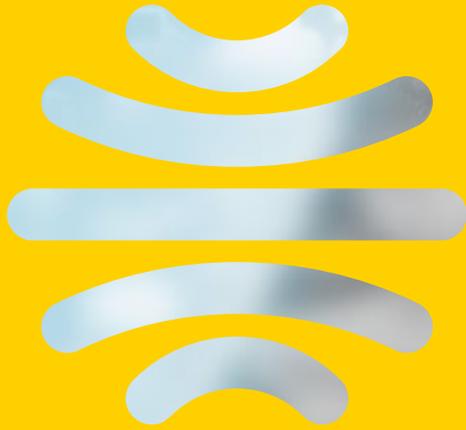


# IMPROVING TAX GOVERNANCE

## AND ENSURING DATA SECURITY



**Published by IOTA, 2018, Budapest**

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**ISBN 978-615-5908-00-2**



## *Dear Readers,*

This book is a collection of articles written by many of the speakers who contributed to IOTA's second international conference on 'Tax Governance and Data Security', which took place between the 8 and 9 November 2017 in Budapest. We were proud to assemble over 90 participants, including high-ranking officials from our member countries, delegates from other international organisations and representatives from universities and European and non-European businesses and media.

In the modern age of tax, characterised by transparency and technology, issues like data protection, digital security, communication and trust require the engagement of all the stakeholders involved. The way data is collected, transmitted and received by tax administrations has a crucial role in increasing taxpayer's trust and in enhancing compliance.



We were delighted that 12 conference speakers were kind enough to prepare articles on different but nevertheless interlinked subjects. Their contribution to this book ensures the thoughts and ideas communicated at the event will reach beyond the participants and hopefully will provide inspiration for all its readers. It is also a good demonstration of how current and relevant the subject of the conference is.

I would like to thank all the authors for contributing to this book and for making it possible to bring this relevant topic to the attention of the tax community. By publishing this book, we believe IOTA is providing an important input into the debate on the new international environment tax administrations are involved in.

**Miguel Silva Pinto**  
EXECUTIVE SECRETARY OF IOTA



Intra-European Organisation  
of Tax Administrations

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# USE, EXCHANGE AND SECURITY OF DATA



# Geir Hegre Romundset

## The Norwegian Tax Administration's strategy and experience with the use of new international standards in exchange of information

*By Mr Geir Hegre Romundset, Director of Strategy and Long-Term Planning in the IT Development and Services division of the Norwegian Tax Administration*

### **Introduction**

In a changing and ever more globalised world, tax administrations continuously face new challenges regarding privacy and security of information collected and used for taxation purposes. When dealing with some of the challenges that have recently manifested through the CRS and FATCA data exchange, tax administrations should have a clear strategy on not only how the information is secured, but also how it is used and communicated about to the public.

The Norwegian Tax Administration (NTA) sees the success for both of these recent exchanges of information between tax administrations in large as depending on the ability to maintain and secure public trust in the tax administrations. To achieve this goal, Norway uses advanced methods to identify how different segments of the population behave faced with questions of compliance, and target our measures accordingly to

affect the different types of groups effectively. Results show that we succeed in improving compliance of the general population for several of these population segments. When selecting among the various measures we build upon both the existing trust of the taxpayers that we protect their information effectively and the fact that the general population do their utmost to be honest and comply fully with their tax responsibilities.

### **Establishing compliance at a low cost**

NTA has made a strategic choice in how to communicate with taxpayers. Our vision is a society where everyone wants to comply. With that in mind, we have dealt with events such as the Panama Papers rather differently than many other tax administrations. In this exact event, but also in general, the Director of NTA has used strategic communication to urge compliance through giving trust to tax payers. Statements such as "We trust that the new information we now get confirms

our knowledge that most tax payers comply” aims not only to increase compliance, but also to advance the trust of the population in the tax administration at large. With greater trust, we expect greater compliance. This has been a fundamental thought in the development of the tax administration in Norway, and it is also how NTA acts in its day-to-day operation.

Faced with challenges of inadequate reporting and taxation by Norwegian taxpayers in other countries, we have used this line of thought when deciding how best to handle our international obligations manifested through the CRS and FATCA agreements. The use of campaigning as a tool to affect behaviour towards compliance has proved effective. We have identified four main segments we direct our campaigning towards. Our goal is to maintain trust among those who already comply (the colourless segment), strengthening those who want to comply (the green segment), nudging those who do not want to comply (the yellow segment) and eliminating those who uses every measure to avoid compliance (the red segment). The logic between these segments and our strategy for increasing compliance is as illustrated in the figure below.



We direct our strategy for increasing compliance towards each segment. It is therefore fourfold, and has the following messages:

*We see you and your needs.* The taxpayers in the colourless and green segments want to adhere to their duties. If they do not, it is the tax administrations responsibility to help them succeed. For this group, we must raise awareness and make it easy to get everything right.

*We see you and your assets abroad.* Taxpayers in the yellow segment must be motivated to comply. We have used nudging techniques through channels such as Facebook to encourage voluntary disclosure. If they do not come to us, we enforce sanctions. The results of this effort show a significant increase in applications for voluntary disclosure.

*We see you who evade taxes.* Taxpayers in the segments yellow and red have not taken the opportunity to apply for voluntary disclosure. Our goal in this case is to detect the unwanted behaviour and impose proportionate measures. In the NTA we have a specialized countrywide team of experts who build knowledge on these target groups and their methods. They also manage leaks and make use of the Norwegian Currency Registry, a registry that proves to be a very effective tool in securing compliance.

*We see you who enable tax evasion.* We detect and sanction those in the red segment, and use all our measures to minimize the group. We continuously work across borders and react vigorously against facilitators.

Our goal is to secure the trust among those who already comply by showing them that we are able to sanction those who evade taxes. By analysing the CRS and FATCA data we now know a great deal more about the difficulties tax payers have in their endeavours to comply, and also about those who, willingly or not, evade taxes. One of the measures taken by the NTA after Paradise Papers, was encouraging tax payers to voluntarily report their assets abroad in order to be like most others, namely be among those consciously choosing to comply. Based on analysis on the long-term effects of voluntary disclosure, we see that taxpayers who have been subject to voluntary disclosure comply also many years afterwards. This confirms the importance of this tool to increase compliance.

Our observation is that Norway uses the exchanged data in a different way than many of our fellow tax administrations. Instead of condemning unlawful behaviour and communicating about possible punishment for evasion, we instead focus on those who comply and encourage everybody else to be like them. Norway has a long tradition of collecting data from third parties, businesses and taxpayers, and we use advanced methods for analysis and detection of non-compliant taxpayers in the different segments. We want to establish compliance at a low cost, and to do that, we build knowledge on specific target groups and identify how to affect their compliance effectively. Our goal is very clear: We endeavour to achieve a correct revenue, not the largest possible.

## Planning is key

The Norwegian experience from the exchange of international data through the Common Transmission System (CTS) is mainly positive. Our IT systems were already well suited to handle such exchanges, and our communication with many of the other participating countries is both frequent and good. This last point has proved crucial for the success of the transmissions.

By cooperating closely with other tax administrations, it has been possible to quickly correct and improve the data sets. This has been very important because the number of errors in data sets received has been much higher than anticipated, especially compared to the error levels we experience in transmissions with national third parties. The close personal contact with other tax administrations made it possible to sort out, understand and correct the errors much quicker.

The status for CRS so far is that most of the data has now reached an approved state. However, there have been learning lessons for nearly every new transmission. Just one error among thousands of information elements will lead to rejection of all received messages, and even the smallest of errors can cause rejection. Because of a great variance in response time, and that many countries has a different level of detail, it has been a time consuming process. Our advice is that tax administrations should start planning and exchange test data much earlier than one would think necessary, and create an abundance of variety in the test data. We have also found that participation in the Quality Assurance tests of new format versions of CRS is also very useful for securing the quality of the data.

## Data security and trust – Intertwined factors that lead to success



Protecting data is crucial for both successful transmission of international tax data and for maintaining and establishing trust in tax administrations. Norway has taken this responsibility very seriously and have enforced multiple layers of security. The measurements cover both technological and organisational aspects in regard to protecting the integrity, confidentiality and availability. In addition, we have a very strong awareness and security culture in the organisation that is regularly strengthened with security awareness campaigns and security training of employees. We also do a lot of IT security testing that is often performed by external independent third parties. These are only some of the measures we take to secure the privacy and use of the data.

NTA is doing a very thorough effort on overall information security management, ensuring that appropriate security strategies and processes with all relevant safeguards are in place. There is also an established legal basis in

Norway's multi- and bilateral agreements as well as its domestic laws to sufficiently safeguard the secrecy of information received from other jurisdictions. With the enforcement of the GDPR directive we expect the bar for security will be further raised for both ourselves and other European tax administrations. We have demonstrated that we have not only established policies in place to create effective security controls, but also good governance to ensure that any deficiencies can be identified and mitigated in a timely manner.

NTA also has undergone peer reviews in our exchange of CRS and FATCA data. Our experience is that this work is very exhaustive and time consuming. The process can span from six months to two years, and often includes one or more physical visits. For those undergoing peer reviews, our advice is to start very early, always have an updated Information Security Management System (ISIM), and to use the opportunity to learn from your peers.

## Conclusion

In the process of exchanging international tax data under the CRS and FATCA agreements, The Norwegian Tax Administration have gained confirmation in our belief that trust in tax authorities from the population is crucial to success. If the population lacks trust, it will be harder to maintain compliance and can unless mitigated erode the revenue stream of the nation. We have the benefit of modern IT systems, and a strong culture for securing the privacy and security of tax data. We also have the advantage of a high degree of previous experience in collecting third party information, and we have established a variety of methods to effectively analyse and enforce measures to ensure compliance.

Based on our experience with the CRS and FATCA exchanges our advices to other tax administrations are:

- Build the necessary foundation for trust by implementing layer upon layer of both technological and organisational security concerning the protection of the integrity, confidentiality and availability of the information received.
- Use the planned exchange of international tax information strategically in your communication with the population. Target specific segments of the population with well-chosen appeals to nudge their behaviour towards compliance and pursue other segments vigorously with adequate measures.
- Do not underestimate the time and effort necessary to test both your own IT solutions and the information you will receive from other jurisdictions. Be prepared that peer reviews are time and resource consuming. Start at least 18 months prior to your first planned exchange, preferably 24 months. Stay in close personal contact with others tax administrations to learn from them and quickly eliminate errors. ■



# Vicente Peirats

## Information security and data protection in the Spanish Tax Agency

*By Mr Vicente Peirats, Economy and Tax Service Inspector,  
Spanish Tax Agency (AEAT)*

### Introduction

Tax Governance is nowadays mainly Electronic Governance.

The critical role of information technology and economic and financial data in tax administrations means that we have to face new risks in an increasingly open framework of relationships and exchanges.

Since its constitution in 1992, the Spanish Tax Agency (AEAT) based its corporate strategy on the massive capture of reliable data and the intensive use of information technology. As a result of this continuous trend, enforced by law, today all the tax procedures are implemented in an automatized way, both for employees and taxpayers. Starting in the Internet in 1996, we reached as of 2010 both the exhaustive digitalisation of the back office tasks and the availability of a complete Virtual Office for taxpayers, covering all the tax services.

### Information security management system (ISMS)

The relevance of information technologies in its whole

activity implied the necessity for the AEAT to build up very early an Information Security Management System which faces the weaknesses and threats of such a generalised use of personal data.

Information Security is managed as an integral process that includes all the technical, human, material and organisational elements related to the Information System. The AEAT's Information Security Management System is inspired in international standards, among them ISO/IEC 27002.

Although more other factors influence data security, as the data quality and the legal system, the core elements of our ISMS are the following ones:

- Information Security Policies.
- Compliance with Regulations.
- Corporate Risk Map.
- Information Security Unit.
- Security Officers Network.
- IT Security and Control Commission.

- Internal Audit Service.
- Information Security Procedures.
- Training and Communication.

## Information security policies

The AEAT has an Information Security Policy, officially enforced in 2012. This public high level policy is continuously deployed into a set of directives, guidelines and security operational procedures.

The information security policies are preventative more than reactive. Hence, they are systematically communicated to new employees and contractors, and periodically to all the staff.

In particular, two main documents summarize the rights and duties of IT internal users towards protection of personal data (“Security Document”) and information security (“Use of IT Systems and Resources”).

## Compliance with regulations

Information security policies have to comply with regulations on information security and data protection. The main objective of the AEAT’s information security policies is a proactive compliance with national regulations, mainly the “National Security Scheme” and the “Data Protection Law”. The purpose of the first one is to set up a uniform level of information security across the Spanish public sector. The second one develops the recent Regulation (EU) 2016/679 (“General Data Protection Regulation”).

## Corporate risk map

A risk is the possibility that an event occurs and adversely affects the objectives. A risk is measured in terms of probability and impact and is caused by a threat or a weakness. The risks must be analyzed and managed, selecting the appropriate treatment, i.e. to eliminate, to reduce, to share or to accept them, leading to opportunities.

The AEAT has carried out since 2006 a Corporate Risk Map for the analysis and management of strategic and operational risks, based on ERM Methodology.

The Risk Map is focused to a large extent in the mission-critical risks related to information security and personal data protection, in particular assessing and treating the risk of disclosure of information, the risk of undue access to tax information by employees, and the cybersecurity risks.

## Information security unit

Although security is a general requirement in all the projects of a tax administration and every employee is concerned with data security, internal specialists or

external advisors with technical expertise and operational skills are clearly necessary.

An Information Security Unit was created in 2008 in the IT Department of the Spanish Tax Agency, in order to coordinate and develop the procedural and technical aspects of information security. The unit analyses the impact in data security and data protection of the IT projects. Its head of unit is the CISO (Chief Information Security Officer) of the Spanish Tax Agency.

## Security officers network

Information Security has been strengthened since 2001 by the availability of security officers acting in a coordinated way to manage security incidents and supervise compliance with information security and data protection procedures and policies.

Thus, a large network of AEAT’s civil servants, playing the functional role of Security Officers (“Security Managers, Controllers and Authorizers”), is available all over the organisation, assuring the performance of the internal applications dealing with information security policies and data protection regulations (digital identity, IT authorisations, access control, security incidents and information deliveries). The network is coordinated by the Information Security Unit and supervised and audited by the Information Security Team.

## It security and control commission



The existence of an Information Security Committee is a standard for large and medium size organisations. The AEAT's IT Security and Control Commission, created formally in 1998 following a former task force, is composed by representatives of all the AEAT's Departments and Services, the Large Taxpayers Delegation and some Regional Delegations. The Commission holds plenary meetings quarterly and has a continuous activity through working groups. The Commission is the binding element of the ISMS.

Its president is the AEAT's CIO (Chief Information Officer) and its vice-president is a member of the Internal Audit Service. The members' profile is multidisciplinary, being managers or experts.

The Commission prepares the high level security policies, approves and communicates the rest of the security regulations, follows-up the information security and data protection climate, and examines the relevant security incidents. The Commission revises systematically the advancement of the Corporate Risk Map and the recommendations of the internal audit reports. Finally, the Commission is currently leading the adaptation of the AEAT to the General Data Protection Regulation.

## Internal audit service

Information Security and Data Protection benefit from the existence of a robust internal control system. One of the pillars of such a system is a control specialised body, which must be appropriately qualified and intensively proactive in these matters.

The Internal Audit Service (IAS) is the AEAT's specialised body for internal control, and has adopted the methodological standard of COSO Reports as a member of the International Institute of Internal Audit.

The IAS assists the AEAT in reaching its objectives efficiently, promotes the improvement of quality; prevents from risks and misconducts; and verifies compliance with regulations.

The Internal Audit Service is strongly committed to electronic governance. Indeed, the IAS has information systems audit teams and information security audit teams with specialised staff, and executes systematic audits on data security and information exchanges. This audit activity is completed by an extended consultancy function on different aspects of the corporate information system, such as: data quality and reliability, data security and confidentiality, and contingency measures and business continuity.

## Information security procedures

An Information Management System needs to develop adequate IT tools and applications to prevent risks, to react to the occurrence of incidents and to monitor the processes in which security is involved.

Hence, the AEAT has built up specific IT applications to manage corporate processes which have information

security as the key factor:

- Digital Identity.
- Authorisations to the IT system.
- Audit of a sample of Data Accesses each fortnight.
- Management of Security Incidents.
- Information Exchange System.

## Training and communication

Data Security requires the building-up of an appropriate corporate culture and the extension of confidence and awareness among IT users, leading to a good reputation of the organisation.

The AEAT develops permanent training courses in these matters, some of them compulsory, to qualify a targeted audience of employees: the whole IT users; the security officers; and the information security specialists.

Moreover, the AEAT communicates systematically information security policies and directives to the employees and maintains an internal blog on security matters.

The communication policy aims to inform taxpayers about their rights and duties, and the way to exercise them. As the relationships with taxpayers take place mainly by electronic means, the taxpayers' assistance programs help them to access and operate securely on our website.

## Exchanges of information



Data confidentiality is a key subject of information exchanges between tax administrations. These information exchanges must be supported by law, with proportionality and reciprocity. Nevertheless, they usually need some other conditions to be approved and performed.

The Spanish Tax Agency dedicates special attention to the international exchanges of information and integrates the compulsory procedures of multilateral and

bilateral agreements (CRS, FATCA) within its own ISMS. Moreover, the AEAT has observed since 1999 a strict policy, preventing actively the disclosure risk and other related risks, by requiring: the signature of information exchange agreements; an equivalent level of information security and data protection in the counterpart; the implementation of exchanges by electronic means; the possibility to audit the counterpart's procedures.

## Conclusions

Tax administrations must reduce the impact and probability of IT risks with effective measures and convert this challenge in opportunities of improvement.

**Data Protection and Information Security** are not optional, but imperative for tax administrations. The treatments related to data security should not limit or avoid the spread and implementation of **Electronic Governance** within tax administrations, a mature and efficient global trend.

The development of a robust **Information Security Management System** in a tax administration is a costly operation, but a productive one in the long term. The implementation of an ISMS does not guarantee the absence of incidents, but contributes to assuring a general compliance and gives confidence to taxpayers and employees.

**Security** is not an absolute concept but a relative one. Moreover, information security is not a goal to be achieved once, but a path of continuous adaptation to new challenges. Data security requires effective measures of different types: organisational, technical, regulatory, control, training, communicational, etc.

Finally, the large number, difficulty and complexity of the tasks to perform and maintain, lead us to conclude that data security is a global affair which needs **national and international alliances** between tax administrations to share information, knowledge and expertise. As the Greeks said: "There is no Royal Road to Geometry" but the journey is easier if we walk together and we cooperate. ■



# Asko Pajunen

## Identity frauds: a risky game of chess

*By Mr Asko Pajunen, Strategy Director of the Executive and Legal Unit in the Finnish Tax Administration with contributions from Mr Juha Kuusala and Ms Inka Leisma*

### Introduction

Some 1.1 billion people globally live without an officially recognized identity; a passport or other identity document verified by authorities. They are easy prey to fraudsters operating in the identity business. Unfortunately, they are not the only victims.

When we think about identity, we tend to lean towards our nations, families, personal interests, values, or even priorities. The official aspect of our identity tends to get overlooked, and we may even take it for granted.



But should we pay more attention to guarding our identities?

In today's world, identities can easily be stolen. If you do not have a verified identity, you cannot vote, open a bank account, apply for a loan and it is also very difficult to acquire social benefits, education,

health care, or even a telephone subscription.

The identities of companies are not safe either. In this risky game of chess, the rules of the game keep changing all the time, individual moves are invented as the game progresses, and risks for individuals and companies can grow incredibly high.

Authorities can tackle the challenges with good international cooperation, extensive knowledge and understanding of the ever-changing rules of the game.

### **Ripple effects of anti-fraud measures in the Baltic States**

Finland experienced a large wave of VAT refund frauds in 2015-2016. As Estonia, Latvia and Lithuania intensified their anti-fraud measures, the effect was visible almost immediately in the neighboring countries, including Finland.

Professional criminal groups, operating internationally, kept looking for loop holes that would enable them to get their hands on public funds. Their aim was to claim

VAT-refunds with false applications. In doing that, the criminals tried to decipher the financial limits of the Finnish Tax Administration's control system; test the system with different claims to see when, if at all, one can get the refund without any further clarifications.

The Finnish Tax Administration reacted swiftly to the wave of applications with risk profiling and new analysis methods in order to investigate the applications closer.

We implemented these measures on a daily basis and also used a so called 'hand brake' - a technical move allowing us more time to analyze the applications. The overall aim was to identify fraudulent applications and protect compliant companies.

## Legislative changes can halt but not stop the frauds

A new, larger and more aggressive wave of VAT fraud attempts arrived in Finland at the end of 2016.

Identities of compliant companies were stolen and their bank account numbers replaced with perpetrators' bank account numbers. A typical move was to first change the company's account number to a foreign one and then proceed to immediately declare a VAT refund claim.

This is when the real game of chess began.

The Finnish Tax Administration started verifying all the changes in bank details manually, by calling to companies in question, with a special focus on companies sending their VAT refund applications on paper.

Fraudsters then began to use falsified powers of attorney in order to evade the regulations, pretending to be in charge of businesses. They were mainly targeting newly founded companies but also older, commercially



registered companies were under attack. This is just one example of the many creative ways identities can be stolen and misused.

In 2017, the Parliament approved a legislative change

making it mandatory for companies to identify themselves electronically when changing their bank details and filing VAT returns. This reduced the amount of tax scams significantly - but not for long.

Despite valid e-identification, a challenge remains: valid identities can be sold or rented in the market places of the underground economy, posing yet another task for the authorities; to sift fraudulent identities from the mass of compliant ones.

Authorities are expected to rely on the controls of other national authorities in their ID-registration processes. In



Finland, as in many other countries, several authorities can create and register IDs. The idea is simple: keep the administrative thresholds low to make it easier for anyone to start a new business.

However, the downside is that companies can register in other countries by using a fake or stolen identity. Once registered in country X, a company can start selling products to countries Y and Z, without complying with tax regulations and paying their taxable duties - current EU regulation also supports this. Examples where this type of behavior has been identified includes the areas of renting or selling manpower to construction sites.

## Biometric identification and unique identities may offer a solution

Fake or stolen identity makes it possible to avoid official duties like tax payments or even criminal proceedings.

By abusing the fake or stolen identity one can obtain deceitful rights, such as social benefits, social welfare, health care or pensions. For authorities, it is difficult, and sometimes even impossible, to detect and investigate identity frauds related to the abuse of these benefits, taxes and regular business operations.

In a way, identity frauds can be seen as preparation for the actual frauds. The breach of personal space for an individual or company is, of course, a serious crime. But the actual frauds, where financial gains are often in play, can be seen as the so called "real" fraud. Typical examples are VAT refunds, purchase and purchase orders,

VAT hijacking, financial frauds, state allowance frauds (mainly at company level) and social benefit frauds (mainly at personal level).

In Denmark, fraudulent players have made an effort to attract people from Eastern Europe to enter the country. Many of those arriving are unemployed and uneducated, with hopes for a better life, but end up having their identities stolen and used to falsely claim social benefits. The perpetrators would also typically take quick loans, rent vehicles and do online shopping with the help of stolen identities. In the end, many of the abused people are then sent back to their country of origin with unpaid online shopping, rents or loans in their name.

In the Nordic countries, there are also signs of social benefits being claimed by one person with multiple identities, all identities used to claim benefits several times.

As stated before, the rules of the game change all the time, and individual moves are invented as the game progresses. Biometric identification could be the key to solving this problem.

## International cooperation is crucial

In Finland, the preventive and detective means are currently working quite well. The post-control measures

put in place and all the analytics providing back-up are helping the Finnish Tax Administration to keep things under control.

However, we are well aware that criminals are highly imaginative and new innovations will come up - it is merely a question of time.

The key for authorities in Europe and globally is to share best practices, keep exchanging information and remain functional in situations requiring quick reactions.

It is in the interest of everyone; individuals, companies and authorities, to identify fraudulent players with effective measures and react to their activities swiftly, making it impossible for them to keep operating under false pretenses.

Criminal proceedings often take a long time, and losses of money may be permanent even when the perpetrators are identified. Compliant individuals and companies should not pay a high price for the loop holes left in the system, abused by those only interested in taking advantage of the system.

For us, as authorities, the relevant question remains: where do we position ourselves in a two-by-two matrix between the axes of service, compliance, trust and control? ■



# Giuseppe Buono

## Data collection and exchange in the Italian Revenue Agency - governance measures and main challenges

*By Mr Giuseppe Buono, Director of the Central Directorate for Technology and Innovation, Revenue Agency of Italy*

### Introduction

The Italian Revenue Agency delivers a large number of digital services to taxpayers, both individuals and companies. Among others: pre-filled tax returns, compliance communications, cadastral and mortgage services, communication via web, social media and mobile apps, e- invoicing for B2G and B2B transactions.

The Italian Revenue Agency has set 3 main goals in its digital strategy:

- to deliver a wide range of digital services for the entire country, by acting as facilitator to ensure a fair market competition;
- administrative simplification, by making the most of information gathered from citizens and companies;

- digitally advanced tax administration, by implementing dematerialised processes, instead of digitalising paper-based procedures.

In this context, building a trustful relationship with the taxpayers is of utmost importance. This can be achieved through providing user-oriented services and simplifying services and procedures, increasingly based upon pre-filled information.

Furthermore, relevant opportunities come from new technologies for Big Data analysis, while keeping on support data exchange/sharing and pushing machine-to-machine integration with user systems.

All these activities are performed according to specific data security policies and controls, representing a fundamental pillar to preserve the relationship of trust between tax administration and the taxpayers.

## Data collection and exchange

The Italian Revenue Agency collects and exchanges information with more than 10,000 public and private third parties and with more than 30 million taxpayers.



Part of these exchanges take place with foreign tax administrations and are mainly applied to financial information.



Establishing and maintaining such data flows is a relevant area of investment, bringing opportunities and benefits to the Revenue Agency, such as:

- increasing transparency in the field of international taxation, through a better understanding and knowledge of transactions carried out by multinational companies, a greater flow of information between countries and a fairer international taxation;
- services tailored to taxpayer needs: taxpayer profiling allows to provide targeted services, such as proactive communications, and to get a greater accuracy and completeness of information owned by the tax authority, in the name of transparency;
- preventing and fighting against tax evasion, thanks to an improved taxpayer risk profiling, that allows to detect anomalous behavioral patterns and to increase accuracy of tax control activities.

## Information exchange management

The Italian Revenue Agency has long put in place a structured set of measures to ensure an adequate level of data security and protection, in cooperation with its technological partner, Sogei. Such measures

range from the implementation of application controls to the “hardening” of the infrastructure, to data quality assurance methods and techniques.

Governance - General Data Protection Policies			
General policies and guidelines - Responsibility model for officers - Awareness of officers and partners			
Infrastructure security	Data repositories security	Access control and logging	Data quality assurance
<ul style="list-style-type: none"> <li>Security measures on:                             <ul style="list-style-type: none"> <li>communication channels</li> <li>identification of senders</li> <li>received messages</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Authentication and authorization for data access - only through applications</li> <li>Measures to ensure protection of confidential information</li> </ul>	<ul style="list-style-type: none"> <li>Access limitation for confidential information</li> <li>Logging of all activities to support awareness and allow following investigations</li> </ul>	<ul style="list-style-type: none"> <li>Measures to improve the quality level of collected information</li> </ul>

From the infrastructural point of view, access to data is allowed exclusively through secure services and channels, which are designed and provided by the Revenue Agency. Access is only granted according to a structured and formalised accreditation process; all subjects are authenticated using digital certificates and all communications are encrypted in order to guarantee confidentiality of exchanged information. Incoming and outgoing files are encrypted and digitally signed to ensure their integrity and protection against tampering. Finally, a reception system is in place to perform a number of correctness and consistency checks before the secure transfer of the data into the database.

As for databases, least privilege principle, associated with default to deny principle, is strictly applied. Application of those principles provides that:

- user without an explicit authorisation has no access to any information;
- users – internal or external – can access data exclusively through applications that verify user authentication and authorisation;
- automated access to systems (machine-to-machine) is exclusively carried out through standard application services;
- a limited number of system and database administrators (DB administrators) holds specific authorisations to directly access databases for maintenance purposes only;
- when supplying data containing confidential information, anonymisation functions are applied;
- advanced data analysis is performed in compliance with an internal data security and privacy policy.

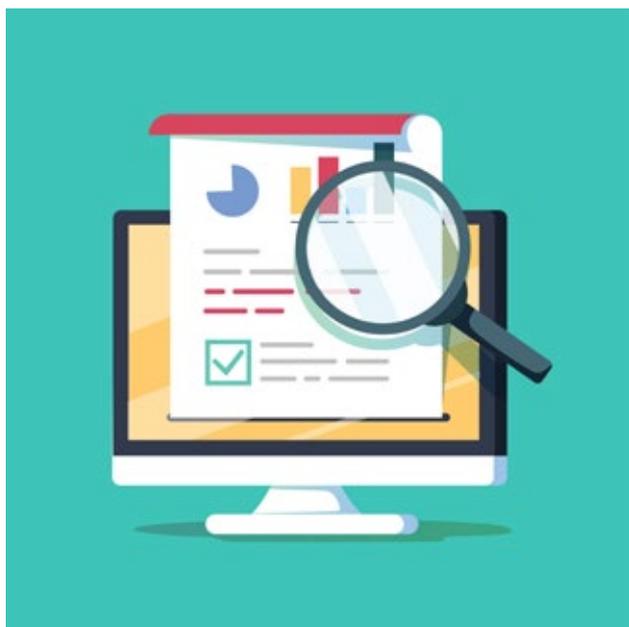
Taking into account that all information can be accessed only through applications, the Revenue Agency has implemented a stringent access control policy, setting up a standardised authorisation workflow. Such workflow is supported by a specific IT tool to assign the access rights to users. All accesses are authenticated, and specific user roles and profiles define authorizations to read and modify data.

Finally, all operations performed on data are logged at application and system level. With reference to high risky operations, a log collector has been implemented to support investigation activities in case violations occur.

Taking into account the strategic role played by the Revenue Agency's information assets, one of the main goals was defining a structured information governance programme, of which data quality assurance is an essential component.

Such a model is based on ISO International Standards and covers all stages of the data life cycle, defining in particular:

- procedures and tools for uniquely representing information (business terms glossary);
- a structured and standardised data gathering process;
- a model to measure and evaluate data quality characteristics as well as to set up and implement controls;
- a process (together with its supporting tools) to measure the data quality.



Quality measurement outcomes, together with feedback on quality provided by end users and advanced information analysis systems, allows to set up plan and apply corrective measures and improvements.

All controls and measures described above aim at achieving data quality and security objectives, including personal data protection, in compliance with the current law.

According to international regulations and best practices, the Italian Revenue Agency has set internal rules, establishing:

- communication to spread the awareness about risks

of breaches of privacy by tax officers and partners;

- use of control and monitoring tools to detect possible violations;
- definition of a formalised responsibility model;
- implementation of security measures in the information system;
- formal definition of rules, addressed to tax officers, to handle personal data;
- set up of formal agreements to governing data access and the related right of use by external entities.

In particular, the responsibility model adopted by Italian Revenue Agency assigns, to all Directors at central and regional level, the role of "Coordinator manager responsible for the application of privacy rules", charged of issuing directives and general rules. All managers at central and regional level are nominated "operational responsible for data handling" and are charged of providing operative rules to monitor the work of staff dealing with handling of personal data.

Sogei, the Revenue Agency technological partner, is also appointed for data handling and thus subject to the specific provisions. Rules and responsibilities are defined within the service contract between the Agency and Sogei.

## Key challenges

The quantity and complexity of exchanges of information with both domestic and foreign parties imply relevant challenges, also in terms of maximising the value of information owned.

Therefore, it will become increasingly important for the Revenue Agency to be able to manage such complexity in a fast changing context, while at the same time strengthening its management performance.

It is clear that data protection is a broad subject, going beyond technological issues. For that reason, a holistic approach, involving all administrative areas and processes, is needed. Such an approach should create the right "competence mix", bringing together data management, ICT and legal competences.

At the same time, an essential success factor is to create and preserve the ability to keep a high focus on potential risks concerning the entire information life cycle, within the standard processes execution, and regardless of external factors. ■

# ETHICS IN TAX ADMINISTRATIONS



# Márcio F. Verdi

## The promotion of ethics in the tax administrations of Latin America

*By Mr Márcio F. Verdi, Executive Secretary of Inter-American Center of Tax Administration (CIAT) and Mr Alejandro Juárez, Director of Training and Human Talent*

### Our Context

The promotion of ethics in tax administrations is especially important since they are public entities responsible for collecting the income of the state, regardless of the institutional design of the public entity (Autonomous, dependent on the country's Ministry of Finance or other institution). Its link with the society fulfils a double role: to offer services to its citizens, from the perspective of daily tax management, and to control the correct compliance of tax obligations by taxpayers.

It is this double profile of their daily work that we remind that in Latin America the configuration of Tax Administrations (TA) can refer to the management of Internal Taxes, taxes on foreign trade and even taxes on social security; which implies a permanent demand for the development of their capacity building and, of course, those of management such as IT, planning or resource management.



On another level, the size of countries in general (territory, economies, population, for example), also has a close link to tax administrations. For example we can have tax administrations with less than 500 agents while others

have more than 35,000 officials. This represents a high segmentation or functional specialization and therefore requires people to be increasingly better prepared and in better conditions to meet the goals of their TAs.

The region has grown significantly in the administration of taxes in the last 20 years, highlighting as a key factor the strengthening of local regulatory frameworks, investment in technology, improvement of processes and of course, professionalization of their human talent.

However, we also have important areas of opportunity related to tax evasion and tax avoidance; smuggling, registration and control of taxpayers; coercive collection, among others. Fortunately, continuous improvement has brought good practices from different administrations in the region, and perhaps one of the most outstanding is the electronic invoicing, in which the regional leadership is well established.

### The promotion of ethical performance



Transparency International

In Latin America, it is important to recognize that there are still problems related to the ethical performance of public servants, and we can identify structural reasons (not in all countries); such as: a deficient Internal Control, the lack of a Civil Career System for officials, salary inequities and low remuneration in key positions; high turnover of personnel, few instruments for the withholding and development of the staff, and working conditions of high pressure and stress.

Thus, public servants may face adverse circumstances to perform their work in an adequate environment and with few occasions of enjoyment for the fulfillment of their activities. The issue is not minor because, since the deviation from the ethical behavior may have structural causes, when one is triggered, it is possible that it affects another, and another; and finally the specific behavior is not only a matter of poor performance, but corruption in any of its forms.

Although it is possible to say that we have laws that regulate the public function, we must also recognize that there are cases of unethical behavior. At the end of the day, it is not a problem of conceptual or normative frameworks, but of control of processes and people. In short, an official is as vulnerable as the whole process in which they are involved.

### The CIAT experience in the promotion of ethics

Although the concern for the promotion of ethics has been a permanent interest since the creation of CIAT, it is from 1996 that the discussion among its members around the promotion of ethical performance has been encouraged, and systematic efforts have been made to establish actions of regional scope, where ethics is understood as a transversal component of the TAs and, consequently, the importance of preserving it as an institutional value and, of course, as an element of the institutional strategy.



the CIAT Permanent Committee on Ethics

Beginning in the 2000s, the CIAT Permanent Committee on Ethics was established with the sponsorship of the CRA of Canada and with the participation of CIAT members and non-member countries; Thus, in 2005, an Ethics Tool Kit was published, which is a set of instruments for the promotion of Ethics, developed by tax administrations for tax administrations. The fact that the tax authorities themselves are involved in the construction of solutions is without a doubt, a factor of success.

## The Tool Kit is a group of 7 tools

1. Declaration of Promotion of Ethics
2. CIAT Model Code of Conduct
3. Communication and Training Strategy
4. Organisation Structure for the Management of a Program on Ethics
5. Self-evaluation Guide for Tax Administrations
6. Proposals of the Working Group to the CIAT Executive Secretariat
7. Self-evaluation workshop of CIAT's Ethics program in a Tax Administration

Each one of them aims to support the efforts of the TAs in the design of their internal resources and instruments, on the one hand, by providing their own conceptual framework, with minimal promotion tools (available in Spanish and English). Another characteristic of the tool kit is that it is not a restrictive or limiting package, on the contrary, it can be combined with many other elements that has, as its purpose, the design and operation of an institutional integrity system.

But just as the processes of tax management evolve, the requirements of the promotion of ethics evolve also, as of 2017 the Permanent Ethics Committee was reformulated, and three working groups have been created on specific topics (Transparency, Internal Control and Updating the Tool Kit); With the participation of Canada, Portugal, Spain; The Netherlands, Brazil, United States; Chile, Argentina, Honduras and Uruguay, the working groups have carried out different activities in order to continue contributing to the discussion of ethics and the construction of additional tools.

The Transparency group has worked on a survey and a paper on Institutional Transparency of Tax Administrations in the region, (linked to ethics), the Internal Control group developed a paper on the design of an Integrity System and is interested in developing an internal control manual, and the Toolkit Update Group has identified relevant aspects for updating the tools.

This work is freely available on our website and is shared with the interested institutions. Between 2016 and 2017, the experience was presented at the General Assemblies of CREDAF and IOTA respectively. In addition, the working groups are controlled on the KSP- TA Platform of the Canadian CRA for documentation purposes.

The operating model of the committee aims to be agile and lightly structured:

**A.** A committee that analyzes and determines the ethics promotion strategy and,

**B.** Working groups (transitory), which are created for specific projects.

90% of the work is done online to avoid incurring expenses, and the committee only meets if there is a specific issue for the analysis; during 2017 and 2018 the committee has only met once a year, in 2017 in Ottawa and 2018 in Madrid; the local Tax Administrations support the execution of the meeting and each assistant (country) covers the expenses of their participation.

The advances so far will be presented at the CIAT General Assembly, precisely in Ottawa in May 2018.

## Immediate challenges

To continue the dissemination of the tool kit is a fundamental priority. To develop a work program of activities to be carried out during the next 24 months, to complete the mission of the current working groups and evaluate the dissemination of their results, as well as the creation of new groups for new projects.



Another initiative of CIAT is the creation of a Labor Competency Standard for the Tax Auditor, which is a project sponsored by GIZ of Germany since 2015, and aims to strengthen the profile of Tax Auditors in the region; A 56-week online training program has already been carried out and a new edition is being prepared; This course and the competence standard will include the ethical component within their scope as a substantial factor for the development of the Auditors, within the framework of the ISO 17024 provisions. As well as implementing all the improvements identified for the different tools.

Beyond all valid questioning, the ethical strengthening of the tax administrations is an unavoidable responsibility for all the directorates of the tax institutions and at the same time, to be an example of honesty and good performance is a social commitment; so let us prepare ourselves to continue the collective efforts of the region and the individuals efforts in each country, with the certainty of contributing to the continuous improvement and the creation of world-class institutions. ■

# Samson Uridia

## Ethics as the building block for increasing tax compliance

*By Mr Samson Uridia, Head of International Relations  
Department of the Revenue Service of Georgia*

### Introduction

Ethics, the same as morality, is a quality not many people are gifted with. These kind of qualities are either inherited or worked out gradually by being influenced externally. The absence of sound ethical principles in people deteriorates due to a whole series of external factors that have a very bad influence on ethical behavior. Nonetheless, lack of ethics, among others, expressed in non-compliance with state rules and regulations and a disrespect of the law, impedes and prevents fulfillment of state functions and achievement of efficient results in various fields. In the struggle with those who are unethical both incentives and enforcement play a big role in helping to discourage employees from being engaged in this behavior. However, the effects of incentives or enforcement cannot be long-lasting, since people tend to get used to incentives or find ways to bypass restrictions. Ethics gain even more importance when dealing with confidential tax information and being exposed to the risks and threats of corruption. The system should encourage and support the ethical behavior and not rely on individuals who may demonstrate high ethical standards in challenging environments.



The goal of the Georgia Revenue Service is to develop an ethical culture in employees instead of forcing them to observe ethical behavior.

### **Actions taken to combat unethical behavior**

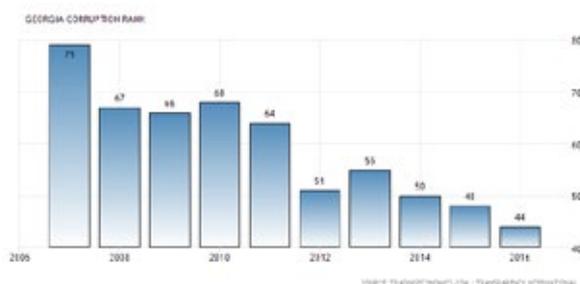
After the fall of the Soviet Union, Georgia as well as other member nations, inherited a very inefficient administrative system and heavy economic losses, pushing members

of society to engage in behavior considered unlawful. The same was true for tax administrations as well. For example: faulty legislation, giving room for interpretations and therefore manipulation both from taxpayers and tax officers' side; the large number of taxes (26) that neither taxpayers were able to pay, or the tax administration were able to administer due to a lack of administration tools and experiences, that collectively drew them into corruption. The situation was aggravated by the very low salaries in state agencies and a very hard socio-economic environment; and many others. After drastic changes in tax and customs administrations were put on the agenda, the issue of staff being tempted into unethical behavior acquired more significance. Elimination of ethical problems was automatically linked with rehabilitating the damaged reputation of the tax administration in the eyes of society and the efficient collection of taxes and therefore supporting economic development. Among actions taken by the Georgia Revenue Service to deal with unethical behavior were:

- Simplification of the tax system, through improvement of tax legislation and tax collection procedures, tax cut and etc.;
- Increase of salaries;
- Movement towards a more risk-based approach;
- Introduction of taxpayer-oriented electronic services, modern types of communication, eliminating the mandatory direct interaction between taxpayers and tax officials for compliance;
- Implementation of a capacity-building framework.

These measures had a very positive effect on the ethical behavior of both taxpayers and tax officials and has resulted in: minimization of corruption; establishment of a more trustful relationship between taxpayers and the tax authority; an increase of tax to GDP ratio; and many others.

## Corruption Perception Index



The process of combating unethical behaviour was supported by legislative framework comprising of:

- Law of Georgia on Protection of Personal Data
- Tax Code of Georgia

- Law of Georgia on the Public Service
- Law of Georgia on Conflict of Interest and Corruption in Public Establishment
- Internal Regulation of GRS



## Conclusion

The Revenue Service's agenda has developed to focus not on creating an environment that forces staff into ethical behavior, but instead develops an ethical culture in them and establishes a more structural approach to the problem. Nowadays, with the new status quo of international taxation, which practically ends bank secrecy for tax authorities, the protection of secrecy is more important. Protection of secrecy along with ethical behavior requires more attention to be paid to the enhancement of risk criteria (risk based approaches) and various control systems. A tax administration's success in protecting taxpayers' confidential information not only guarantees compliance with internationally recognized principles of confidentiality, but also in many ways determines a taxpayers' attitude and trust towards their tax authority and the actions taken by it. This results in higher information disclosure levels; better tax collection and taxpayer support in implementing new initiatives in tax administrations.

The Georgia Revenue Service is also in the process of introducing a special unit which will be responsible for monitoring ethical behavior among staff and developing various measures and methods to prevent unlawful activities. The revenue service has already created a new strategy that emphasizes the importance of a more partnership based approach for further development. ■

# Anette Landén

## Ethics in tax administrations: Rules and guidelines at the Swedish Tax Agency

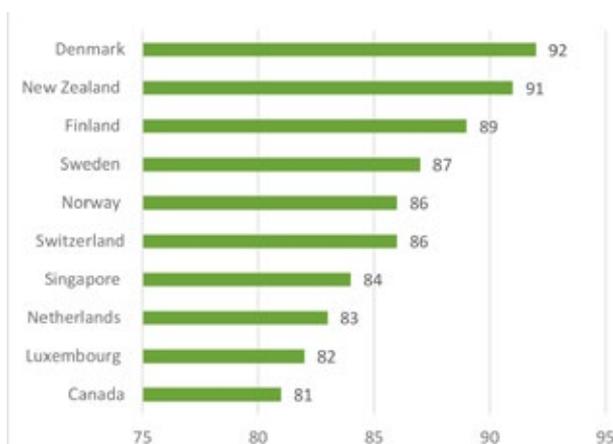
*By Ms Anette Landén, Director of Department of Large Business  
and International in the Swedish Tax Agency*

### Introduction

The annual CPI score, Corruption Perception Index score, ranges from 0 to 100.

The CPI score of '0' indicates a highly corrupt country and a score of 100 signals a perfect country with absence of corruption.

Top 10 Least Corrupt Countries in the World 2017



Sweden is among the top 4 countries when it comes to least corrupt countries in the world.

One explanation could be the common value base for civil servants. The central government's basic values are based on the constitution and laws, and the Swedish parliament (Riksdag) has accordingly approved them all. The basic values represent the professional platform for every central government employee. They should be second nature in everything central government employees do.



**Democracy**

All public power is based on the people.

**Legality**

Public power is exercised under the laws.

**Objectivity**

Everyone is equal to team. Authorities and courts should treat everyone equally.

**Free opinion formation**

The Swedish National Board is based on free opinion formation

**Respect**

Public power must be exercised with respect for human freedom and equal value.

**Efficiency and service**

The operations shall be conducted as cheaply and with the highest quality possible with given resources.

## Freedom of Communication

Freedom of Communication for a civil servant means that it is possible to communicate information that is normally confidential for publication in printed, radio or television. The provider is entitled to be anonymous and, as a rule, the authority may not investigate who the informers are. However, freedom of communication does not mean that they are allowed to give out information that is considered secret.

In the role as a civil servant, they also have a responsibility to speak up when they see irregularities/maladministration. They have the right to be whistleblowers and communicate with the media, if so desired.

There are three laws to protect this right

- Freedom of expression
- Freedom of communication
- Code of confidentiality

## Guidelines for employees at the Swedish Tax Agency

A new common guideline was introduced in 2017 with a clearer purpose related to ethics. It contains less "legal texts" and more of the Tax Agency's positions. It includes:

**Conflicts of interests/bias**

To avoid conflict of interests or bias, we organise workflow to minimize risk. If an employee acts or decides in a case involving a conflict of interest he or she are considered guilty of a service offense. We recommend the employee always has a dialogue with the manager if unsure.

There is an absolute obligation to report conflicts of interest. It is a criminal liability for misconduct; Instrument of Government, Swedish Penal Code, Administrative Procedure Act, and Public Employment Act. Professional misconduct against rules and regulations will result in sanctions and will be reported to the police.

**Bribes**

An employee should always have a dialogue with his or her manager when approached with offers they feel uncomfortable accepting. The main response is to always decline the offer. If they accept a gift, it should have a minor value and it then belongs to the agency. An attempt to bribe is always reported to the police.

**Secondary activities**

If an employee plans to start secondary activities, they are obliged to inform their manager to seek permission. Any assignment that could influence the trust as an employee will be denied.

**Hacking**

The information in our systems are only for job assignments. We keep logs on who is using the system, in case we need to track misconduct.

**Principle of public access**

Before a decision, there is secrecy. After decision, there is public access. All employees have an agreement about secrecy during and after employment.

**Internal Investigation**

The employees should know the principles behind the measures taken against someone engaged in corrupt behavior. Suspected offences are reported to the police. Anyone who contemplates committing an improper act should be aware that there will be consequences under both criminal and labour law when it is detected.

The most common notifications to the Internal investigation concerns:

- Hacking
- Violation of secrecy rules
- Disqualification
- Misconduct

The security department is always contacted if there is a suspicion of irregularities.

## Conclusion

Despite the importance of rules and guidelines, Ms Anette Landén emphasizes when it comes to work ethics, it is the daily and continuous dialogue that makes the greatest impact. ■

**RELATIONS  
WITH TAXPAYERS**

# Andrea Rabb

## Relations between tax authorities and taxpayers

*By Ms Andrea Rabb, Vice-President of the Association of Hungarian Certified Tax Experts (MOKLASZ)*

### I. The role of tax intermediaries in environment, where more data is required from taxpayers

As background information, in Hungary there are approximately 66 different tax types, including the so called crisis taxes as well. The latter ones were introduced in 2010 and the number of them has been increasing since then reaching around 15. Due to the high number of taxes and tax like revenues, there is a complexity of tax returns (like VAT-return with its 106 rows, 6 annexes), data supply obligations, announcements or modifications that taxpayers have to cope with. This already raises the importance of authorising professional experts who can provide help for daily operations and fulfil the tax obligations by due date.

#### 1. Data-handlers:



Tax obligations are mainly carried out by accountants and tax advisors to whom the necessary accounting documents, invoices, receipts, contracts are handed over, either on paper or electronically based on a written contractual relationship established between them. During this process, they must screen, control the data, information and check the financial settlements and related

contracts as well. In case a related question comes up they must clarify with their clients. This process means the professionals get immediate access to confidential personal and business information as well. This raises the importance of data protection rules. At the moment in Hungary, Act of 112/2011 on information rights and freedom is current, however as of 25th of May, 2018, the GDPR (General Data Protection) EU Regulation is directly applicable here as well as other member states. This obviously affects accountants and tax advisors as well. With this intermediary contractual relationship it is important to highlight, what data, for how long, for what purposes can it be used by professionals for tax purposes.



## 2. Data transmission:

After possessing the necessary information and documents of the taxpayer, accountants and tax advisors send the relevant tax declarations to NTCA (National Tax and Customs Administration) by the due date electronically. In case of a tax audit (either comprehensive or related to specified tax liabilities) they must also make data available for audit purposes. As well as this, as of 01.07.2018, based on 23/2014 (VI.30.) decree of Ministry of National Economy domestically seated companies must ensure directly a so called live invoice data reporting to the relevant tax authority on invoices of which VAT content exceeds 100.000 HUF. This will eventually diminish the role of accountants. Here I have to highlight the mode in which the professionals transmit the tax declarations. In the case of private individuals and sole entrepreneurs the so called „Client Gate” is used (since 2006), whereby the accountant or tax advisor must first register by EGYKE Form at the tax authority. In case of companies (approximately: 800.000) like LLC, limited partnerships, sole companies, Foundations, branch office of foreign company, Associations the so called „Company Gate” must be used since 01.01.2018 based on Act CCXXII of 2015 on e-procedures.

This provides for a direct link between the authorised person of the company and the authorities. At the moment for a temporary 1 year, tax declarations can be sent via the Client Gate, which still provides a platform

for professionals. However the aim is to manage tax issues as well via Company Gate, which eventually can diminish the role of intermediaries.

## II. Expectations of Intermediaries from Tax Administrations in terms of ensuring Data Security.

Presently the Act on Tax Procedures (tax secrecy), Act L of 2013 and internal regulations relate on information security concerning NTCA.

### 1. Safe data usage:



Due to increased data supply and online invoicing more and more data is flowing into the tax authority, which certainly raises the importance of a secure IT system that can't be hacked, which prohibits data-fishing and especially which prevents individual data outflow. This is currently very significant due to direct online invoicing data-supply, or chassis plate numbers of passenger cars of VAT-return, whereby not an aggregate, but concrete data will be available for the tax administration. That's why it is vital that no business information is leaked.

### 2. External data-processing:

In the case of the tax authority providing tax declarations for external data-processing, it is also vital to create such a protocol whereby security and tax secrecy is guaranteed.

## III. Others

Finally I wish to highlight a positive initiative of the Hungarian Tax Authority, namely the so called „Assistance Procedure”, which was introduced as of 01.01.2017. In essence, where errors or deficiencies are identified by risk-management, the tax authority may, rather than commencing an audit, offer to assist the tax subject in remedying those failures and invite it to conduct a self-revision. Participation in the procedure is voluntary. Infringements remedied under such a procedure are not subject to sanctions, but if the procedure is unsuccessful, the NTCA may commence a tax audit. ■

# Eline Spros Vierkant

## Help the helper strategy

*By Ms Eline Spros – Vierkant, Director of Individuals Department, responsible for Customer Interaction, Netherlands Tax and Customs Administration (NTCA)*

### Using data

In today's world, trust is more important than ever, especially when it comes to the relationship between governments, citizens, businesses and employees. This also applies to us as a tax administration. This should not be a surprise, given the growing importance of data in our daily work as tax administrators on one hand and the increasing issues concerning data security on the other. In this short article I will write about the NTCA's interaction strategy, a strategy that has everything to do with trust.



Let's start by illustrating how the NTCA uses data as an opportunity to create trust. Our administration's very own data tells us a lot about our tax payers, or customers as we prefer to call them. For example, the mistakes they make in their tax return because of a life event they're going through (for instance someone is divorcing or had a relative pass away). We use that information to interact pro-actively, because we want to help these individuals do business with the tax administration in the right way at their first attempt and to prevent any mistakes.

### A digitalised world

In this digital age, everyone is 'online'. One can buy and sell products online, order food, services, exchange information, do transactions, bank online, store your music in the cloud, one can mail, chat, share photos and so on. Therefore the interaction-strategy of the NTCA focusses heavily on digitalisation.

But even in a heavily digitalised society, our administration cannot help everyone using our common digital

solutions. Not everyone is capable of using one of our mass communications channels like the call center and online chat. Sometimes face-to-face contact is required, which is possible by making an appointment via our call centres for personal help at the front desk at one of our 21 tax-offices in The Netherlands.

But even then we've found out that we weren't able to reach all parts of society through these 'common' channels. There are a lot of people who aren't able to submit their tax return online themselves, or by getting help from a call centre-agent. This includes disabled people, illiterate customers and people with social problems that aren't able to submit a tax return without proper help. We call this group "non-self-reliant" customers. Of course we can try to create the most effective systems and programs to help this group to submit their tax return, but most of them never find their way to us in the first place, because they experience physical or mental obstacles to go to a tax-office, they don't know how to ask for proper help or they don't even know they have a question or problem in the first place.

## Creating a safety net



For this group of non-self-reliant customers the NTCA has created a so called "safety net" to help them. We call it the strategy of "Help-the-Helper". This strategy involves social service organisations or individual workers with fiscal knowledge so that they, as a more "close" relation, can support non-self-reliant customers submitting their tax return.

## Examples of Social Service Organisations are:

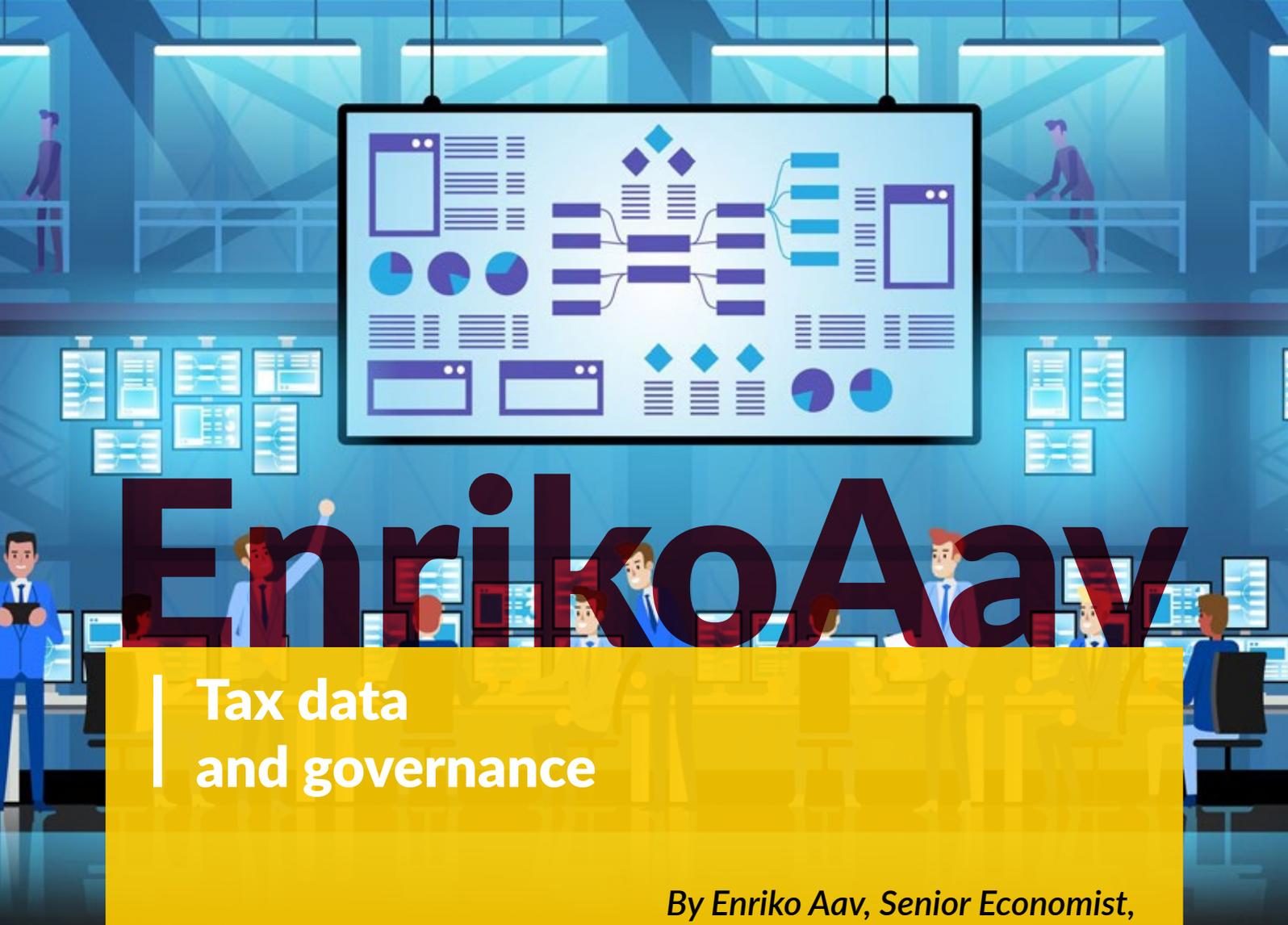
- Labour Unions
- Elderly Associations
- Associations of cultural target groups (like elderly immigrants)
- Social Counsellors
- Organisations for Assistance with Debt Problems
- Associations of disabled persons
- Associations for Illiterate persons

The NTCA provides the aforementioned organisations with fiscal and practical knowledge through our digital "Knowledge Network" to put them in position to help their members and customers with submitting their tax return. By doing so the tax administration can reach non-self-reliant customers and can be sure of tax returns of sufficient quality. This is a mutual benefit for the Tax Administration and the individual as it means less mistakes, less costs in processing the tax refunds and also less debt problems in this target group, more compliant customers and a more helpful government that cares for and is being trusted by all citizens.

## To conclude

Digitalisation remains the NTCA's main track to interact with our customers and it is evident that it is important to keep investing in customer interaction using digitalisation and data and analytics. It's massive, the costs are low and the mistakes that occur are reduced to a minimum. At the same time we believe that it is crucial not to lose sight of the non-self-reliant group in society. By using social service organisations we believe we take the right step to embrace this group by including them in our strategy. And although it takes some investment in the relations with Social Service Organisations, helping non-self-reliant customers isn't expensive either as we avert mistakes and therefore high costs in processing the tax returns. This way the NTCA has an interaction-strategy that fits all and costs less: our interaction with civilians is personal and aimed at increasing trust in the tax administration to achieve further compliance. ■

**BETTER TAX GOVERNANCE  
FOR HIGHER PERFORMANCE**



# Tax data and governance

*By Enriko Aav, Senior Economist, International Monetary Fund (IMF)*

*The views expressed in this article are those of the author and not necessarily represent those of the IMF.*

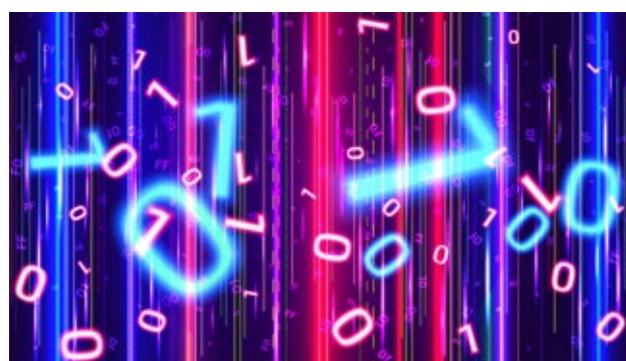
## **Introduction**

Data has always played the key role in the administration of taxes, but developments in technology and communication over the recent decades have opened new opportunities for tax administrations that were unseen before. Having large, easy to manage data volumes can increase tax administration responsiveness to the needs of taxpayers and the government. The range of services provided by tax administrations can be wider and communication dramatically faster than it was in the era of paper.

## **Opportunities and risks of expanded data**

More data can help improve tax administration efficiency and taxpayer compliance. Adopting a data-driven approach will help building greater efficiency in tax administrations, including introducing smart

paperless processes, and better targeting of risks in the tax system. It can also improve the transparency of tax administrations' operations and thus, increase trust of the taxpayers' community, which is important for achieving a high level of unenforced tax compliance.



When introducing data-driven practices, a developing administration should take into account its adaptation capacity limits and design new processes accordingly. It should also take steps to increase internal responsiveness to the new ways of working.

When deciding on the scale of digital solutions, the administration should consider capabilities in a wider business and government environment – is there sufficient infrastructure in place that allows the majority of the population to be able to use new services? Are other government institutions at an adequate developmental level so that they can interact with tax administration systems and end old, paper-based practices?

A big threat is potential overdesign of a new, data-driven IT solution for a tax administration. There are many attractive features that modern IT systems can offer. It is easy to fall into the trap of having a plethora of “nice to have” features available and then be overwhelmed by data volumes and services that are not necessary for tax administrations to get their job done.

One cannot overlook new risks that data-driven administration could bring, many of them unknown to pre-digital administrations. These risks include potential cyber-attacks and taxpayer data breaches by third parties undermining tax confidentiality.

## Good governance is a key



Establishing strong governance practices in a tax administration will help minimize and manage these risks. There are some elements of good practice that developing tax administrations should adopt to achieve a good grasp over its data driven practices. Advisably, there should be a dedicated business unit in place that

is led by a Chief Information Officer to make sure that data systems are professional, well documented, and audited. This unit will oversee data management and reporting, including auditing of the systems. At the same time the system should have embedded automated activities to detect irregularities and trigger further actions required to address those irregularities. A legislative framework should be in place and provide for human resource policies for data-centric environments including deterrence policies to address violations. Clear data security procedures should be in place including the regular education of users and staff restrictions on accessing data based on a need to know basis only.

When designing a new data-centric system for tax administrations, there is a main question to be always asked - Why are we doing it? It is easy for an administration to get lost in the multiplicity of exciting opportunities that data provides and this needs to be contained. One should always remember that the role of tax administrations is to achieve tax compliance in the most efficient way. This is what a solid tax administration IT system should provide. Good governance practices will help administrations to stay mindful and prevent them being carried away by all the possibilities that really are not needed.

## Conclusion

The opportunities of modern IT solutions have to be utilized by developing tax administrations. While focusing on expanding data-driven practices, building strong governance of data processes should be a priority to manage the risks that these solutions may bring. ■



# JB Hillman

## Technology: Impact on tax administration effectiveness

By Mr JB Hillman,  
Director, Global Development of Vertex, Inc.

### Introduction

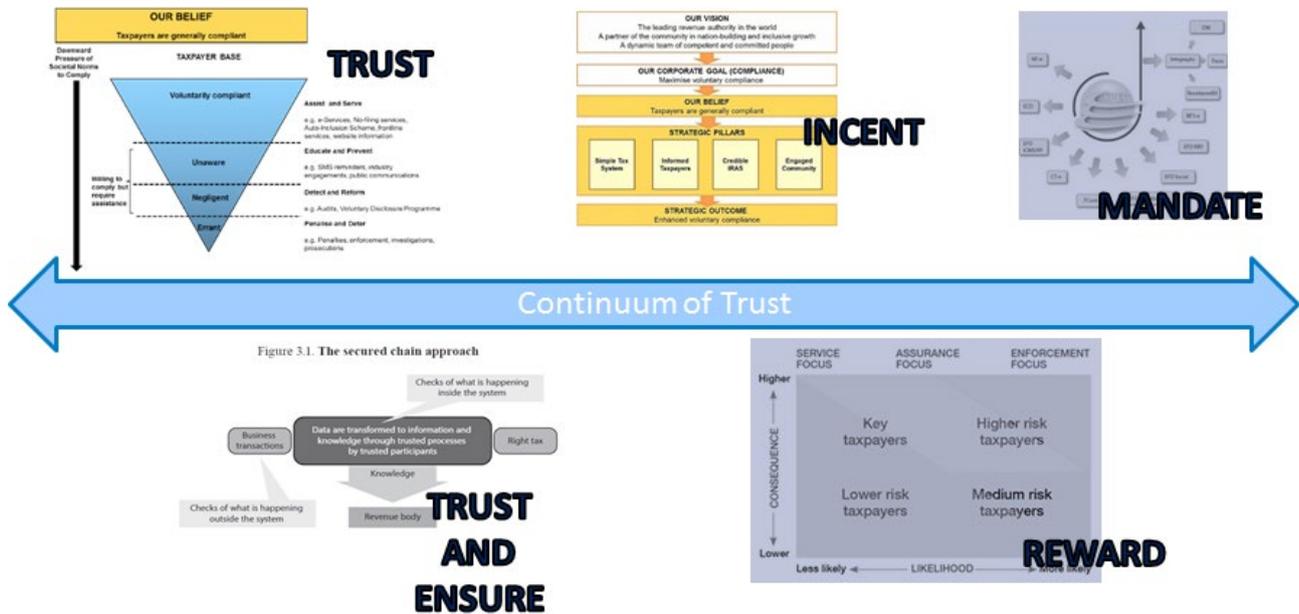
The practice of good governance is at the forefront of a tax administration’s operating philosophy. The ability to create processes and procedures to create a reliable governance approach is a challenging one and one that is driven more every day by technology. Technology both facilitates opportunities to strengthen governance, as well as creates demands on tax administrations to ensure policies and practices that take emerging technologies into account. This article will look at both the operational and technological considerations required to support good governance. The graphic shown here presents the four key principles of effective taxation. Effective taxation is achieved by ensuring these core tenets are in place. Not one of these components can alone help you reach the overall goal. And, technology can drive these: It can make tax paying simple for the taxpayer and efficient for both the tax administration and the taxpayer. It can make the tax administration more flexible, allowing the tax administration to tailor and change as needed. And lastly, it enables taxation to be equitable and fair by providing the tools to analyse and rationalize the taxpayers and revenue streams.

### Compliance Risk Management Models

Tax Administrations across the globe are using several different models to reduce the risk of non-compliance and allow for greater certainty in the revenue stream.



Technology is an enabler for these models. The graphic below depicts a continuum of approaches to this issue—from those that are cooperative and voluntary to those that are compulsory in their implementation and policy.



The “trust” model in the upper left corner depicts the Cooperative Compliance approach. There is a great deal of energy around the topic today, as the promise of what an open and trusting dialog between tax administration and taxpayer can bring is enticing. I also want to talk about the “trust and ensure” approach, which is the concept of Compliance by Design that is being embraced in the tax domain. The diagram in this graphic is from the OECD publication on the topic. Compliance by Design is a simple, but powerful idea that incorporates compliance into technology between and within both the Revenue Authorities and the taxpayer. The model asks the question, “How can we code compliance into the processes and systems we already use today to enable appropriate compliance and payment?” This brings the tax control framework concept across the entire compliance lifecycle by using technology to encode the compliance requirements into the overall compliance business process. This design thinking approach can provide a foundation for the continuation of the tax and customs alignment opportunity.

### Convergence

I’d like to share some perspective Vertex has been considering regarding where the tax domain is headed and why technology will become an even more critical capability.

Convergence is upon us. There has historically been distance between tax payers and tax administrations. Today, this distance is shrinking. Drivers for this are:

- Changing business models,
- Technology capabilities,
- Both looking to reduce cost of compliance,
- Lack of trust (“Compliance by Design”),
- “Weakest link” in developing economies, and a
- Push for transparency.

The promise of real time reporting, as well as potentially real time payment is creating an atmosphere where all parties must communicate and establish processes that work for all. Technology is at the heart of this evolution. Interoperability, big data, reporting, and other capabilities are needed now to allow tax administrations to function effectively and efficiently in this new world. In addition, emerging technologies like Machine Learning and Blockchain are creating new ways to build compliance into the process and reduce the overall cost burden for all involved. ■



## Advancing Tax Reforms

In addition to capacity building, the ability for a tax administration to understand and analyse their tax base and revenue streams creates the opportunity to think through reform options that make a real difference to compliance and net revenue improvement. At the heart of this is the effective use of data. Clearly, technology is the centre of this and without the current data transfer, management, and analysis tools in place, this becomes too much of a subjective and historical decision-making process and not based in objective, data-driven metrics.

Though all countries deal with these issues, developing economies struggle even more with cultural issues around revenue generation. Poor governance models allow for corruption to thrive, while poor service and transparency create an environment that does not incent people to willingly pay their taxes. Strong operations, coupled with transparency, create a better atmosphere for compliance.

## Strengthening Administrative Capacity

Strengthening capacity in a tax administration is critical for addressing the demands being placed on them. Achieving Sustainable Development Goals (SDGs), curbing Illicit Financial Flows (IFFs), and having systems to play in the global data exchange game are only a few of the ever-growing needs technology can assist with.

First and foremost, creating a reliable stream of revenue from reliable sources is paramount. Moving away from the reliance on natural resources or loans that create additional non-value-add obligations must be the focus. Self-reliance is critical today. Technologies that allow you to connect with your taxpayers, make it easier to be compliant, manage the flow of funds once you have them, and share that data globally when required are already available today. An investment in these technologies has a significant return on investment if you follow the business architecture first approach I discussed earlier.

## Conclusion

First, I would like to state and remind everyone that technology is just a means to an end—a tool. At the end of the day, it is all about impacting the performance of the function. That said, technology can be an accelerating capability if aligned with the business needs. With the realities of process convergence coupled with the emergence of compliance by design approaches, technology will only become more important to tax administrations. Applying technology to accomplish the goals of strengthening capacity and providing the data for effective reforms is critical for improving effectiveness.

# Tobias Fleckenstein

## Perspectives on international support to DRM in IOTA countries

By Mr Tobias Fleckenstein, Advisor,  
International Tax Compact (ITC)

The following article summarises relevant findings from the **2015 ATI Monitoring Report**. The data presented is based on the OECD DAC data (reported under the DRM code 15114) with adjusted data for the EU institutions, Italy, the Netherlands, Sweden, United Kingdom and the United States.

An overview of all projects carried out in the area of DRM worldwide is provided in the DRM Database. -> <https://drm.taxcompact.net/>

For more information, please contact: [secretariat@taxcompact.net](mailto:secretariat@taxcompact.net).

### **Introduction**

Since the launch of the global Financing for Development agenda by the United Nations in 2002, the importance of domestic revenue mobilisation as a sustainable source to provide basic public goods and services to citizens over the long term, has drawn more attention in the international development cooperation debate.

Governments from both development partners and partner countries have recognized the need for solid domestic financing capacities to achieve the Sustainable Development Goals by 2030 and thus have increasingly integrated domestic revenue mobilisation in their long-

term development strategies.

While many developing countries remain dependent on official development assistance (ODA) to finance their development plans, the assistance directed at improving domestic revenue mobilisation and strengthening tax administrations in these countries accounted in 2015 for only 0.13% of all Official Development Assistance worldwide.

In this context, the International Tax Compact (ITC) positions itself as an initiative that works towards strengthening international cooperation to enhance domestic revenue mobilisation and promoting fair,

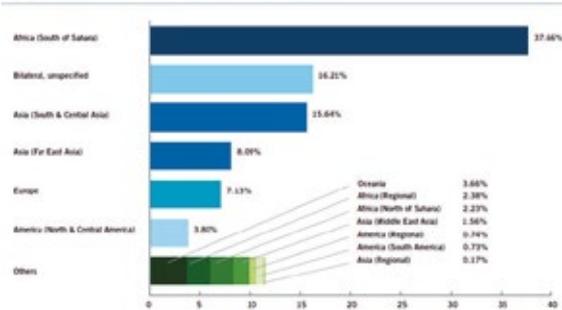
efficient and transparent tax systems in developing and transition countries. The International Tax Compact represents an intermediary, who brings together relevant regional and international stakeholders in the area of tax and development, including governments from developing countries and development partner countries, civil society organisations, academia and the private sector. The ITC pursues its mission through five central work lines, which are: the Secretariat of the Addis Tax Initiative (ATI), the Network of Tax Organisations (NTO), the DRM Knowledge Hub, the DRM Innovation Fund, and other forms of cooperation.



Under the objectives of the Addis Tax Initiative, the ATI development partners have committed to double their technical cooperation in the area of domestic revenue mobilisation until 2020, the ATI partner countries to step up domestic revenue mobilisation, and all ATI signatories to ensure policy coherence for development including in nearby policy areas until 2020.

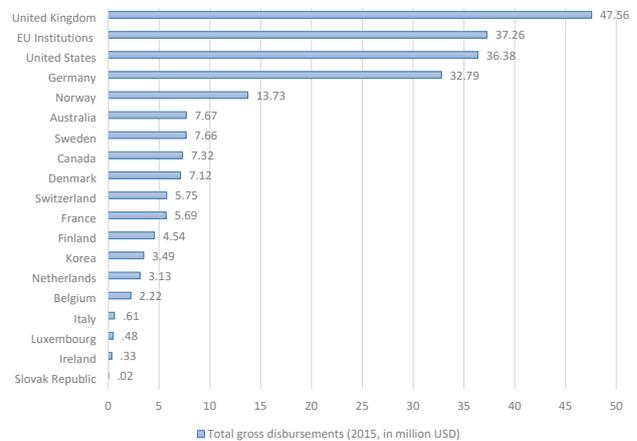
Comparing the support for domestic revenue mobilisation between global regions, partner countries in Africa, especially in Sub-Saharan Africa, are the primary destination for development assistance. In 2015, the amount of ODA-support in this area for African partner countries amounted to 94.57 million USD, which is equivalent to 42.27% to all gross disbursements worldwide. In that same year, partner countries in Asia benefitted of assistance worth 53.12 million USD (South, Central and Far-East Asia combined), followed by countries

Regional Distribution of ODA Support (% of Total Support)



in Europe (15.66 million USD), North and South America (11.79 million USD), and Oceania (8.19 million USD). The category of assistance labelled bilateral, unspecified, channelled to partner countries via indirect mechanisms, e.g. through multilateral mechanisms or funds, amounted to 36.38 million USD.

Top Development Partners: ODA-Support for DRM worldwide by total gross disbursements (2015, in million USD)



The five ATI development partners with the largest portfolio of projects related to domestic revenue mobilisation are the United Kingdom, the EU Institutions, the United States, Germany, and Norway, covering together 74.9% of the domestic revenue mobilisation assistance worldwide.

### DRM Support in IOTA Countries

In 2015, 17 of the IOTA member states have conducted activities and/or signalled involvement in projects to improve domestic revenue mobilisation, among them 14

Responsible for the monitoring of the three ATI commitments, the ITC presented the 2015 ATI Monitoring Report in June 2017. The progress on ATI Commitment I was measured using project data from the OECD DAC under DRM Code 15114. In 2015, the 20 ATI development partners provided disbursements for domestic revenue mobilisation at a value of 223.76 million USD and commitments for support to DRM amounted 237.96 million USD. To fulfil ATI Commitment I, ATI development partners will have to increase their gross disbursements to 447.52 million USD and their commitments to 475.92 million USD by 2020.

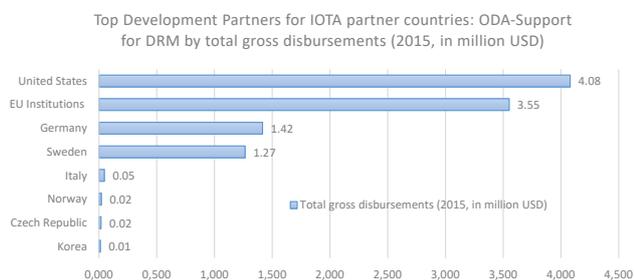
### DRM Support Worldwide

While many of the well-established stakeholders in development cooperation see domestic revenue mobilisation as a fundamental part to improve public financial management in developing countries, the volume of actual assistance in this area varies significantly between different regions and partner countries.

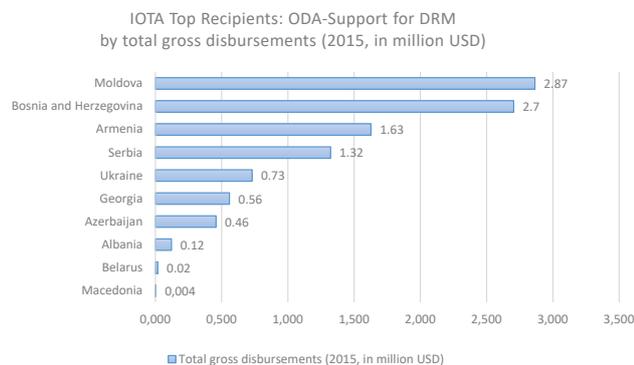


<sup>1</sup>Source: <https://stats.oecd.org/Index.aspx?DataSetCode=CRS1>

ATI development partners, Spain, the Czech Republic, and Hungary. These countries have spent together 131.69 million USD for domestic revenue mobilisation, an equivalent of 7.75 million USD on average, the individual contributions ranging from 47.6 million USD (United Kingdom) to 0.01 million USD (Hungary).



In 2015, IOTA partner countries received 10.4 million USD of technical assistance for domestic revenue mobilisation. The largest contribution came from the United States, raising 4.08 million USD of assistance for this particular purpose. Other large development partners were the EU Institutions (3.55 million USD), Germany (1.42 million USD) and Sweden (1.27 million USD). The countries of Italy, Norway, Korea, and the Czech Republic delivered assistance to a comparatively smaller degree, but the former three, being signatories to the Addis Tax Initiative, have committed to multiply their engagements until 2020.



Concerning IOTA partner countries, Eastern Europe and the Balkans are the two core regions for development assistance for domestic revenue mobilisation. Of the 10.4 million USD spent in this area, the first five IOTA partner countries, namely Moldova, Bosnia and Herzegovina, Armenia, Serbia, and Ukraine, received together 9.3 million USD, i.e. 89% of the assistance related to domestic revenue mobilisation in Europe.

Recognizing that domestic revenue mobilisation has become a focus area for numerous countries beyond the ATI group, the ITC has launched in 2017 under its Knowledge Hub workstream a DRM database (drm.taxcompact.net) that centralizes and provides qualitative and quantitative information on bilateral and multilateral projects in this area worldwide. Individual country profiles for both development partners and partner countries give access to detailed information on individual projects

and break down the data recorded under DRM code 15114 on different scales of measurement. In addition, a mapping of individual success stories, exemplary approaches, and existing bilateral partnerships in this area is planned.

## Network of Tax Organisations

The attention on domestic revenue mobilisation in the international development cooperation debate has been nurtured among policy makers but also among tax administrations worldwide. The strategies to improve domestic revenue mobilisation are planned at the political but implemented at the technical level. Recognizing that the role of well-functioning tax administrations is critical to achieve the designated political objectives, IOTA and seven other regional tax networks, i.e. ATAF, ATAIC, CATA, CIAT, COTA, CREDAF, WATAF, each of them the voice of tax administrations in their particular region, have signed in 2017 a letter of intent to form an overarching network of communication, cooperation and collaboration. Following its official launch, the Network of Tax Organisations (NTO) will complement the workstreams of the Addis Tax Initiative (ATI) on domestic revenue mobilisation from a technical perspective, pool available services, products and information relevant for tax administrations and take advantage of synergies to strengthen tax administration systems worldwide.

**For further information, please consult the ITC web presence:**

### ATI MONITORING REPORT 2015

[https://www.addistaxinitiative.net/documents/Addis-Tax-Initiative\\_Monitoring-Report\\_2015\\_EN.pdf](https://www.addistaxinitiative.net/documents/Addis-Tax-Initiative_Monitoring-Report_2015_EN.pdf)

### DRM DATABASE

<http://drm.taxcompact.net>

### INTERNATIONAL TAX COMPACT

[www.taxcompact.net](http://www.taxcompact.net)

### ADDIS TAX INITIATIVE

[www.addistaxinitiative.net](http://www.addistaxinitiative.net)

### NETWORK OF TAX ORGANISATION (NTO)

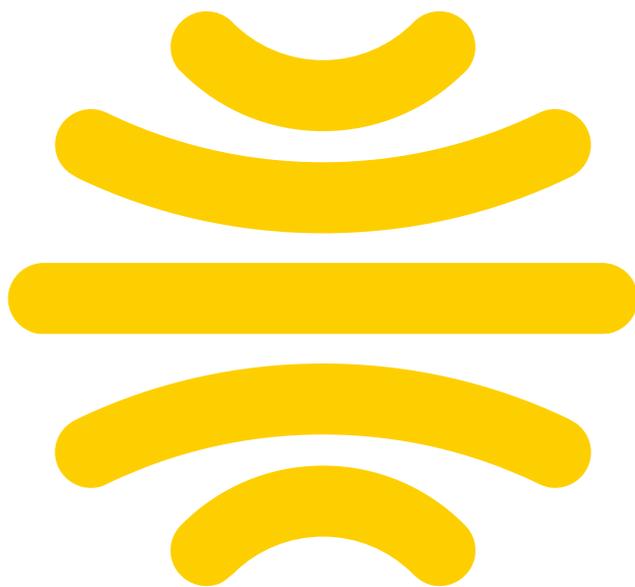
<https://www.taxcompact.net/tax-networks-cooperation>

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