or through the delivery of a declaration containing the global amount of issued invoices in each month and its corresponding value.

The communication of the invoices' data by one of the previously mentioned means is made monthly, until the 25th day of the following month of its issuance. Until the end of that month the Portuguese tax administration handles the information received and provides final consumers with the data concerning the corresponding purchases. Consumers can also insert the invoices related to their purchases, which have not yet been inserted in the tax administration site.

In the year following the invoices' issuance, the tax administration automatically assigns to the final consumers a tax benefit in relation to their PIT concerning the invoices corresponding to their acquisitions in the following sectors of economic activity: food and drinks services; hotel and accommodation; hairdresser services and cars and motorcycles repairing services.

The involvement of citizens in the invoicing project was taken even further by

**By**  
**Miguel Silva PINTO**

**CIAT**



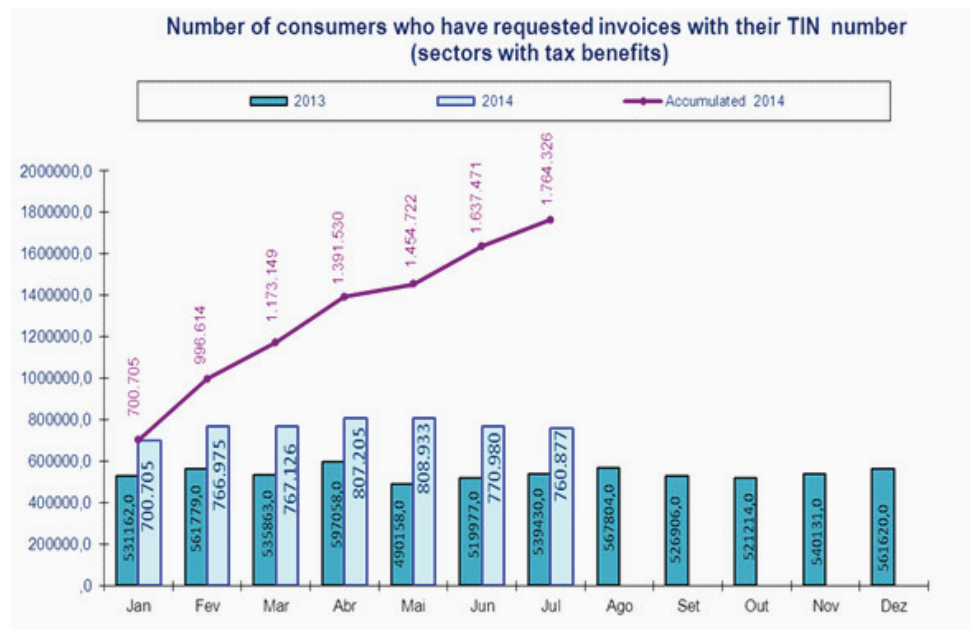
REDUCING THE  
TAX GAP AND  
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By  
**Miguel Silva PINTO**  
  
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the introduction of a tax lottery, starting from April 2014 where all invoices issued since the first January 2014 including the final consumer's TIN is eligible to a weekly draw allocating the winners with appealing prizes.

These projects resulted in the following:

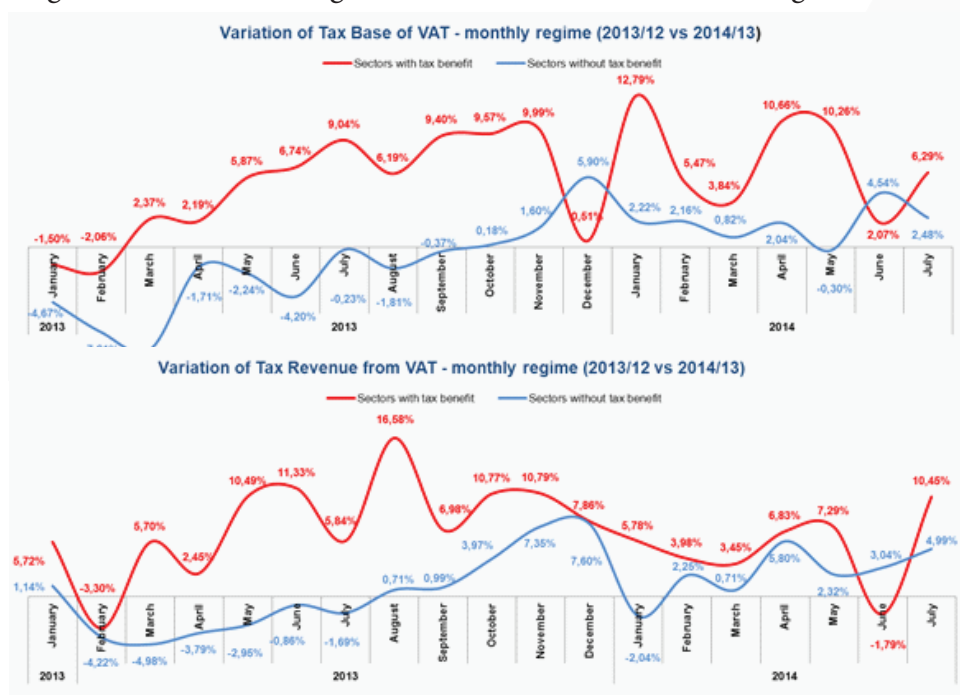
- Long standing commercial habits were changed by establishing the issuing of an invoice as the general rule in relation to economic transactions subject to VAT;
- The Portuguese companies' capacity to make electronic communication of relevant tax data to the authorities was enhanced. The invoice data communication is merely the extraction of the corresponding file to SAF-T (PT) and its submission on AT's website on the Internet. The invoices integrity is guaranteed by a SAF-T (PT) file and AT's certification of the invoicing, two systems already in use by businesses since respectively 2008 and 2010.
- The capacity of the tax administration technical resources to receive and process all the invoices sent by the economic operators, as well as the data introduced by consumers was increased. Until June 2014 6.500 million invoices were processed.
- An important citizens' contribution to a fairer distribution of the tax burden was achieved, through the inclusion of their tax identification on the invoices issued. Until the present and concerning the 4 economic sectors mentioned before, the number of Portuguese final consumers that have requested the insertion of their TINs in the invoices is more than 1.7 million, as shown in the figure below.





From January to June 2014 almost 300 million invoices were issued to final consumers including the corresponding TINs, representing an increase of 46% as compared to the same period in the previous year.

The following figures display the variation of the VAT tax base and revenue comparing the 4 sectors allowing a PIT benefit with all the remaining ones



By  
Miguel Silva PINTO

CIAT

In addition to the invoicing reporting exercise a new system destined to capture freight supporting documents was put in place in July 2013. The former paper-based system was replaced by a full electronic process under which, as a general principle, all goods related to B2B transactions have to be accompanied by a document proving the identification of the corresponding owner and customer, place and timing of charge and discharge and the type and quantity of the goods transported. The system generates a code under which the documents are submitted in the administration portal, allowing checks in real time by the authorities. The new system allows not only a better and more secured data management as well as it provides businesses with a faster and more effective tool to comply.

The following figure shows the monthly evolution of the electronic communication of transport documents to the administration.





REDUCING THE  
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### **C. Increasing voluntary compliance through providing taxpayers with better services**

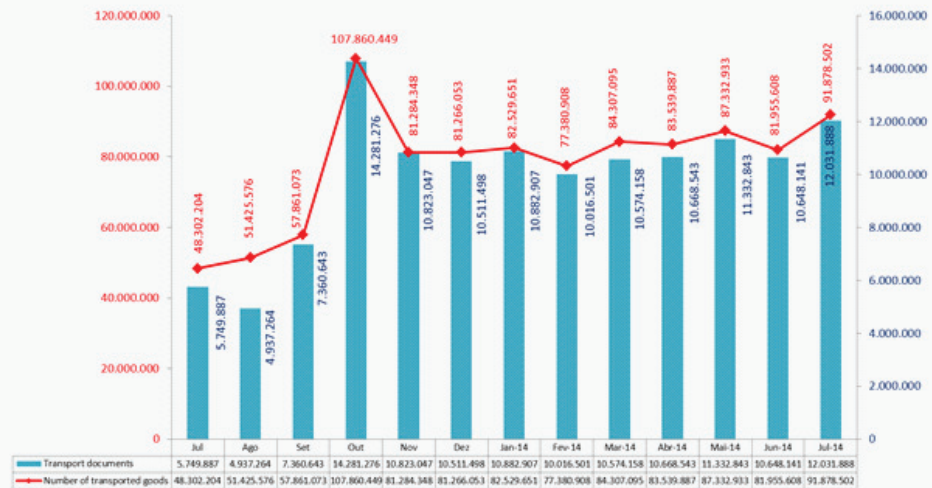
Intending to improve the level of voluntary compliance, the AT has developed a series of projects designed to meet taxpayers' needs, allowing them to comply easier, faster and in a more effective way. The overall objective consists in replacing paper by digital documents, using web services and thus making available services which allow taxpayers to comply without dislocation to local tax offices.

In this respect, an “e-Tax Office” was put in place consisting of an on-line service, which allows taxpayers to submit any type of question to an AT department. The service is available nationwide, 24 hours, seven days a week.

Besides that, the web page of the AT displays updated information on all taxes in force in the form of public and private rulings (the latter do not mention particular details of a certain taxpayer but only the information considered as of general interest), legislation in force, answers to Frequently Asked Questions and recent EU projects in which the AT is involved (such as the Mini One Stop Shop, Cross-Border Rulings, European Commission information, etc.).

Moreover, by using a specific password, taxpayers can login to the tax administration Portal and have access to all data available concerning their tax situation. This allows them to fill in and submit tax returns (electronic submission is compulsory concerning VAT and Corporate Income Tax - CIT) as well as to obtain several types of certificates (e.g. tax residence, tax debts, assessments, references

**Electronic transport documents communicated to AT and number of transported goods  
Monthly evolution**

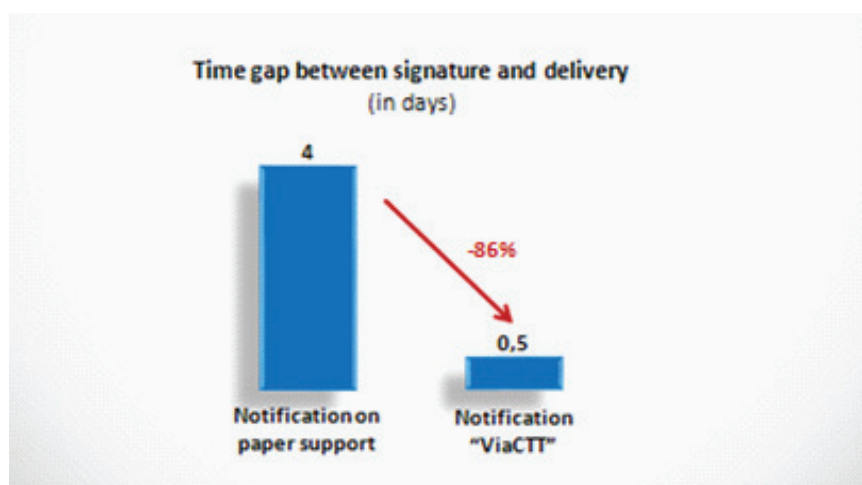




for payments, ownership of immovable and movable property).

An Electronic System of Notifications (SECIN) was started in 2012, whereby communication between AT and VAT and CIT taxpayers is managed electronically, at central level. All notifications are made through the SECIN, since the mentioned taxpayers are required to have an electronic mailbox. It is via SECIN that taxpayers are notified about their tax obligations or tax benefits allocated. They are also electronically notified on the application of penalties as well as on the possibilities for its voluntary settling.

The following figure illustrates the time reduction achieved by the electronic notification as compared with the common postal notification.

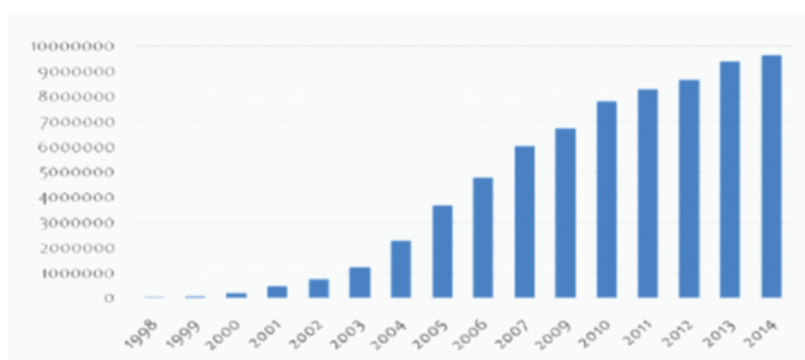


By  
**Miguel Silva PINTO**

CIAT

Other vehicles used by the AT to inform taxpayers about their tax liabilities (deadlines, rights and obligations, tax offenses, refunds, alerts on mismatches resulting from submitted tax returns, etc.) are personalised e-mails and sms.

The level of taxpayers' adherence to the electronic tax administration facilities made available by the AT has been ever-increasing as shown by the figure below.



Number of  
registered users



By  
**Miguel Silva PINTO**

**CIAT**

#### **D. Work ahead**

By ensuring a high degree of quality on the service provided to the citizens, AT intends to stand out as an example for a modern and pro-active public administration.

In this regard, the relationship with taxpayers will be improved through the development of projects in the areas of information and technology. To name just a few, applications are being developed for mobile devices (smartphones and tablets) in view of making available access to data on invoices, freight supporting documents and the tax lottery.

On the other hand, the need to deal with high volumes of information coming from different sources, in a rapid and efficient way requires the use of new methodologies. In this context the benefits of Big Data are being explored for fraud detection, risk analysis and non-compliant taxpayers' segmentation.

30 September 2014



**Mikayel PASHAYAN**

**ARMENIAN**

Mr. Pashayan is working in Armenian State Revenue Committee (now is part of Armenian Ministry of Finance) since 2008 as Head of Information Technology Infrastructures Implementation and Developing Department. From the very beginning of his work he initiated substantial changes in the existing information system from simple data processing towards the e-management. Starting from 2008 he initiated the creation of new Integrated tax Management system which includes a number of e-services

Mikayel Pashayan has PhD in Economics.

In 2013 Mikayel Pashayan was awarded with Medal “Anania Shirakatsi” for considerable activity and inventions in the spheres of economy, engineering, architecture, science and technics from President of RA Serzh Sargsyan.



**TAX TRIBUNE**  
ISSUE 31

DATA WAREHOUSE  
“ANALYTICS”  
AND  
EFFECTIVENESS  
OF  
INFORMATION  
USED IN  
ARMENIAN TAX  
ADMINISTRATION

### 1. Introduction.

Starting in 2008, the new integrated tax information system Taxpayer-3 was designed in the Armenian Tax Administration (now part of the Armenian Ministry of Finance). After two further years of development, the system was implemented in the Armenian Tax Administration in 2010.

The system theoretically could be divided into two parts: the main part and the Data Warehouse.

The main part is responsible for data collection, checking and correction. It consists of several modules (fig 1), most of them processing “input” information.

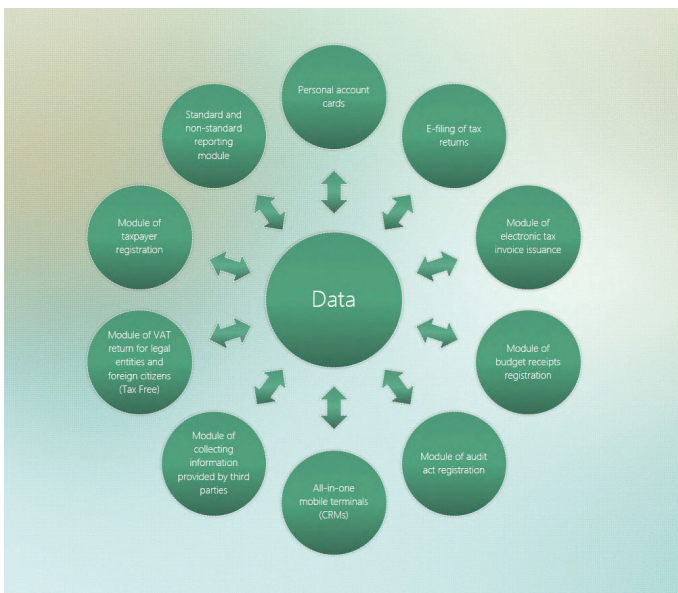


Fig. 1

Through these modules all possible information about taxpayer comes into the system. By this way we collect:

- Taxpayer’s registration data (TIN, name, address, phone, etc.)
- Taxpayer’s tax returns and liabilities declared
- Information about tax paid to the budget
- Information about results of audit
- Information from invoices

By  
**Mikayel PASHAYAN**

**ARMENIAN**



- Information from Cash Register Machines (CRM)
- Third parties information (customs, utility suppliers, licenses issuing authorities, police, real estate cadaster)

Depending on the level of data sources different methods of collection are used: online submitting, WEB services, e-files receiving.

Logically, the next step should be collected data analysis. For this purpose a separate part of Taxpayer-3 was designed, named Data Warehouse "Analytics". For data processing and analysis purpose all the data mentioned above were transferred to the Data Warehouse "Analytics". Here, based on the "Analytics" all further analytical work of the Tax Administration is organized and performed.

The main functions of Data Warehouse "Analytics" are: (Fig. 2)

- Risk Management
- Virtual Calculations
- Statistics
- Business Intelligence (BI), non-standard reports producing

By  
**Mikayel PASHAYAN**

**ARMENIAN**

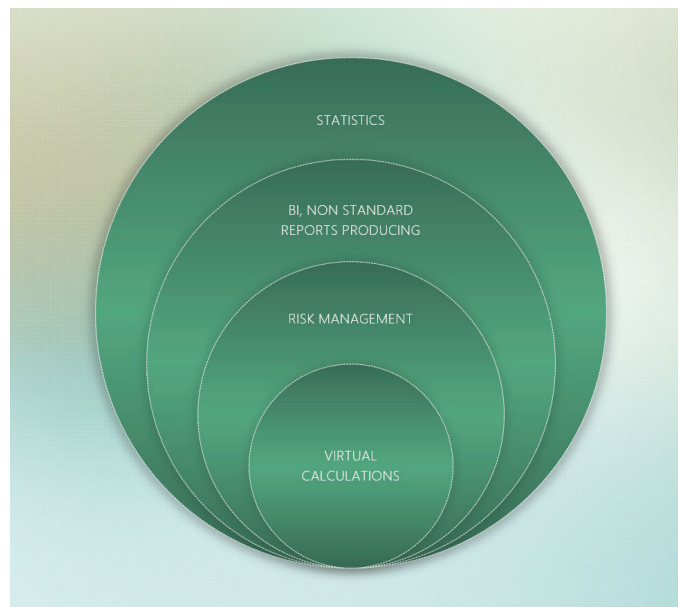


Fig. 2

## 2. Main functions of data warehouse "Analytics"

### 2.1 Risk Management

#### 2.1.1 Chain of the cause-and-effect relationship



One of the methods used in our risk management procedures could be defined as a “Chain of the cause-and-effect relationship”.

The suggested algorithm enables to compile, on the basis of a selected product type, the degree of its participation in the technological production cycle of other product types. We will illustrate this method on the example of “wheat” product. The chain of “wheat” product shows which type of production is used starting from the wheat on the territory of the Republic of Armenia. It includes flour, alcohol, bread and bakery, cookies and pasta. (Fig. 3)

It must be mentioned, that in this analysis we use not only data collected by Taxpayer 3 system. As one can see from (Fig. 4) some data from the Statistical Service and the Ministry of Economy are also used.

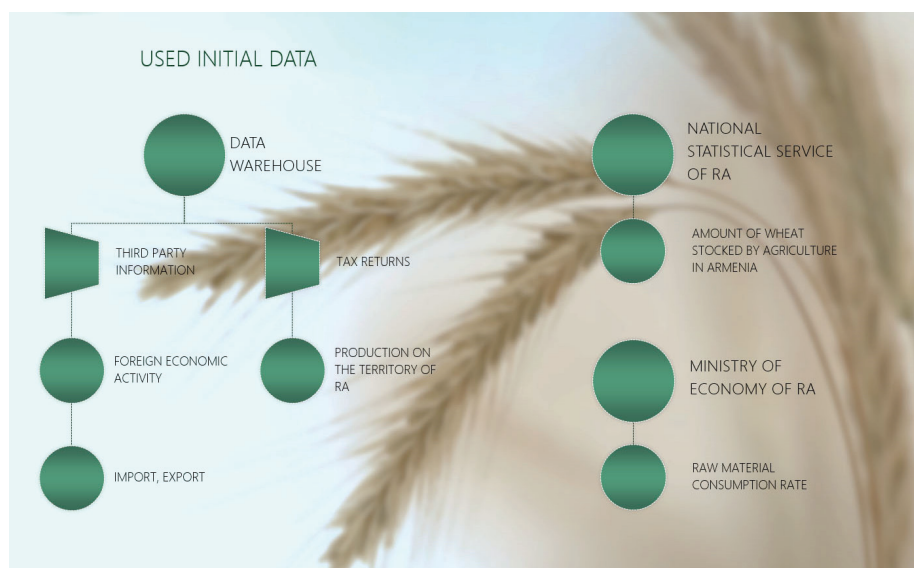


Fig. 3

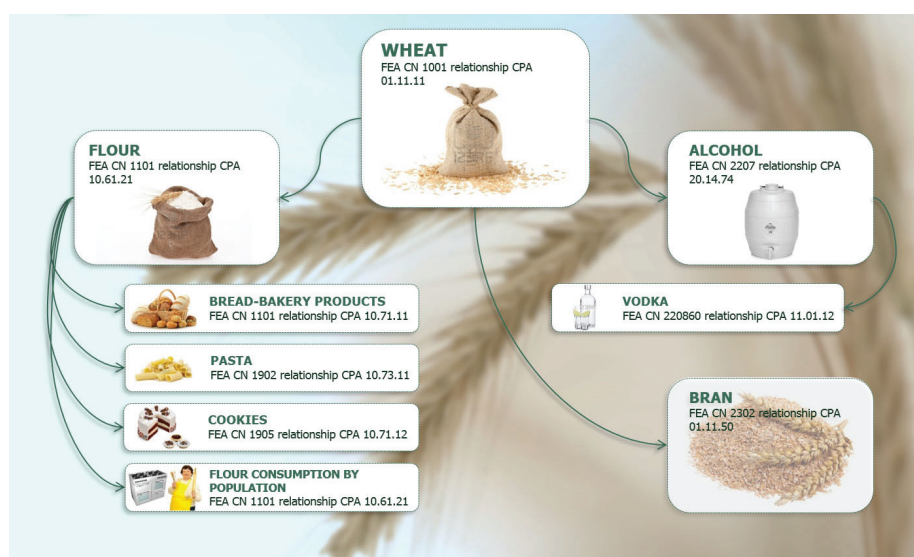


Fig. 4

By  
**Mikayel PASHAYAN**  
**ARMENIAN**



By  
**Mikayel PASHAYAN**  
  
ARMENIAN

The suggested algorithm operates as follows:

- the amounts of wheat imported to the RA territory and stocked by agricultural households are directly correlated with the amounts of flour and alcohol produced in the republic in the same period and,
- the amounts of flour and alcohol produced on the RA territory are directly correlated with the amounts of bread and bakery, pasta and vodka produced in the republic in the same period.

The expected result is that the amount of raw material needed for the production of listed product types should meet production requirements.

We present results of analysis of the "wheat" chain on the Fig.5., Fig.6. and Fig.7. From Fig.5 it could be easily seen that about 26.4% or 164.5 thousand tons of imported wheat still are in stock and have not been sold. Or do we have some shadow producers and risky situation? This big question was raised to the Tax Administration management and auditing authorities.

Going further on Fig.6. one can see that about 45% or 107.2 thousand tons of flour produced in Armenia in the given year have not been sold. Again we have questions and a risky situation.

The last part of the "wheat" chain on Fig.7. and again a question. Where is 1.5 million liter of alcohol produced in the Republic of Armenia?



Fig. 5

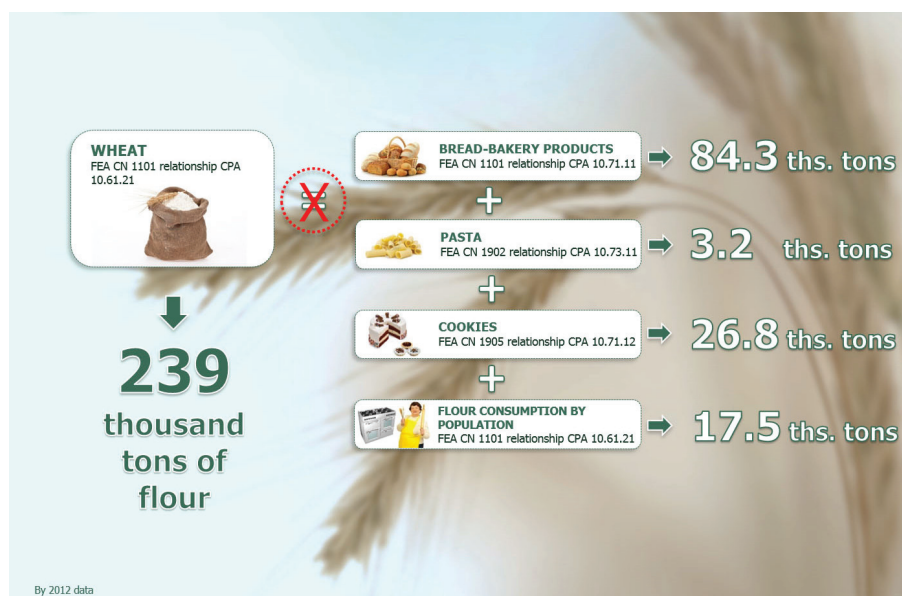


Fig. 6



Fig. 7

By  
Mikayel PASHAYAN  
ARMENIAN

### 2.1.2 Algorithm for preparing balance-sheet

The suggested algorithm enables to compile for any time period demand and supply balance-sheets for the product types available in the RA consumption market and widely consumed by the population. These balance-sheets allow to calculate the variables of possible mis-declared volumes of such product types in value and in-kind, and also to assess the impact of the negative balance of balance-sheets on the taxation field, and its potential.





By  
**Mikayel PASHAYAN**  
  
ARMENIAN

The following is used as initial data for compiling the demand and supply balance-sheets (Fig.8):

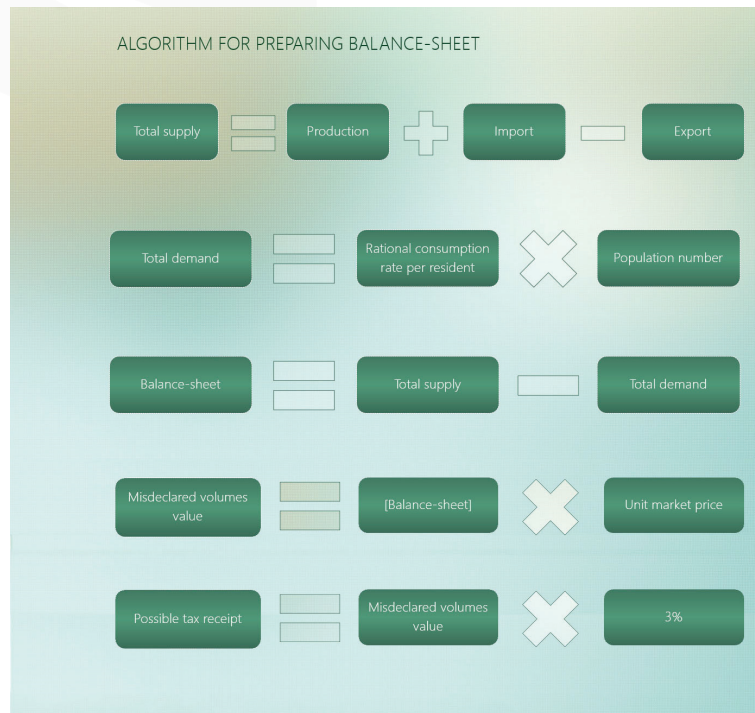


Fig. 8

Supply: quantities shown by taxpayers for produced and realized goods expressed in in-kind units, and the physical volumes of products imported to and exported from the territory of the RA.

Demand: data provided by the National Statistical Service of the RA regarding the minimum rational rates of consumption of product types by the population, their average consumption prices and the RA population number.

The demand and supply balance sheets are by definition maps of product types consumed on the RA territory, and their results are used by tax officers as a guideline for planning practical steps in the tax administration; while the compilation algorithm, as a simple modeling option, enables to get new variants of or make forecasts for the demand and supply balance sheets with respect to a specific product type as a result of changing of indicators contained therein.

### 2.1.3 Analytical algorithms

The suggested algorithms are based on mere correlation principle and enable to compile for any time period the possible discrepancies between the value data contained in the returns submitted by taxpayers and the value variables of the



same indicator calculated by using other information (Fig.9).

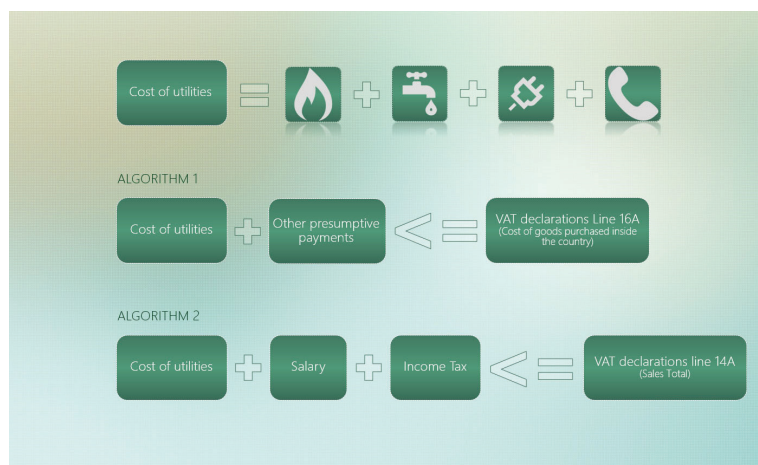


Fig. 9

#### Algorithm no 1:

The debit turnover value variable declared in line '16-a' of the form "goods and services purchased on the territory of RA" of the VAT return is correlated with the value variable shown in tax invoices issued by supplier Gazprom Armenia CJSC for the gas supplied and services rendered, plus the value variable shown in tax invoices issued by supplier Armenian Electric Networks CJSC for consumed electric power, plus the value variable shown in tax invoices issued by supplier Armenian Water and Sewerage CJSC for water amounts used and sewerage services rendered, plus the value variable shown in tax invoices issued by supplier companies rendering telephone and related services.

The expected result is that the sum of value variables of products and services output from listed sources should be less than or equal to the debit turnover value variable declared in line '16-a' of the above mentioned form "goods and services purchased on the territory of RA" of the VAT return.

All taxpayers who have discrepancies in the correlation of Algorithm Nr. 1, are the output and are listed, and these companies are given the status of "target".

#### Algorithm no 2:

The value variable declared in line '14-a' of the form "credit turnover of realization" of the VAT return is correlated with the variables participating in Algorithm 1 plus calculated labor payment fund, plus unified income tax amount, subject to payment.

The expected result is that the sum of value variables of products and services, considered as output from listed sources should be less than or equal to the value variable declared in line '14-a' of the above mentioned form of "credit turnover of realization" of the VAT return.

All taxpayers who have discrepancies in the correlation of Algorithm no 2 are the output and are listed and these companies are given the status of "target".

By  
**Mikayel PASHAYAN**  
**ARMENIAN**



By  
**Mikayel PASHAYAN**  
**ARMENIAN**

## 2.2 Virtual calculations

Based on the information stored in the Data Warehouse system we can virtually fill some types of tax returns instead of taxpayer and suggest them for final approval.

Virtual calculation subsystem allows:

- a) for taxpayers to use new qualitative types of electronic service, which enables
  - to automatically compile and electronically submit to tax bodies approved tax returns,
  - to check (correlate) the accuracy of information on their economic activity submitted by them and collected at the tax body.
- b) for territorial tax inspectorates:
  - to make forecasts of potential amount of VAT revenues and the dynamics of surpluses and arrears before taxpayers submit returns for reporting period.

The sample of the virtually filled VAT return declaration with the sources of information used is presented on Fig.10.

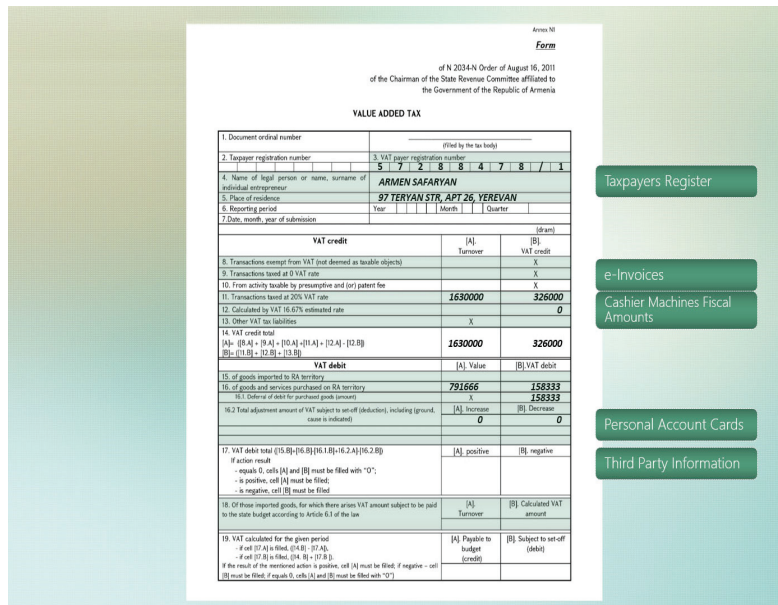


Fig. 10

## 2.3 Statistics and non-standard reports producing

In this article we will not discuss in details these functions of the Data Warehouse, because it is a well known part of the data processing. We can state that in the Armenian Tax Administration Data Warehouse "Analytics" and using Business Intelligence (BI) tools give the opportunity to our employees for an easy retry, compare and analyze all data they need. BI tools provide large number of easy configurable reports, which they use in their daily work.



### 3. Results of information system implementation

About the results on the implementation of Taxpayer-3 system, the most eloquently speak the last 6 years' statistical analyses, which we present on Fig.11- Fig.15. with no additional comments.

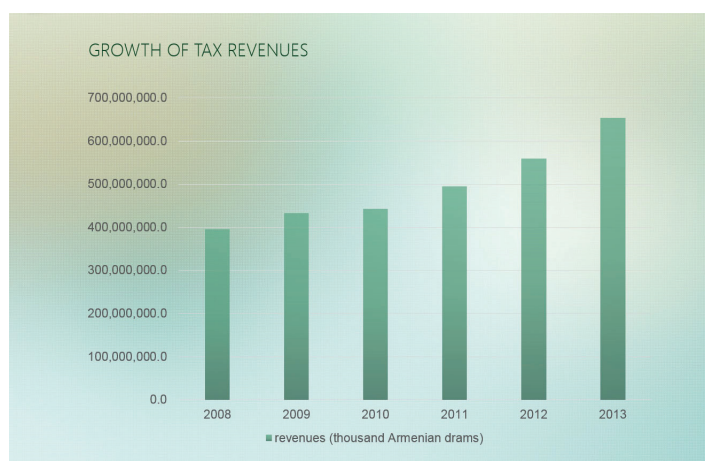


Fig. 11

By  
**Mikayel PASHAYAN**  
  
**ARMENIAN**

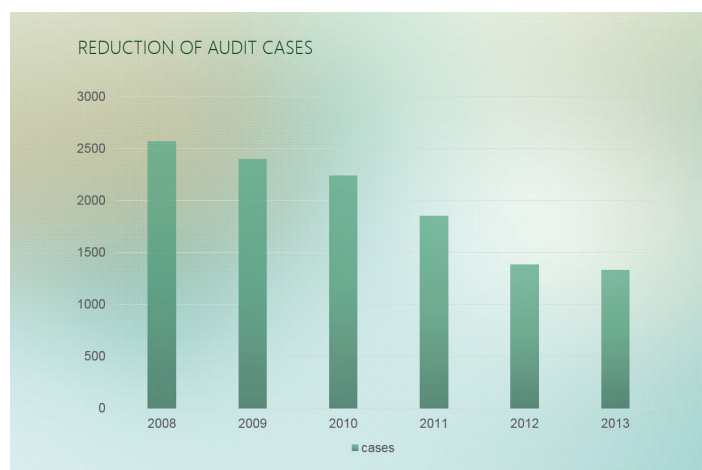


Fig. 12

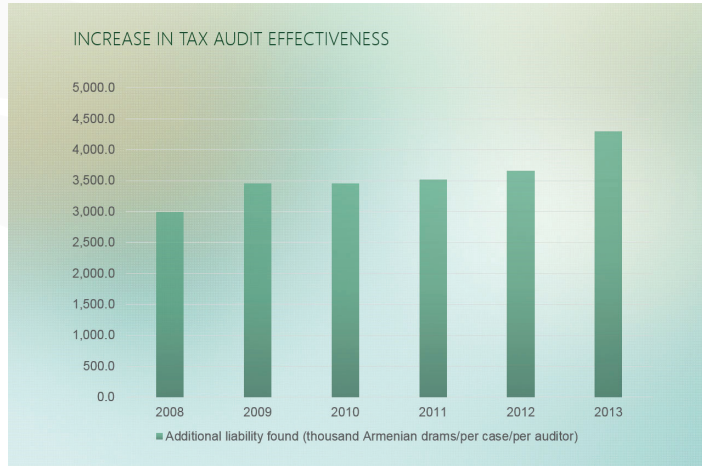


Fig. 13

By  
**Mikayel PASHAYAN**  
  
ARMENIAN



Fig. 14

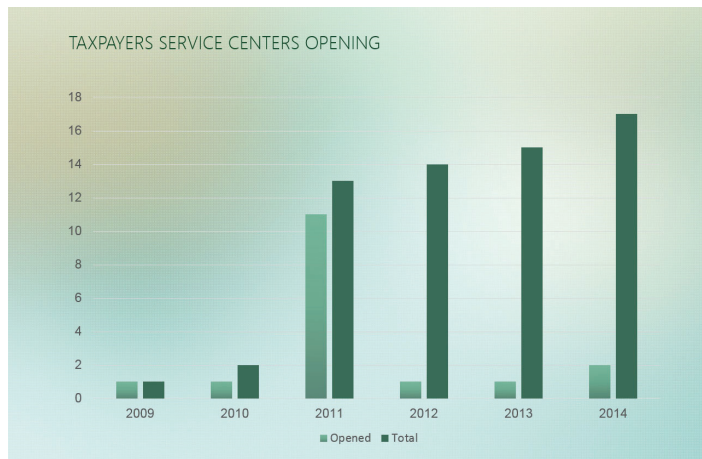


Fig. 15



**Oyvind STRØMME**

**NORWAY**

After gaining a Cand. Mag. in Business Administration, Political Science and Education, Mr. STRØMME went on to work at the Financial Services Department at the Oslo and Akershus Tax Collectors Office from 1998 until 2002. In 2002, he was appointed as manager of the Østfold County Tax Office, a position he held until 2007. Since 2008, he works as director of Department for Regional Management.



**TAX PAYERS'  
ENQUIRIES – A  
GOLDMINE OF  
INFORMATION:  
EXPERIENCES  
FROM THE  
NORWEGIAN  
CUSTOMER LOG**

Since late 2012, the Norwegian Tax Administration has been registering and categorising all enquiries received by phone, e-mail or at one of our service centres in a customer enquiry log. In this article, we will argue that registering and then analysing tax payers' enquiries is a real goldmine for our organisation. Creating this database gives us new and hitherto unknown opportunities to follow the tax payer – from posing an enquiry to taking an action. The database can be used by the Norwegian Tax Administration to improve our services in general, and also to provide us with valuable information on tax payers' compliance.

### **How to communicate with the tax payers?**

There are four main communication channels through which we can get in touch and influence the tax payers. These are our phone service, in-person visits to our service centres, e-mails directed to us, and the online self-service solution provided by our website.

Our main strategy is to decrease the number of enquiries which we receive, whilst simultaneously increasing the amount of people who use the self-service channels. However, we also acknowledge that there are some enquiries for which personal contact in many instances is desirable, or even necessary. These can typically be difficult questions regarding deductions, the transition between work and pension state, etc. In the future, we would prefer to move most of these enquiries through to the phone service. This will ensure us better use of resources and a consistent and high level of service towards the tax payers. Another important argument is that those who contact us through the phone service today have a much higher probability of transferring to the online self-services than those visiting us at one of our service centres. Consequently, we want to ensure that the «right» enquires are made through the «right communication channels», and that there is a good overall level of service so that we in the future are able to reduce the enquiries which we think are unnecessary.

### **A puzzling paradox**

In 2013 we registered and categorized almost 2.4 million customer enquiries. This is a high number, given that Norway only has about 5 million inhabitants. Perhaps even more surprising is the fact that almost 1 in 3 inhabitants of Norway, between the age of 18 and 70, contacted us in 2013. In 2014 we expect this number to grow even further, due to the fact that the full national roll-out for the register was only done in April last year.

For us, this high number is quite intriguing and in many ways can be seen as a paradox. There are several reasons for why tax payers should prefer using our online self-service solutions. First of all, using these services saves the tax payer time and effort. Secondly, it is available from the comfort of the tax payer's own

**By  
Oyvind STRØMME**

**NORWAY**



By  
**Oyvind STRØMME**

## NORWAY

home, 24 hours a day. Thirdly, our website Skatteetaten.no offers a wide range of solutions for the use of online services. In 2013 it was awarded the prize for the most accessible public webpage in Norway by the Norwegian Agency for Public Management and eGovernment (Difi).

There are also social structures in place which would make people gravitate towards the use of online services. Norway ranks among the top countries when it comes to the level of Internet coverage and users. We have the highest amount of registered Facebook profiles per inhabitant, and Norwegians are among the most frequent users of electronic banking and credit and debit cards. In addition, Norway is a wide-spread country, where the distances to the nearest tax service centre can be quite far and so also visits time-consuming for the tax payers. This, in itself, should also be a possible pull-factor towards self-service solutions.

### **We need to know our customers**

However, despite all these arguments and our wide range of self-service possibilities, there is still a large amount of tax payers who contact us. Learning more about who these tax payers are and why they still prefer to contact us was one of the main reasons for developing the customer enquiry log (also known as 'the log'). By using the log we can improve our knowledge of when, how and where our tax payers require guidance and the contents of their enquiries.

We can go from assumptions about our tax payers to actual knowledge. We can confirm or disconfirm our prior theories about the tax payers and the areas in which we assume they are struggling. We can also follow the enquiry from the first contact with us, until the tax payer has made an action. Referring to that action and its degree of compliance or non-compliance, we can see whether the guidance given was helpful and in which area further improvement is desired. Combining the information from the log with other knowledge, we can provide analysis and input for the whole organisation, helping to find the right strategy at the right time.

Altogether, the log is a tool for learning to know the revenue body's clients, to identify the demand, to determine the actions to be taken, and to monitor and evaluate the measures and strategies implemented. Moreover it has an important role to play in our compliance work. Our ambition is that there should be fewer mistakes made by tax payers in the future, and in order to achieve this it is important to understand where the tax payers need more information. Our goal is to increase compliance and the public opinion of the organization.

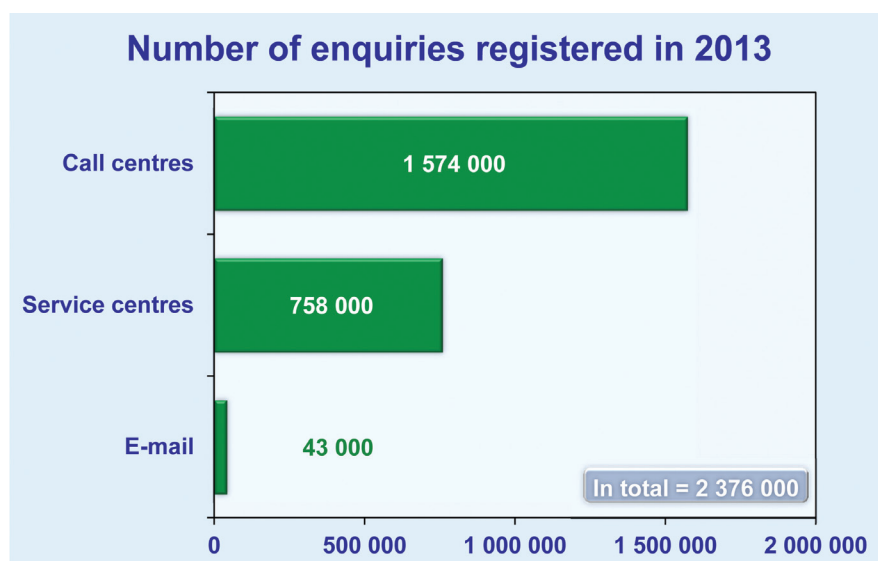


### This is our log

Whenever a tax payer contacts us, through e-mail, phone or personal visit, we record specific information about these questions and enquiries in the customer enquiry log. Communication with the tax payers through other channels can also be included in the log with only minor adjustments. Examples of this are messages through our Facebook-page and direct communication with our caseworkers. However, the amount of such enquiries is very small compared to those through our main communication channels.

As shown in the graph, the largest amount of enquiries registered is through our call centres, with more than 1.5 million unique calls logged in 2013. For e-mails, only one of the Norwegian Tax Administration's five regions was registering these in the log system in 2013. The actual number of e-mails received is therefore at least 5 times higher than the number reported here.

[Graph 1] Number of enquiries registered in 2013



How and what to register was one of the areas into which we had to put a lot of planning and work when developing the log. We needed to balance the desire for as much information as possible with the necessity of having fewer and more reliable categories, making the analyses of the data more accessible.

We wanted of course to register those contacting us, what time of the day and year they did it and what enquiries they had for us. This information is especially useful for our daily operations of the customer service department. However, we also wanted to be able to connect the information from the log with the services

By  
**Oyvind STRØMME**

**NORWAY**





By  
**Oyvind STRØMME**  
  
NORWAY

provided by the Norwegian Tax Administration.

The result is one, unique system, in which all the sections of our organisation have been included. In this system we were able to create the same categories across all the available communication channels. In addition, the categories are made on the basis of structures of the tax administration and the different areas of the responsibilities which we cover. Categorising the enquiries this way gives us the possibility to follow a particular tax payer in all our systems, the entire way from an enquiry being made to an action taken. The main information which we aim to register is shown in the fact box.

[Fact box 1] Fact box: What do we register in the log?

**Fact box: What do we register in the log?**

- ✓ The recipient of the enquiry
- ✓ The date and time of the enquiry
- ✓ The content of the enquiry. Defined in categories at four different levels
- ✓ The taxpayer identification number of those making the enquiry  
(But only in instances where there is a reason to do so)

The system is also very user-friendly. Having only a limited number of categories to choose between makes it easier for our staff to register the enquiries with the correct category and ensures that the time it takes to register is at a minimum. There are almost 6 300 employees in The Norwegian Tax Administration. Of these, today more than 1 800 are users of the log, most of them registering information.

**Not forgetting privacy concerns**

At the same time, protecting the tax payers' privacy is of high importance. We take every possible precaution to ensure that this information is not misused in any way. The data from our customer log is stored in separate tables from the rest of our tax payer data and connecting these data and subsequently analysing them is only done by a handful of analysts. In addition, we only ask for the tax payer identification number or the organisational number of a business in instances where it is natural to do so. Typical examples of this can be cases when a tax payer contacts us and asks if he or she has the right to a specific deduction, or when help is needed in finding how much tax there is to pay in advance. Currently, we



do not use the personal information collected to initiate audits etc., however this is an area where possible changes can be made in the future.

### **Making efficient use of our goldmine**

Since in most cases we register the tax payer identification number of those contacting us, we can connect the information from the log with other information about the tax payers which we have in our data warehouse. This makes it possible to follow the tax payers across different communication channels, and also to follow their action. Altogether, it provides us with an individual-level time-series dataset, starting with the background information, continuing with the enquiry made to us, then the use of service and action taken by the tax payer, and ending with the outcome and evaluation of that particular action. In summary, this unique dataset makes it possible to extensively study the effects of new strategies, measures and information campaigns undertaken by The Norwegian Tax Administration.

In addition, since the categories used for registering in the log are similar to those used on our website, we can compare trends and visitor numbers between these sources. We can for instance see whether improvements made in the information given on our website lead to fewer enquiries to us. However, we cannot connect data on an individual level with this source.

Put together, this is our goldmine. These are the data which we can make use of and analyse. But in order to turn our digital gold into real-life benefits, it is necessary to treat it correctly. We will now present three examples of how we use analyses of our log data in order to find measures to increase compliance. These three examples are taken from different stages of the compliance framework, showing how the log plays an integral part in all stages of our processes.

#### **Why do young people contact us so often?**

The first example shows how through the use of log data we have identified young people as frequent users of our non-self-service communication channels. Young people contact us more often than we would have thought, and on a wide range of topics. The graph below shows us which age-group contacts us in order to change their tax card. For employees and pensioners in Norway the tax paid in advance varies. Based on the future expected earnings for the full year, the tax payers will in some cases need to ask for it to be changed. This is done through issuing a new tax card.

By  
**Oyvind STRØMME**

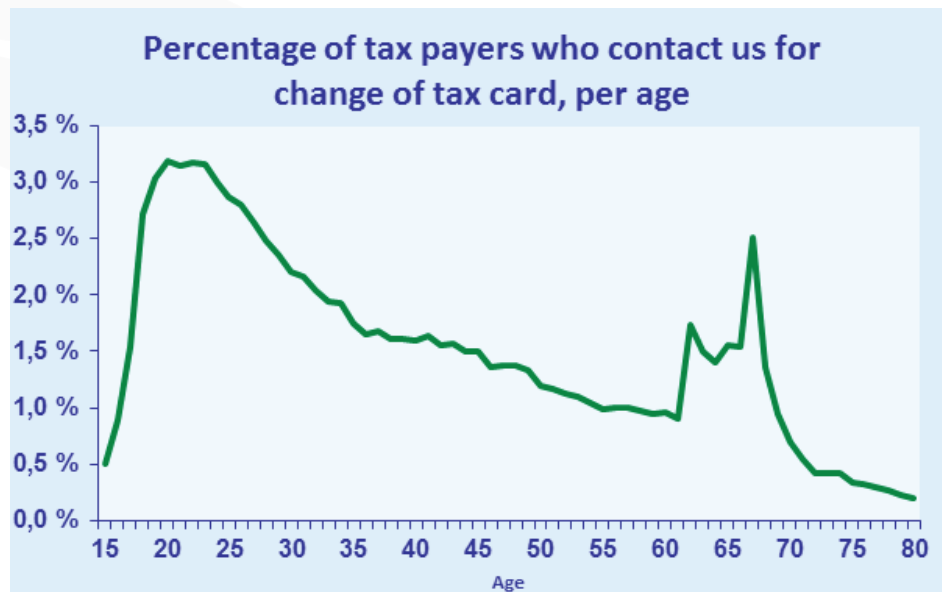
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**Oyvind STRØMME**

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[Graph 2] Percentage of tax payers who contact us to change tax card, per age



In most cases, this can easily be done through our online self-service. We are therefore interested in who contacts us in order to change their tax card despite the online possibility. In general, we would assume that the older tax payers, for which the use of online services still can be difficult, would be the ones who would contact us most often. However, when analysing our log data we found a different pattern.

What we see is that there are two clear tops in which the tax payers contact us. One is in the transition from the employment to pension state. The second is when the tax payers find their first employment, typically young people in the age group between 15 and 30 years. As it can be seen from the graph, this group is clearly overrepresented when it comes to contacting us. We were surprised to discover the latter.

In order to try and find some explanations for this pattern, we conducted a survey of some of those who made enquiries. What was especially surprising was that 73 % of those surveyed in the age group between 20 and 29 years said that they had not tried to do this online before coming to us. Only for those 60 years and older this percentage was higher. We also asked about the main reasons for contacting us. What we discovered were that 47 % of those between 20 and 29 years answered that it was easier for them to come to one of our service centres to ask for help, and 34 % answered that they felt more secure arranging this through personal contact. The conclusion is that the reason why people contact us can differ from our prior assumptions and that for young people the safety of personal



guidance is of high importance.

This knowledge can help us to choose strategies towards this group. An example can be a campaign to assure young people that they can find the information they desire online, and that this is exactly the same information as they would get through our service centres.

### **Launching an online guide for deductions**

Using the information from the consumer enquiry log we can quickly find out what the tax payers are struggling with and where they need further guidance. We can determine, plan and implement improved strategies. For instance, by using this information, we can alter our main channel of mass communication - our website.

One example of this is a new strategy on information regarding commuter deduction which we launched in the spring of 2014. With the help of log data we analysed the compliance behaviour of the group of tax payers using this deduction. Our main findings were:

- Those who receive information, use the deductions correctly
- Those who do not receive information, often make mistakes
- Information helps

With this knowledge in mind, it was therefore important to create a strategy on how to reach the group of tax payers which did not actively contact us to for guidance. Through the combined work of different departments in our organisation we developed an online commuter's guide where tax payers themselves could see if they were entitled to this benefit or not.

Assessing the effect of this new online guide is currently an ongoing project, but very early results suggest that:

- The online guide reduces visits to our service centres
- If people have questions about the guide, they call us much more often than visit us. In other words, if more information is desired this is done through the communication channel which we prefer.

### **Electronic guidance increases the use of online solutions**

Another recent finding is an even better example of the use of log data for evaluating compliance outcomes. During the last year or so, we have been focusing specifically on providing our customers with electronic guidance when they contact us, either in the service centres or by phone. The reason for doing this is that

By  
**Oyvind STRØMME**

**NORWAY**



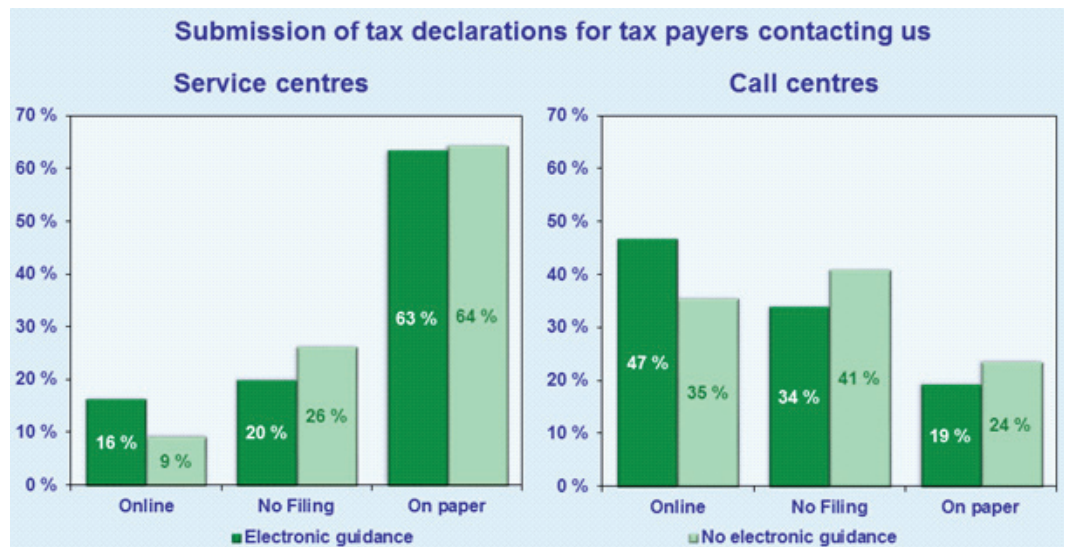
By  
**Oyvind STRØMME**

**NORWAY**

the guidance will be the important final nudge which will inspire the tax payers to start using the self-service online solutions.

With the help of log-data we are now able to see how the tax payers who have received this electronic guidance during the previous year delivered their tax declarations in 2014. In Norway the tax declaration can be handed in either online or on paper. In addition, if no changes are made to the pre-filled version issued by the tax administration, a no filing option can be chosen. Comparing the delivery patterns for the group of tax payers who received electronic guidance with those who have contacted us but not received this guidance, we make a really interesting finding – this form of guidance works!

[Graph 3] Submission of tax declarations for tax payers contacting us



The proportion of the tax payers who use the online solution has increased both for the service and the call centres. This is a finding which we would not have been able to make if it was not for the log data collected, and it is an inspiration for those of our employees who do the task of registering on a daily basis. Additionally, we find that the tax payers who contacted us by phone had a larger decline in the proportion that handed in their tax declarations on paper, compared to those who visited us. This is another argument for why we see telephone as the most desirable communication channel through which the customers can contact us if they really need to.

**There are still so many possibilities**

For the near future we see several additional areas where the log can play an extensive role, and those presented here are only a few examples of all the possibilities.



For one, we believe that the log can be used as an important tool in real-time risk monitoring. If large numbers of enquiries on certain topics appear unexpectedly, this can signal the rise of a new unknown problem or risk. It is also possible to use it in our long-term business planning. The log is one of the main sources of information which is used when assessing the locations of our service centres and when considering if any resources can be restructured.

Furthermore, what we find especially interesting is the possibility of following groups of tax payers over time, and the possibility to measure the long-term effects of specific strategies. Creating this time-series dataset offers a wide range of interesting analytical and statistical possibilities. Using the tax payers enquires as the backdrop; we can see relationships and connections between different areas of our responsibilities, which we earlier had not considered. In addition, we can look at for how long the effect of information given will last. Are changes in tax payer behaviour only temporary or are they permanent?

So far we have been focusing mostly on the employee group. The same communication channels are also used by the tax payers who are self-employed or represent companies. Analysing these enquires will provide us with much information, and it is an important area to analyse further.

Given the recent nature of the log, there is still only a limited amount of data which we have gathered. However, more and more results will become available with time, giving us even better and more precious knowledge about our customers – knowledge of which perhaps we are not even aware can be learnt.

**By**  
**Oyvind STRØMME**  
**NORWAY**



**Romain HEINEN**

**LUXEMBOURG**



Romain Heinen was appointed to be the Director General of the Indirect Tax Authority in 2006 at the age of 40.

Acting in a context of financial and fiscal crisis, increasing cross-border fraud, complex business structures and digital supply of services, his management's challenge is to transform the tax offices in proactive entities who act as service suppliers towards honest taxpayers, but enforce on the other side the full rule of law against any fraudster.

All efforts of the past are actually showing their first results : reorganisation, specialization und computerisation.

The forthcoming challenge to be tackled resides in adapting the training of each tax officer to the challenges of the 21st century.

By  
**Romain HEINEN**

**Luxembourg**

Responding to the evolution in other European countries, Luxembourg introduced voluntary e-filing of annual returns in 2003. By adopting a prudent step by step approach, it took a decade for the Government and the indirect tax authority (hereafter: "AED") to implement a comprehensive framework of IT systems, new internal procedures and legislative changes to provide for better customer service AND enhanced control capacities, priorities which are underscored in AED's mission statement. My personal view is that this gradual process will never come to an end, as it will always have to react to new and manifold challenges and constraints arising from honest taxpayers' expectance, criminal behavior, technical progress and public policy.

### **1. The compliance concept**

Assuring compliance by the taxpayer needs parallel scrutiny and timely reaction on at least three levels:

- 1) in time filing;
- 2) effective payment;
- 3) indication of the correct amount of the tax due.

For efficiency reasons, each tax authority has a direct interest to promote voluntary compliance by making life as easy as possible to honest taxpayers, and to ensure in the same time, that criminals are hit by the full force of law. If the difficult balance between reducing red tape and enhancing control capacity by the tax authority is permanently recalibrated, the Government reaps social acceptance for its revenue policy and the tax authority can concentrate its resources to audit high risk files and monitor fraudulent economic sectors.

Over the last decade, Parliament and Government endeavored in Luxembourg to establish this "give and take" policy into practice. Each new law or regulation that has passed or will pass the Parliament, takes systematically different commitments into account. It respects the reduction of administrative burden, enhances administrative ease and provides at the same time new anti-fraud measures.



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**Luxembourg**

## 2. Concrete steps

| Facilities  | Obligations   |
|---|---|
| <ul style="list-style-type: none"> <li>- Increase of SME VAT relief (10.000 → 25.000 €);</li> <li>- Enlargement of the cash accounting scheme;</li> <li>- Payment of late reimbursement credit interests (actually pending proposal);</li> <li>- Favourable declaration scheme (50% of taxpayers do benefit from annual filing);</li> <li>- e-Registration and e-Filing services (national and EU);</li> <li>- e-Payment services for Smartphones (“Digicash”);</li> <li>- Online consultation service 24/7 (debit or credit position against the tax authority, change address or bank account...).</li> </ul> | <ul style="list-style-type: none"> <li>- Beginning 2013, mandatory e-filing (except for business &lt; 112.000 € annual turnover or intra-community acquisitions);</li> <li>- New control powers to AED and administrative penalties assigned by Parliament;</li> <li>- Mandatory use of the OECD standard audit file format (“SAF-T”) in the context of audits of an electronic accountancy.</li> </ul> |

By introducing mandatory e-filing (either by xml or pdf format), which mostly derives directly from a business accountancy system, the Government opened the path to a very important reduction of manual data capture in the tax offices. It is not too pretentious to say, that this political decision laid the foundation stone to a timely reacting and efficient authority. Today, AED officers are able to work much closer than before to the taxable event, by regularly checking periodical declarations and European sales lists. All this is an invaluable asset in times where the European Union steps up efforts to combat VAT fraudsters .<sup>1</sup>

Mostly, bold decisions entail also certain disadvantages: one has to concede that for the moment, a small number of taxpayers do still have problems to respect their obligations in an exclusively electronic environment, based on the use of a digital signature card, with the consequence, that the AED helpdesk is sometimes overburdened. This is however the price to pay for progress: we will patiently continue to assist these persons as long as it needs to be.

The graph produced above has been commented at the General Assembly of IOTA in July 2014. The different elements can be compared to the musicians and instruments of an orchestra which are all needed for producing a harmonic performance to the audience.

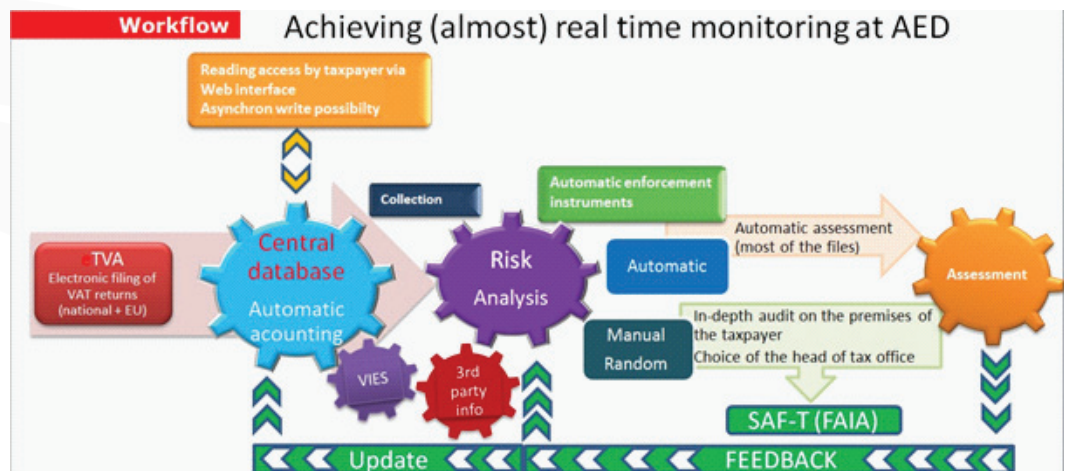
<sup>1</sup> Council Regulation N°904/2010 of 7 October 2010, article 19, 1st par.: “Member States shall ensure that the information available in the electronic system referred to in.....is set up-to-date, and is complete and accurate”.





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Romain HEINEN

Luxembourg



Roughly commented from the left to the right, the “AED control chain” functions as follows:

- a large majority of national and European data are automatically introduced in the accounting system and the European cross-border transaction data base (“VIES”);
- each taxpayer may access his data over Internet and communicate with the authority;
- recovery action is automatically launched in case of no or late payment;
- all these data, combined with information from Eurofisc, the Customs department, the Statistical agency... feed the risk analysis tool, based on mathematical models and empirical evidence;
- the risk analysis’ main goal consists in concentrating a maximum of resources to the files presenting a high risk profile. As a consequence, 30% of all files are assessed in 2014 without any human intervention, the mid-term objective being to raise this rate to 70%;
- on the contrary, the selected cases by the system, as well as those detected due to the heads of office local knowledge, give rise to an in depth audit. If necessary, electronic accounting data have to be produced in a SAF-T format;
- the results of the assessments are permanently evaluated against the initial expectations in order to adapt the rules in the risk analysis system and to update the accounting information.

### 3. What are the next steps?

As the IT system is implemented, the focus for the next years is not to be looked for at the technical side. It seems to be clear that the biggest challenge consists in



putting these instruments into practice by each tax office. All officers will have to cope with a situation where the number of the open files is radically shrinking, but where they have to produce concrete results through detailed analysis of the remaining complex and/or fraud relevant cases, which often present a cross-border dimension or even links to organized crime. However, moving away from a volume driven procedure by leveraging higher audit quality on a selected set of cases doesn't go without any important adapting effort. It results from this, that capacity building programs for experienced staff and new training methods for young officers will be the major challenges in AED for the years to come.

#### **4. Conclusion**

Taking some critical distance from the general mantra of "*doing more with less*", forwarded in many international fora as the general management rule of tax authorities for the future, my personal experience leads more to underline the need to "do more with appropriate tools and processes", because you always have to engage resources for achieving progress.

**By**  
**Romain HEINEN**

**Luxembourg**

# On 1 January 2014, the Organisation consisted of 46 full Members from the following states or entities:

Albania · Armenia · Austria · Azerbaijan · Belarus · Belgium · Bosnia & Herzegovina · Bulgaria  
Croatia · Cyprus · Czech Republic · Denmark · Estonia · Finland · France · Georgia · Germany  
Greece · Hungary · Iceland · Ireland · Italy · Kazakhstan · Latvia · Lithuania · Liechtenstein  
Luxembourg · Malta · Moldova · Montenegro · Netherlands · Norway · Poland · Portugal  
Republic of Srsпка (B&H) · Romania · Russian Federation · Serbia · Slovakia · Slovenia · Spain  
Sweden · Switzerland · The Former Yugoslav Republic of Macedonia · Ukraine · United Kingdom

