REVIEW OF RECENT LITERATURE

Various Contributors[1]

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 POLICY EXPERIMENTS

Abramowicz, M. (2019). Tax Experimentation. *Florida Law Review, 71*(1), 65-122.

In this highly stimulating and thought-provoking article, the author discusses the design of, and issues associated with, randomised control trials for tax policy which are akin to those commonly used for medical treatments. The author initially examines revenue-neutral experiments, whereby changes in the treatment group create benefits for some taxpayers but do not change the total level of tax paid when compared to a control group. The author discusses a variety of key features for experimentation, including methods of evaluation, along with a number of potential pitfalls of tax experiments, notably the inability to disguise the treatment group that an individual belongs to, which may influence the behaviour of subjects. The paper presents a number of different policies that could be investigated using revenue-neutral tax experiments before discussing how the findings could be scaled up for implementation. The final section of the paper discusses how tax experimentation might be considered for larger, non-revenue-neutral programmes, particularly in situations where treatment assignments result in extensive horizontal inequalities.

INDIVIDUAL COMPLIANCE

Bornman, M., & Wessels, J. (2019) The tax compliance decision of the individual in business in the sharing economy. *eJournal of Tax Research, 16*(3), 425-439.

In this article, the authors discuss the compliance implications for tax administrations arising from technology platforms that form part of the sharing economy, where individuals utilise assets, resources or skills they already have in order to earn income. This relates, in particular, to home-sharing through platforms such as Airbnb. The authors present a review of the academic literature in relation to home-sharing based on an extended framework of compliance by small business owners. The framework has the core elements of the perceived opportunity for non-compliance, the extent of tax literacy with regard to an individual's obligations, the homeowner's decision-making processes, and the characteristics of the person. The paper concludes that the framework may offer a conceptual tool for profiling the compliance behaviour of individuals operating in the sharing economy.

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Gűzel, S. A., Özer G., & Özcan, M. (2019) The effect of the variables of tax justice perception and trust in government on tax compliance: The case of Turkey. *Journal of Behavioral and Experimental Economics, 78***, 80-86.**

In this paper, the authors report on a survey conducted with a sample of 392 accounting professionals in Turkey in order to examine the effects of trust in government and the perception of tax justice on tax compliance. An individual's level of trust in the government is found to correlate positively with both their attitude toward tax compliance and their perception of tax justice. The authors demonstrate the presence of a significant indirect effect between trust in government and tax compliance, mediated by the perception of the fairness of the tax system (tax justice). The authors note that their result runs reverse to that reported in other studies, where the perception of tax justice was found to affect levels of trust in government. The authors argue that this could be attributable to cultural differences between the societies being examined. One interesting observation within the research is that the survey questions used to gauge the respondents' attitudes toward tax compliance appear to be personal or related to a specific business, rather than focussed on the actual professional activities of the accountants, which may have given more insight into the important role that accountants play in the tax decisions of other actors within the economy.

Guerra, A., & Harrington, B. (2018). Attitude-behavior consistency in tax compliance: A cross-national comparison. *Journal of Economic Behavior and Organization, 156(C)***, 184-205.**

This paper compares the results of tax compliance games conducted in two countries which had previously been reported as having different levels of tax morale, with surveys showing a higher degree of tax morale in Denmark than in Italy. Student subjects in the two countries undertook a laboratory tax compliance game with a real effort task to generate earnings that had to be reported over nine rounds with treatment variations of the tax rate, the probability of an audit, and the extent of redistribution of the taxes raised. The actions of other experimental subjects were elicited in each round, with no feedback on outcomes until the end of the experiment. The authors report a lower degree of evasion among Italian students than among Danish ones in contrast to the declared degree of tax morale, and conclude that self-reported tax morale does not predict tax compliance behaviour relative to other factors. The authors conclude that this finding is in line with numerous results from social scientific research on attitude-behaviour consistency, in contrast to a central theme in the taxation research literature that posits that high levels of tax morale correlate to high levels of tax compliance.

DeBacker, J., Heim, B.T., Tran A., & Yuskavage, A. (2018). Once Bitten, Twice Shy? The Lasting Impact of Enforcement on Tax Compliance. *The Journal of Law and Economics, 61***(1), 1-35.**

The paper investigates the impact of randomised audits on the future compliance behaviour of taxpayers, using the U.S. as a case study and employing a difference-in-difference approach. By exploiting data from both the universe of tax filers and the National Research Program (NRP) dataset, enriched with further information on the audits provided by the Audit Information Management System (AIMS), the authors find a pro-deterrence effect of audits substantially driven by self-reported income. Specifically, according to this study, audits increase tax payments, on average, by about 2.9% in following years, but the largest effect in percentage terms is on self-reported income (13%, 10 times higher than the effect on wage income). Thus, while third-party reporting and tax withholding makes it very difficult for wage

earners to underreport income, employees have considerable leeway when it comes to claiming expenses that can be deducted from gross earnings to reduce net taxable income. The persistency analysis presented in the paper shows that this effect is short-lived, being very strong in the first years after the audit, but rapidly turning downward toward the preaudit levels in following years. With regard to the drivers of the specific deterrence effect, the authors find that both volatility and sophistication matter. Indeed, business income also differs from labour income in terms of its volatility, which allows taxpayers to change reported income from year to year more easily. The result is that the effects of audit are not as persistent for business income as for labour income. Sophisticated taxpayers, proxied by the ones with more experience in filing tax returns, are also found to be less affected by tax enforcement.

Slemrod, J. (in press). Tax compliance and enforcement. *Journal of Economic Literature*.

The paper reviews recent economic research in tax administration, compliance and enforcement. After presenting the conceptual framework which forms the basis for the economics of tax evasion, the author focusses on the most recent empirical contributions provided by both published studies and working papers. The paper first discusses the methodologies and data which have facilitated these contributions. In this light, the increased access that researchers have to extensive administrative data and the use of randomised controlled trials, as well as other credible identification strategies (e.g. Regression Discontinuity Research Designs) employed when working outside of the randomised paradigm, have played crucial roles in helping this relatively young literature to grow. A second contribution of the paper is to critically summarise what has been learned, firstly about the magnitude and nature of evasion. Thirdly, the author discusses the most prominent new development – randomised controlled trials, mostly delivered via letters from the tax authority – and reviews recent research about the impact of the principal enforcement tax policy instruments, audits, information reporting and remittance regimes. Finally, several underexplored issues worthy of more research attention (e.g. the role of tax professionals, firms, networks and penalties, and the distributional impact of evasion and enforcement) are discussed. The paper closes by outlining a normative framework for optimal tax enforcement based on the behavioural response elasticities now being credibly estimated that allows us to assess whether a given enforcement intervention is worth doing.

TAX ADMINISTRATION

Andini, M., Ciani, E., de Blasio, G., D'Ignazio, A., & Salvestrini, V. (2018). Targeting with machine learning: An application to a tax rebate program in Italy. *Journal of Economic Behavior and Organisation, 156*, 86-102.

This paper discusses how machine learning methods for targeting a tax rebate, enacted in Italy in 2014 to increase household consumption, may be used to increase the effectiveness of the policy, which cost an estimated 7 billion euros. The authors use a survey of household income and wealth in order to examine the impact of a bonus of 80 euros a month, which is paid automatically to employees within a low salary range, on food consumption at home, and determine that the impact is greatest on households which report having the most difficulty in making ends meet. The authors present a number of different machine learning methods designed to identify households as being consumption-constrained. There is a specific focus on the decision tree algorithm as a mechanism that produces solutions which are easy to describe and can, therefore, be implemented as policy more pragmatically, as well as a comparison with other methods. The generated policy identifies target consumption-

constrained households largely based on their income and wealth. A test of the impact of food consumption by households that were paid the bonus shows that those selected by the algorithm were found to have increased consumption in line with the observed level, whereas those excluded were not found to have altered their consumption. The authors demonstrate that improvements could be made by excluding households that were paid the bonus but that were not consumption-constrained, and reallocating the money to other households identified as consumption-constrained.

de Clerq, B. (2019). The 'Uberisation' of e-Filing in South Africa. *eJournal of Tax Research, 16*(3), 440-473.

The paper presents an interesting analysis of compliance challenges faced by taxpayers in South Africa through an analysis of the queries posted to a new online tax preparation software tool (TaxTim). A thematic coding of the queries allows the author to identify the key problems taxpayers face in substantive (the 'what' of the taxpayers' obligations) and procedural (the 'how') dimensions. The analysis identifies and quantifies a number of the key themes. The author argues that, in light of the co-adjoined nature of many queries, which focus on both the 'what' and the 'how' of the tax system, tax simplification should be approached in a 'holistic' manner, addressing both substantive and procedural elements concurrently. Furthermore, the paper presents specific examples of queries that highlight where taxpayer education may be lacking, identifying potential areas to target.

Garz, M., & Pagels, V. (2018). Cautionary tales: Celebrities, the news media, and participation in tax amnesties. *Journal of Economic Behavior & Organization, 155*, 288-300.

The article investigates the impact of coverage of celebrities' tax evasion on other taxpayers' behaviours. The analysis is based on information compiled between 2010 and 2016 in Germany. All of celebrities in the study had earned 'celebrity status' before their tax evasion was investigated. The evasion cases were heard publicly by the German court and reported on by national and local newspapers. According to the author's analysis, the amount of self-declared tax evasion has a strong relationship with the news coverage. The percentage of tax evaders who voluntarily disclosed their illegal tax arrangements and participated in a tax amnesty scheme increased by 22.5 per cent after the celebrities' tax evasion was reported. The data on participation in the tax amnesty scheme was provided by Germany's Federal Ministry of Finance. The author notes that these findings might limit the extent of capital gains tax evasion and the results cannot be generalised to other types of tax.

DIGITALISATION

Leighton-Daly, M. (2018). Identity theft and tax crime: Has technology made it easier to defraud the revenue? *eJournal of Tax Research, 16*(3), 578-593.

This paper discusses the notion that the increased use of modern technology has created an environment in which fraudsters may be finding it easier to defraud the Australian Tax Office (ATO). The author focusses on a criminal investigation and prosecution concerning mortgage fraud, which was based on, among other factors, false income tax returns. The author uses this example to create financial crime typologies connected to both the revenue and taxpayer information, which are then used to consider how effectively current legislation can cope with similar crime. The paper begins by introducing the concept of financial crime and discussing

the 'fraud triangle', and then gives in-depth consideration to the main facts of the case study referred to throughout the article. The latter section of the article focusses on financial crime prevention, emphasising that governmental organisations are committed to preventing and controlling fraud, and that this may also be improved if such agencies and action are appropriately resourced.

Warren, N. (2018). Estimating tax gap is everything to an informed response to the digital era. *eJournal of Tax Research, 16*(3), 536-577.

In this paper, the author discusses how tax gap analysis can be used to help bring transparency and understanding to some of the more complex issues that may arise from the digital era, and how the tax gap can be used as a tool to help make informed changes to tax policy, administration and legislation. The author believes that the traditional, technical use of the tax gap may be limiting what can be learned about the performance of a tax system when an economy becomes subject to change. The author first begins by establishing what the tax gap is (accepting that it is the difference between the tax theoretically due and that actually collected) and broadly classifying it into compliance and policy gaps, before examining, in detail, the various methodological issues that may arise when calculating the tax gap. This is followed by a discussion around the question of 'the reliability and meaningfulness of tax voluntary paid', and how much of this revenue can be assured. The author then looks at the various dependents of the tax gap, covering the impact of tax rate and base, as well as how each of the different stakeholders in the tax gap may have different interests and uses for that data, and the conflicts that this can create. Finally, the author highlights the way in which different stakeholders can use the tax gap in order to practice informed decision-making in the digital era, focussing on legislators, in particular. The paper concludes by suggesting that whilst tax gap estimation is still in its infancy, it highlights how tax is connected to every aspect of economic and social life.

TRANSPARENCY

Lugarić, T. R., & Klemenčić, I. (2018). Tax Secrecy and its Limitations: Is There a Balance? *Central European Public Administration Review, 16*(1), 99-118.

The article analyses three different degrees of tax secrecy and their limitations (tax transparency). The author uses the comparative method to identify provisions of laws in relation to tax secrecy and their functions in five countries. Germany treats its taxpayer information as an absolute secret. The United States, France and Croatia also treat such information as a private, but with some exceptions. In contrast, Swedish law allows members of the public to obtain tax information from the authorities. The article further discusses the limitations of the secrecy rule in three types of circumstances when tax transparency might be required: when it is in the public interest; when it could improve voluntary compliance; and for the purpose of exchanging information in order to combat tax evasion. The author points out that the role of tax secrecy might vary depending on the particular goal of each country. Tax secrecy could be used as an instrument to create a synergistic climate between revenue authorities and taxpayers, and could help to increase tax compliance because taxpayers trust that the authorities will keep their information confidential. On the other hand, tax transparency, such as information exchange, could facilitate tax authorities to implement efficient procedures and help them to decrease tax evasion. The author concludes that it is impossible to balance tax secrecy and its limitations perfectly. The solution largely depends on the specific aims of a particular country.

Mazzoni, G. (2018). (Re)defining the Balance between Tax Transparency and Tax Privacy in Big Data Analytics. *Bulletin for International Taxation, 72*(11), 656-663.

The article discusses the conflict between using Big Data for tax efficiency and effectiveness, and the concept of data protection. In this article, Big Data refers to the processes of collection, analysis and usage. A massive amount of data will be gathered from several sources and then analysed by a computer algorithm. The results of the program can be prescriptive and descriptive. From a tax perspective, the author views that the use of Big Data does not align with the key principle of data protection, i.e. purpose limitation and data minimisation. However, it is not necessarily true to conclude that Big Data would eliminate data privacy; whether this was the case or not would depend on the extent to which data privacy applied in particular circumstances. The right of privacy might not always have the same scope when applied to tax matters as when applied to non-tax matters. The author concludes that Big Data is favourable but should be used in an ethical way. By using Big Data, tax authorities could identify potential tax evaders before they have been audited; however, they should be aware that not all taxpayers are potential tax evaders.

Ring, D. M. (2017). Corporate Migrations and Tax Transparency and Disclosure. *Saint Louis University Law Journal, 62*(1), 175-192.

Throughout this contemporary paper, the author argues that the modern focus on tax transparency and disclosure has been primarily caused by the ease with which corporations have been able to facilitate cross-border migration. The author begins by discussing the impact of the 1970s 'deregulation' and the benefits of technological advancements, indicating the roles they have played in the increase of cross-border mobility. A review of the current trends in both transparency and disclosure, discussing the influence of country-by-country reporting and additional regulations that have led to today's focus on combatting corporate tax avoidance behaviour, follows. Finally, the author pulls together the ideas presented so far, exploring the connections and implications of the increase in cross-border flexibility, and transparency and disclosure. The author uses evidence presented throughout the paper to further explain the rationale for the link, and also recognises that gaining a clear picture of the global operations of multinational enterprises (MNEs) is a continuing and complex issue for national tax administrations.

DISPUTE RESOLUTION

Dimitropoulou, C., Govind, S., & Turcan, L. (2018). Applying Modern, Disruptive Technologies to Improve the Effectiveness of Tax Treaty Dispute Resolution. *Intertax, 46*(11), 856-872.

This article seeks 'to encourage the various policy organizations working on making tax treaty dispute resolution more effective to consider the potential of disruptive technologies in their work'. It argues that the emergence of new and disruptive technologies, such as blockchain, artificial intelligence, shared-data platforms and cloud-based solutions, can complement the Mutual Agreement Procedure (MAP) and international tax arbitration by making them more effective and efficient, reducing costs and establishing trust between tax administrators and taxpayers.

Jone, M. (2018). The Internal Revenue Service's Future State initiative and its impact on the tax dispute resolution system of the United States: a dispute systems design perspective. *eJournal of Tax Research, 16*(3), 824-851.

This article provides a Dispute System Design (DSD) evaluation of the tax dispute resolution system in the US in the context of the Internal Revenue Service (IRS)'s Future State initiative (FSI), which aims to improve taxpayer service, enforcement and operations through the use of technology. It evaluates the prevailing US tax dispute resolution system, and considers the impact of various aspects of the FSI and the potential implications on voluntary compliance. This includes the reduction in the availability of face-to-face interactions between IRS employees and taxpayers in resolving tax disputes as a consequence of the introduction of online and digital alternatives. The article also discusses possible lessons for tax administrations undertaking similar modernisation or digitalisation programmes in other jurisdictions.

Oosterhoff, D. (2018). New Rules to Resolve Tax Disputes. *International Transfer Pricing Journal, 1*, 11-19.

In October 2016, the European Commission proposed the 'Council Directive on Double Taxation Dispute Resolution Mechanisms in the European Union' and, in October 2017, the Economic and Financial Affairs Council (ECOFIN) adopted new rules for resolving tax disputes, which seek to give taxpayers involved in double taxation disputes more certainty. This article discusses both the new rules and the proposed directive. It concludes that the potential benefits include: an enforceable obligation on EU Member States to resolve all disputes that originate in tax treaties and affect the tax positions of businesses and citizens; a clearly defined and enforceable timeline with a standard period of 18 months; an extension to all tax disputes that derive from tax treaties and other international agreements; an obligation to notify taxpayers and publish abstracts of the arbitration decisions; and a recourse for taxpayers to national courts to unblock procedures. It also concludes that the proposed enforceable obligation may be avoided in practice by the individual member states' interpretations of the exceptions in cases of wilful default and gross negligence.

Pauwelyn, J. (2018). Baseball Arbitration to Resolve International Law Disputes: Hit or Miss? *Florida Tax Review, 22*(1), 40-76.

This paper assesses a new approach to resolving international law disputes which seeks to preserve a crucial role for neutral, third-party adjudication while putting more responsibility on states to work out positive solutions themselves. Baseball arbitration, or final offer arbitration (FOA), is where each party offers an answer to the dispute (their 'final offer') and the adjudicator's task is strictly limited to picking one answer ('hit or miss'). The paper argues that FOA can enhance efficiency and accuracy, and facilitate settlement and long-term cooperation, while putting states, rather than tribunals, in the driving seat. It concludes that FOA can unlock state consent to arbitration where traditionally it is lacking or heavily contested.

Perrou, K. (2018). The Ombudsman and the Process of Resolution of International Tax Disputes – Protecting the "Invisible Party" to the MAP. *World Tax Journal, 1*, 99-129.

This article explores the possible involvement of tax specialist ombudsmen in the Mutual Agreement Procedure (MAP). It argues that, with the MAP still facing criticism for a lack of

efficiency and transparency, and international tax arbitration only being adopted by a handful of states, alternative solutions should be considered in order to enhance the MAP, while adequately protecting taxpayer rights. It argues that the involvement of the ombudsman in the MAP could prove beneficial, as it combines the use of non-adversarial dispute resolution methods with the power to monitor the behaviour of the tax authorities and respect taxpayer rights during dispute resolution procedures.

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