

## REVIEW OF RECENT LITERATURE

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A selection of recently published papers is reviewed below. The aim is to bring together tax administration-related papers from the diverse range of outlets in which they are published. The review is necessarily selective, and the Journal welcomes suggestions for inclusion of papers in subsequent reviews.

### TAX EVASION

**Abraham, M., Lorek, K., Richter, F., & Wrede, M. (2017). Collusive tax evasion and social norms. *International Tax and Public Finance*, 24(2), 179-197.**

In this paper, the authors focus on collusive tax evasion, e.g. collusion between employer and employee on paying a part of income off the books. The hypothesis here is that social norms drive collusive, rather than independent, tax evasion. Employer and employee should collude if it is the socially accepted behaviour in the society. In a model where deviating from the social norm is costly, the authors show that taxpayers indeed coordinate on comparable declaration rates. The predictions of the model are tested in a laboratory experiment, where participants are exposed, in groups or alone, to strict or relaxed norms. The results demonstrate that under strict social norms, participants in groups of two cheated less than participants working alone. Norms did not affect the participants alone. The authors conclude that it is necessary to take prevalent tax compliance norms into account, before trying to fight tax evasion via setting, e.g. third-party reporting.

**Kundt, T.C., Misch, F. & Nerré, B. (2017) Re-assessing the merits of measuring tax evasion through business surveys: an application of the crosswise model. *International Tax and Public Finance*, 24(2), 112-133.**

The starting point of this article is that people are reluctant to reveal their own tax evasion in surveys. The authors try to tackle this issue by introducing a new questioning method: the crosswise model (CM). The CM allows us to estimate the prevalence of tax evasion more precisely, by “bundling” sensitive questions with neutral ones. However, it does not allow us to identify individuals who engage in tax evasion. The authors test this method while interviewing firm managers in Serbia. A CM treatment is compared to a conventional survey method. Underreported sales are 10% higher in the CM treatment. This new method improves truthful declarations of evasion, but has no effect on wage underreporting or social security contributions.

**Paetzold, J., & Winner, H. (2016). Taking the high road? Compliance with commuter tax allowances and the role of evasion spillovers. *Journal of Public Economics*, 143, 1-14.**

In this article, the authors study tax evasion through the commuter tax allowance in Austria. In the Austrian tax system, employees can deduct their travel-to-work expenses from their taxable income. These tax deductions are very rarely checked by the employer or the tax administration, leading to a (quasi-) self-report. Thanks to a new database, authors are able to compare the claimed and real travel expenses of each taxpayer for up to 10 years. The results

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show that 30% of all allowance claims are overstated (with a sharp increase when taxpayers reside close to a threshold giving them the right to a higher amount). They also found spillovers of such behaviour: an individual's evasion behaviour strongly correlates with the evasion behaviour of his or her co-workers. This causality is substantiated in another analysis: job changers moving to firms with numerous over claimers tend to over claim. This phenomenon is asymmetric: job changers moving from companies with numerous employees who were over claiming to companies with fewer over claimers kept on evading as much as they did in their previous job.

## COMPLIANCE BEHAVIOUR

**McKee, M., Siladke, C. A., & Vossler, C. A. Behavioral dynamics of tax compliance when taxpayer assistance services are available. *International Tax and Public Finance*. <https://doi.org/10.1007/s10797-017-9466-z>**

This paper is an experimental analysis that addresses the effect of three issues: firstly, the provision of a liability information service by the tax administration; secondly, the taxpayers' incentives to use this service; and thirdly, the "bomb-crater" effect in this context ("bomb-crater" means that some previously audited taxpayers believe that they cannot be audited again). The lab experiment (a classical Tax Evasion Game) has five different treatments varying the presence of a liability information service, its quality and the cost of obtaining this information. The results show that, firstly, when this service is provided, evasion is reduced. However, the quality of the service does not matter. Secondly, taxpayers' propensity to use this service does not increase with its quality, but decreases with its cost. Thirdly, participants demonstrating "bomb-crater" behaviour are less prone to use this service.

**Choi, S. (2017). Does past experience affect future behavior? Evidence from estate tax avoidance behaviour. *International Tax and Public Finance*, 24, 416-31.**

The paper presents an empirical study of the estate tax avoidance strategies of individuals in the United States who have received inheritance from their parents in the past. In the U.S., only estates exceeding a certain threshold are subject to tax, and this can be avoided using inter-vivos transfers. The author finds that those individuals in the sample who have paid estate tax on the inheritance from their parents in the past were more likely to make inter-vivos transfers, such as gifts of cash, to their own children. The effect, estimated using regression discontinuity design, is significant at the extensive margin (the probability of inter-vivos transfers), but not on the intensive margin (the amount of transfers).

**Huang, J., & Rios, J. (2016). Optimal tax mix with income tax non-compliance. *Journal of Public Economics*, 44, 52-63.**

The authors develop an optimal mix of a non-linear income tax, that has equality-enhancing redistributive properties but is vulnerable to evasion, and a linear consumption tax, which is non-evadable but is typically regressive. This is motivated by the reliance of many developing countries, with weak enforcement institutions, on consumption tax for raising revenue, which exacerbates inequality and hits poorer households the hardest. For an empirical application, to demonstrate the relevance of the results, the authors calibrate the model to the Russian economy and show that, as the redistributive motive of the social planner becomes stronger, the non-linear income tax becomes more progressive, but the linear consumption tax rate does not increase.

## CORPORATE TAXES

**Gribnau, H. J. L. M. & Jallai, A.-G. (2017) Good Governance: A Matter of Moral Responsibility and Transparency. *Nordic Tax Journal*, 1, 70-88.**

The authors offer an ethical reflection on the current debate in relation to allegations that multinationals are not paying their fair share of taxes. In that debate, aggressive tax planning is not discussed in terms of a legal/illegal dichotomy, but is discussed in moral terms. To contribute to our understanding of this shift, the authors offer an overview of theoretical literature on morality, before offering normative observations about the role of corporate social responsibility and inviting further research into this area.

**Brooks, C., Godfrey, C., Hillenbrand, C., & Money, K. (2016). Do investors care about corporate taxes? *Journal of Corporate Finance*, 38, 218-48.**

The paper investigates the link between the corporate taxes paid by UK businesses and their financial performance. The underlying idea is that companies seeking to reduce their tax bill, albeit within what is allowed by legislation, have been receiving bad publicity which may have turned off the investors. Conversely, companies paying their 'fair share of tax' could be viewed by investors as more socially responsible and so more attractive. An empirical investigation has shown no correlation between stock returns and various measures of tax paid by companies. Given the lack of evidence of the markets punishing alleged tax avoidance behaviour, the authors conclude that it therefore falls on the government to change the rules if the other stakeholders' perception is that the companies pay an insufficient amount of corporate tax.

**Berg, C. & Davidson, S. (2017) "Stop this greed": The Tax-Avoidance Political Campaign in the OECD and Australia. *Econ Journal Watch*, 14(1), 77-102.**

This paper is a cogent reminder that politics pervades tax policy choices. The authors trace the arguments from the 1981 Gordon Report forward, via the harmful tax competition work to the BEPS project, before focussing on the Australian position in relation to the public shaming of multinationals and calling into question estimates of profit-shifting. They present the government discourse about corporate tax avoidance and conclude that, in their analysis, governments have chosen to exploit the confusion that exists in relation to corporate taxation in the international arena.

## TAX COMPLEXITY

**Lawsky, S. B. (2017). Formalizing the Code. *70 Tax Law Review* 377 (2017); *Northwestern Public Law Research Paper No. 17-14*.**

In this paper, the author presents a case for formalising the US tax code, which is notoriously complex, using the concept of 'definitional scope', which arises when the code uses a term but the structure of the code does not make clear to what the term refers. The study presented provides an extended view of the notion of ambiguity, examining structural ambiguity rather than semantic ambiguity which is the usual object of study. Unintentional ambiguity can increase compliance costs, as well as administrative costs, for the tax authority. The author suggests drafting changes as a means of resolving ambiguities, particularly the use of logical symbols by drafters as a mechanism for checking the structure of the language. This process of formalisation lays bare careless or unintentional ambiguities.

## DISPUTE RESOLUTION

**Jone, M. (2017). What can the United Kingdom's tax dispute resolution system learn from Australia? An evaluation and recommendations from a dispute systems design perspective. *Australian Tax Forum*, 32(1), 59-94.**

Both Australia and the UK have recently adopted in-house, alternative dispute resolution programmes. In this paper, the author draws on dispute system design principles devised by Ury, Brett and Goldberg in 1988 to evaluate the two systems. While the UK system is found to follow many of the best practice principles derived from this literature, it also contains some deficiencies, most notably the absence of a policy champion, to ensure buy-in from the wider organisation at a cultural level. The dispute resolution process does not appear to be prominent in HMRC's modernisation programme and training/awareness appears to be lacking in comparison with the Australian Taxation Office.

**Govind, S and Turcan, L. (2017). The Changing Contours of Dispute Resolution in the International Tax World: Comparing the OECD Multilateral Instrument and the Proposed EU Arbitration Directive. *Bulletin for International Taxation*, 71(3/4).**

In this paper, the authors note the increased importance of international dispute resolution mechanisms as their effectiveness links directly with both the protection of the revenue base and the need for continued attraction of foreign investment. The authors carefully analyse the arbitration option in the Multilateral Instrument and compare it with the proposed EU arbitration directive, highlighting procedural differences. They conclude that, while both are commendable, bolder, global solutions are required, and call on the UN Tax Committee to move towards more ambitious solutions.

## TAX ADMINISTRATION ANALYTICS

**Pijnenburg, M., Kowalczyk, W., & van der Hel-van Dijk. (2017). A Roadmap for Analytics in Taxpayer Supervision. *The Electronic Journal of e-Government*, 15(1), 19-32. Available online at [www.ejeg.com](http://www.ejeg.com).**

The paper presents an investigation of how analytics, or an intelligent use of data, can contribute to the Compliance Risk Management (CRM) approach of a tax administration. The CRM approach combines the traditionally used deterrence (detection and punishment) strategies with the more recently introduced 'advice and persuasion' strategies that take into account behavioural responses of taxpayers to regulations and put emphasis on the improvement of service to reduce unintended errors. The authors show, in a useful table, how specific analytics techniques can be matched in the best way to various activities of taxpayer supervision. For example, cluster analysis can help improve the segmentation of the taxpayer population and the real-time checking of tax returns, whereas time series analysis is a better match for tax gap estimation and trend analysis. As an illustration, the authors present a case study of the selection of VAT refunds using analytics by the Netherlands Tax and Customs Administration.

**Björklund Larsen, L. (2017). Mind the (tax) gap: an ethnography of a number. *Journal of Cultural Economy*, 10(5), 419-433. DOI: 10.1080/17530350.2017.1323228**

This thought-provoking paper examines the tax gap as represented by the Swedish Tax Agency and, in doing so, reveals the challenges associated with its calculation, representation and interpretation. The author observes the appropriation of the tax gap number in Sweden by media and lobby groups to pursue social and political agendas. The number is also used for (inappropriate) international comparisons and to hold the tax agency to account. This paper is interesting, not so much because it provides information about the Swedish tax gap, but because it acts as a cogent reminder that these numbers are fragile ('guesstimates'), they are misused, caveats are forgotten, and they are used by different actors for different purposes. The author suggests that we should perhaps scrap the tax gap number and turn our attention to what the tax gap contains instead.

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