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ABOUT THE JOURNAL

The Journal of Tax Administration (JOTA) is a peer-reviewed, open access journal concerned with all aspects of tax administration. Initiated in 2014, it is a joint venture between the University of Exeter and the Chartered Institute of Taxation (CIOT).

JOTA provides an interdisciplinary forum for research on all aspects of tax administration. Research in this area is currently widely dispersed across a range of outlets, making it difficult to keep abreast of. Tax administration can also be approached from a variety of perspectives including, but not limited to, accounting, economics, psychology, sociology, and law. JOTA seeks to bring together these disparate perspectives within a single source to engender more nuanced debate about this significant aspect of socio-economic relations. Submissions are welcome from both researchers and practitioners on tax compliance, tax authority organisation and functioning, comparative tax administration and global developments.

The editorial team welcomes a wide variety of methodological approaches, including analytical modelling, archival, experimental, survey, qualitative, and descriptive approaches. Submitted papers are subjected to a rigorous blind peer review process.

SUBMISSION OF PAPERS

In preparing papers for submission to the journal, authors are requested to bear in mind the diverse readership, which includes academics from a wide range of disciplinary backgrounds, tax policymakers and administrators, and tax practitioners. Technical and methodological discussion should be tailored accordingly and lengthy mathematical derivations, if any, should be located in appendices.

MESSAGE FROM THE CHARTERED INSITUTE OF TAXATION

The Chartered Institute of Taxation is an education charity with a remit to advance public education in, and the promotion of, the study of the administration and practice of taxation. Although we are best known for the professional examinations for our members, we have also supported the academic study of taxation for many years and are pleased to widen that support with our involvement with this journal.

WEBSITE

The Journal of Tax Administration website can be found here: www.jota.website

SOCIAL MEDIA

We also have a Twitter account: <https://twitter.com/jotajournal>

EDITORIAL NOTE

We are pleased to welcome Dr. Stephen Daly as Managing Editor (Law) of JOTA. Dr. Daly is a member of the Tax Law Reform Committee of the Institute for Fiscal Studies, a member of the editorial boards of the *British Tax Review* (book review editor), co-convenor of the Tax Law stream of the Society for Legal Scholars and a member of HMRC's Guidance Strategy Forum. His doctorate thesis on the rule of law implications of HMRC advice, completed at the University of Oxford, was published in 2020 by Hart Publishing as *HMRC Advice and the Public*. Dr. Daly is currently a Senior Lecturer in Law at King's College London, having previously taught at Birmingham and Oxford.

This issue presents a set of research articles and commentaries, a roundtable discussion, and a book review covering issues in tax administration in a variety of disciplines and across a wide range of countries, both geographically and in terms of political economy.

The paper by Cletus Agyenim-Boateng and Sinan Iliyas is a qualitative study of the determinants of tax officers' **demands for disclosures** from taxpayers in a developing country and draws an analogy with the stop and search process utilised by police. Using the data collected in Ghana from interviews and from public documents, the authors identify several cues leading to the decision to demand a disclosure, such as third-party information, informant reporting, and the economic and political status of a taxpayer. They also find that the use of these cues by tax officers can be discriminatory.

The paper by Evgeny Guglyuvatyy uses a comparative analysis of the **tax dispute resolution** processes in Russia and Singapore to identify the desired qualities of a just and efficient administrative procedure. Using these criteria, the author assesses the existing procedures in these two countries and formulates a set of general recommendations with the aim of improving taxpayers' access to procedural justice.

The paper by Grigorios Lazos, Michail Pazarskis, Alkiviadis Karagiorgos, and Andreas Koutoupis focusses on the **cost of tax compliance** for businesses. Using questionnaire data collected from a sample of businesses in Greece, the authors have conducted a quantitative analysis of the cost of compliance and its determinants. They found that tax system complexity and the availability of an electronic tax filing system are the most important factors to affect compliance costs.

Jan Smolarski, Jose Vega, Neil Wilner, and Weifang Yang investigate the effect of changes in tax policies to tackle **tax avoidance** on the decisions of hedge fund investors. Specifically, the authors study the hedge fund flows of offshore hedge funds in six tax haven countries (the Bahamas, the British Virgin Islands, the Cayman Islands, Guernsey, Bermuda, and Luxembourg) following the introduction of Tax Information Exchange Agreements. The main finding is that, although there is evidence of a change in the fund flows after the policy change, this policy may not be particularly effective in raising tax revenue, as the investors move their funds to other jurisdictions.

In this issue of JOTA, we also present two commentaries and a transcript of a roundtable discussion from the 8th Annual Conference of the Tax Administration Research Centre (TARC), which took place in 2020. In addition, we include a further commentary and a book review.

The first of the commentaries presented at the 2020 TARC Conference is by Kristian Agung Prasetyo of the Ministry of Finance of Indonesia. It starts from the observation in the literature that voluntary compliance is stronger among taxpayers who perceive tax officers as being socially close to them. The research described in the paper focusses on the determinants of the **social distance between taxpayers and tax authorities** based on a survey of small business owners carried out by the Indonesian tax office.

The second commentary from the 2020 TARC Conference is by Najibullah Nor Isak and Abdinasir Abdullahi Mohamud of the Federal Ministry of Finance of Somalia. It analyses **taxation of informal sector** in Somalia's capital city, Mogadishu. The authors use the revenue department's administrative data, together with data collected from interviews with experts and business owners, to formulate a set of recommendations for the federal and local revenue authorities with the aim of improving administrative and enforcement measures in respect of tax collection.

Tax revenue collection is also the focus of Simbarashe Hamudi's commentary. The author presents a qualitative case study of Zimbabwe, employing data collected using questionnaires and in-depth interviews, in order to identify ways in which **tax collection efficiency** can be boosted. Among the author's recommendations for tax authorities, there are arguments for partnering with the telecommunications industry in order to raise taxpayers' awareness of, and educate them about, tax matters and outsourcing certain elements of tax filing support (such as the collection of tax forms and payments) to the private sector.

The topic of the roundtable discussion at the 8th Annual TARC Conference was the gender and tax dimensions of the COVID-19 pandemic. The discussion was organised and chaired by a TARC Research Fellow, Lotta Björklund Larsen (Sweden and the United Kingdom; economic anthropology), with the participants from several countries and academic disciplines: Judith Freeman (United Kingdom; law), Jorge Atria Curi (Chile; sociology), Emer Mulligan (Ireland; taxation and finance), Mukulika Banerjee (United Kingdom and India; anthropology), Birthe Larsen (Denmark; economics), and Neil Buchanan (United States, law and economics).

Finally, the review of the excellent monograph *Tax Justice and Tax Law: Understanding Unfairness in Tax System*, edited by Dominic de Cogan and Peter Harris, focusses on the parts of its content that are most relevant for research and practice in tax administration.

Nigar Hashimzade, Managing Editor

UNDERSTANDING THE DEMAND FOR TAX DISCLOSURES: A SOCIOLOGICAL PERSPECTIVE

Cletus Agyenim-Boateng¹, Sinan Iliyas²

Abstract

The purpose of this study is to understand how tax officers become suspicious and decide to demand disclosures from taxpayers in a developing country, using the context of Ghana. We draw on the concept of police stop and search to uncover some of the cues that inform tax officers' suspicions and decisions to demand tax disclosures from taxpayers. We used an interpretive qualitative methodology. Data was collected through interviews and publicly available documents. Braun et al.'s (2018) thematic analysis was employed in order to analyse the data. The study's findings show that *risk profiling or assessment, third-party information, informant reporting, awareness of known tax offenders, incongruent tax returns*, and an understanding of *the economic and political status of taxpayers* prompt tax officers to form suspicions and decide to demand tax disclosures. We also observe that the use of these cues can be discriminatory. This study argues that these unfair practices can make taxpayers uncooperative and cause them to lose trust in the tax administration. It contributes to our understanding of social justice and state power in tax revenue administration. It is also original, as no other study seems to have employed the theoretical concept of stop and search in order to understand the demand for tax disclosures in the context of a developing economy.

Keywords: Stop and Search, Demand for Tax Disclosures, Stereotypical Perception and Symbolic Assailants, Risk Profiling.

1. INTRODUCTION

Tax is a major source of finance for most governments in the world and makes a significant contribution to the funding of public goods, services, and infrastructure (Otusanya, 2011; Sikka & Hampton, 2005). Despite this, governments struggle to raise adequate tax revenue to support their expenditure, particularly in developing countries (International Monetary Fund [IMF], 2018; Pomeranz, 2015; Sikka & Hampton, 2005). According to the IMF (2018), the tax to gross domestic product ratio of countries in sub-Saharan Africa is less than 20%, which is far lower than that of most developed countries. Previous studies have highlighted the importance of the relationship between a tax administration and taxpayers in respect of improving tax compliance for tax revenue mobilisation (Kornhauser, 2007; Murphy, 2008).

The purpose of this study is to understand how tax officers form suspicions that prompt them to demand disclosures from taxpayers. The study is an interpretive tax study and seeks to use the concept of stop and search to identify the cues for tax officers to demand disclosures from taxpayers. Prior studies have described the tax field as a battleground between taxpayers' attempts to conceal their identities and activities, and tax officers' efforts to make these identities and activities visible (Boll, 2014b; Munoz, 2010). The primary resource used in this

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struggle is complete and accurate taxpayer information. Taxpayer information has been described as the key to effective taxation in modern economies (Bird, 1996; Kopczuk & Slemrod, 2006). In developing economies, such as Ghana, accessing sufficient and accurate taxpayer information remains a major challenge (Kopczuk & Slemrod, 2006). This explains, in part, why developed economies raise more tax revenue than developing countries (Gordon & Li, 2009; Pomeranz, 2015).

In the last decade, several tax jurisdictions have adopted self-assessment systems in order to promote tax compliance and effective tax administration. Under this type of tax regime, the responsibility for computation, filing of tax returns, and payment of tax liability rests with the taxpayer (Bahari & Ling, 2009; Marshall et al., 1997). However, self-assessment regimes are characterised by the failure of taxpayers to submit returns, the declaration of false returns, and the provision of incomplete information (Bahari & Ling, 2009). These challenges often mean that audits and investigations are required in order to ensure superior tax compliance (Boll, 2014b). Tax officers are, however, constrained by resources and, as a result, cannot undertake extensive tax audits (Boll, 2014b). Thus, it is impossible to demand disclosures in respect of all taxpayer information (Boll, 2014b). Therefore, tax officers usually only select a proportion of taxpayers for tax audit and investigation purposes (Boll, 2014b; Chan et al., 2013). However, the existing empirical research does not reveal much about how tax officers become suspicious and decide to demand disclosures from taxpayers.

The extant literature on tax disclosures has focussed, mainly, on the supply perspective and there have been relatively few studies from the demand perspective. For example, studies have examined the sufficiency and relevance of tax information to the investor market (Hasegawa et al., 2013; Hoopes et al., 2018; Lenter et al., 2003; Mgamal et al., 2015) but have neglected to consider the decision-making processes of the tax officers who demand tax information. In this context, taxpayers are the suppliers of tax information and tax officers primarily demand tax information.

Therefore, the research question motivating this study is: “How do tax officers form suspicions that prompt them to demand tax disclosures?”. To address this research question, we interviewed tax officers and tax consultants in order to understand their lived experiences of the phenomenon. We draw on the concept of stop and search in order to explore the cues that cause tax officers to demand disclosures from taxpayers. It is worth noting that the study extends beyond the legal requirements for disclosures in order to uncover the social, political, and economic considerations underpinning tax officers’ demands for disclosures.

The rest of the paper is structured as follows. The next two sections discuss the literature on the theoretical concept of stop and search. The fourth section presents the study’s methodology and the fifth section analyses its findings. The sixth section discusses the policy implications of stop and search. The final section highlights the major contributions made by the study and suggests directions for future research.

2. POLICE STOP AND SEARCH

Stop and search is a legally mandated power given to police organisations across the world to stop citizens, check their identities, demand that they account for their movements, and search their possessions (Bradford & Loader, 2016; Weber & Bowling, 2013). This power, mostly backed by law, is exercised in contexts where public-policy interactions take place, including shopping centres, major streets, drinking spots, and sports centres (Bradford & Loader, 2016).

Stop and search is an investigative system, a law enforcement strategy, and a crime control mechanism, and seeks to achieve a broader objective of crime prevention, detection, and information acquisition (Allen, 2016; Delsol & Shiner, 2006; Lustgarten, 2002; La Vigne et al., 2014). Antovonics and Knight (2009), however, argue strongly that the practice is often used in way that discriminates against minority group members in societies. In addition, some studies argue that the practice is an incursion of individual privacy, something that temporarily deprives subjects of their liberty, and an instrument of social control and oppression (Flacks, 2018; Parpworth, 2014).

How Stop and Search Works

Chakravarty (2002) explains that stop and search is a process of uncertainty and follows a sequential procedure. First, a certain number of suspected individuals from a large number of people in a particular public space are stopped. Second, a subset of these individuals is searched. Third, a subset of those who are stopped and searched is arrested for a crime, a few of whom are prosecuted and some of whom may be found guilty (Quareshi & Farrell, 2006). Delsol and Shiner (2006) reveal that stop and search normally leads to low arrest rates, making people doubt the power given to police officers. Several studies have, therefore, raised concerns about the objectivity of the basis of suspicion (Johnson & Morgan, 2013; Parpworth, 2014; Zander, 1999).

The modus operandi of police stop and search is similar to that of tax disclosure demands by tax officers. Both practices are administered by a regulatory institution (Gracia & Oats, 2012). Braithwaite (2009) states that “a regulatory institution can be defined as an enduring and organized set of rules, norms and roles that socially prescribe the behaviour expected of occupants of the roles” (p. 35; Gracia & Oats, 2012). Similarly, in the tax arena, not all tax returns are investigated or audited (Boll, 2014b; Chan et al., 2013). Chan et al. (2013) explain that some of a population of taxpayers are targeted for further investigation, especially in a self-assessment regime. Thus, the demand for tax disclosures is initiated when there are indications of suspected non-compliance (Chan et al., 2013).

3. SUSPICION FORMATION IN STOP AND SEARCH

It has been established in literature that the decision to stop and search a person or a vehicle in a public space is usually made because the decision-maker is suspicious (Johnson & Morgan, 2013; Parpworth, 2014; Qureshi & Farrell, 2006; Zander, 1999). Johnson and Morgan (2013) examine how the police form suspicions that prompt them to stop and search individuals. Their framework outlines four broad methods of suspicion formation: stereotypical perceptions about typical criminal offenders (the symbolic assailant); prior knowledge about specific citizens; incongruent circumstances; and suspicious nonverbal cues (Johnson & Morgan, 2013). These factors are reviewed in turn.

Stereotypical Perceptions and the Symbolic Assailant

The symbolic assailant is a construct developed by police sociologist Jerome Skolnick to identify persons whose behaviour and conduct police view as those of typical offenders (Skolnick, 1966). The symbolic assailant emanated from police officers' views of the world. Skolnick (1966) argues that the characteristics of police work result in officers developing a “working personality” typified by suspicion, authoritarianism, and cynicism. This working personality is shaped by the police officer's working environment and is usually passed on to

young officers through the sharing of an informal list of features considered to be indicators of likely offenders (Johnson & Morgan, 2013). Skolnick (1966) mentions that age, sex, race, socioeconomic status, and location, among other factors, contribute to the image of a typical offender.

Known Offenders

Johnson and Morgan (2013) also reveal that police officers may become suspicious about an individual as a result of having prior contact with, or information about, that individual. Vito and Walsh (2008) emphasise that this suspicion formation is based on the belief that people previously arrested for criminal offences would commit another crime. Alpert et al. (2005), however, note that such mental representations are impressionistic and based on perceptions that may or may not be legally justifiable. They add that using mental representations may result in a higher percentage of innocent minority citizens being viewed suspiciously, and consequently being stopped and questioned, because of their status (Alpert et al., 2005). Grounds for suspicion may include an awareness of a suspect's criminal records, recent criminal reports, and belief that a warrant has been issued for the arrest of the individual (Johnson & Morgan, 2013).

Incongruity

According to Johnson and Morgan (2013), incongruity involves observing whom or what is normal at a particular time, such that anything inappropriate is easily identified. Alpert et al. (2005) note that police officers are more likely than ordinary individuals to become suspicious about people or actions that they think do not fit the environment or situation. Quinton et al. (2000) add that skill, expertise, and experience are required in order to determine whether something is incongruent. They note, however, that normality is context-dependent. For instance, a vehicle that appears normal in one environment may appear inappropriate in another environment. Thus, appearance, time, and place are important in police officers' suspicion formation. The problem with this method of suspicion formation is that it is often tied to issues of race and social status, and, in most cases, minorities are targeted (Johnson & Morgan, 2013).

Non-Verbal Behavioural Cues

Non-verbal cues, including frequent disruptions to speech, frequent inappropriate smiles, eye contact avoidance, and increased fidgeting, are sometimes used as grounds for suspicion (Akehurst et al., 1996, as cited in Johnson & Morgan, 2013). Garrido et al. (2004) reveal that non-verbal cues have been used by police officers and other law enforcement agencies to detect deception, dishonesty, and criminal behaviours. Vrij (2008) notes that the use of non-verbal cues is perceived to be effective because suspects are seen to be less capable of controlling their non-verbal cues (gaze, postures, and movements) than what they say and, "consequently, nonverbal cues to deception are more likely to leak through" (p. 1323). However, he argues that non-verbal cues are less accurate than verbal cues and, therefore, forming decisions based on them can lead to a higher probability of accusing individuals wrongly (Vrij, 2008).

4. METHODOLOGY

The study followed an interpretive qualitative approach, as the authors sought to elicit participants' views, perceptions, beliefs, assumptions, and lived experiences (Myers, 2013; Yin, 2017). The study is interpretive, as it seeks to present the social reality of the demand for

tax disclosures from the perspectives of tax officers and tax consultants within a real-life context (Myers, 2013). The interpretive approach is essential, as it raises pertinent questions about tax practices and the power dynamics within the field, which currently remain hidden behind the technical positivist façade (Boden et al., 2010; Boll, 2014a; Gracia & Oats, 2012).

We collected data through semi-structured interviews and from publicly available documents. Although an interview guide was designed in order to give the conversations some level of focus, the questions were not posed in a strict order (Hasseldine et al., 2011; Horton et al., 2004). Semi-structured interviews were conducted to enable participants to express themselves fully while allowing the researchers to elicit detailed meanings from participants. Additionally, the semi-structured interviews helped us to gain important insights into issues as they arose (Rubin & Rubin, 2012).

Table 1: Interview Schedule

Interviewee	Position	Experience	Duration
TO1	Audit supervisor	15 years	45 mins
TO2	DMCE supervisor	13 years	32 mins
TO3	DMCE supervisor	15 years	25 mins
TO4	Head of Audit	16 years	49 mins
TO5	DMCE supervisor	16 years	48 mins
TO6	Assist. commissioner	23 years	28 mins
TO7	Audit supervisor	22 years	40 mins
TO8	Audit supervisor	18 years	33 mins
TO9	Audit supervisor	15 years	22 mins
TO10	DMCE supervisor	16 years	31 mins
TC1	Tax - Partner	25 years	51 mins
TC2	Senior tax consultant	16 years	36 mins
TC3	Senior tax manager	14 years	30 mins
TC2	Senior tax consultant	16 years	25 mins

DMCE means Debt Management and Compliance Enforcement Unit; TC means tax consultant; TO means tax officer.

The participants were senior staff members from the Ghana Revenue Authority (GRA) and senior tax consultants from reputable tax firms in Ghana. Senior tax officers and senior tax consultants were targeted because they represent two key types of actor within the tax field. Senior tax consultants were included because they possess expert knowledge about, and experience of, tax laws and tax disclosure practices. Purposive and snowball sampling techniques were employed in this study. Most of the interviews were tape-recorded and transcribed immediately after the interviews (Miles et al., 2014). In the few instances where the participants refused to be tape-recorded, detailed field notes were taken and reviewed immediately after engagement with participants. In all, we conducted fourteen interviews and we ended data collection when we believed we had attained data saturation (Charmaz, 2008). That is a stage where further engagement with new participants added no relevant insight to the study. The schedule of interviews is provided in Table 1.

We also employed publicly available documents to augment, confirm, and corroborate the interview data. These publicly available documents included tax laws and regulations, practice notes, media content, website information, and the GRA's practice manual.

Data Analysis

We followed the six-stage thematic analysis process according to Braun et al. (2018). First, we familiarised ourselves with the data while considering how the theoretical lens is reflected in the data set. The activities we carried out at this stage included transcription of data, synchronisation of transcripts, and reading and re-reading the data while linking initial ideas to the theoretical concept of stop and search. Second, we generated the initial codes. At this stage, we paid attention to codes that can be linked to the theory of stop and search. Some of the initial codes derived included *bias*, *stereotype*, *discrimination*, *risk profile*, *risk assessment*, *previous offence*, *past offences*, *unfit*, *deviation*, *non-conformity*, *informants and whistleblowing*, and *information*. Third, we collated and categorised the codes into potential themes. Codes that represented similar patterns were categorised together to form themes. For instance, the codes *deviation* and *unfit* were to form the theme *incongruence*. Fourth, we reviewed the themes, making sure that they worked in relation to both the coded extracts and the entire data set. At this stage, some themes were dropped, either because they were not relevant to the subject matter or could not be connected to the theoretical lens. For instance, themes such as *tax default*, *tax penalty*, and *information flow* were dropped because they could not be linked to the theoretical concept of stop and search. Following that, we generated clear definitions and names for the themes. For instance, between *whistleblowing* and *information from informants*, we found it more appropriate to label the theme *informant reporting*. The final stage was the presentation of the report, as demonstrated in the next section.

5. PRESENTATION AND ANALYSIS OF FINDING

The themes which explain how tax officers form suspicion include: *risk profiling or assessment*, *third-party information*, *informant reporting* (whistleblowers), *incongruent tax returns*, an awareness of *known tax offenders*, and *the economic and political status of taxpayers*. These themes were informed by both literature and engagement with empirical data. The themes are discussed in turn.

Risk Profiling or Assessment

One major cue for tax officers to become suspicious and demand further disclosures from taxpayers is the outcome of *risk profiling or assessment*. Risk profiling is a predefined systematic criteria that tax officers use to enable them to select and demand disclosures from taxpayers for tax audit and investigation purposes. The outcome of risk profiling becomes the basis for the decision to demand further disclosures. One respondent said:

To profile a taxpayer is trying to risk assess the person. Profiling a person, we would need certain parameters. Basically, much of it is predefined, like turnover. If it is a company, whether they have auditors, how many times they have been filing their returns, how much in itself have they been disclosing, whether they have consultants, how long have they been in existence (TO8).

This suggests that tax officers depend on some predefined criteria to define what a typical tax offender looks like. These parameters are developed through the knowledge that tax officers have about specific entities and similar entities within the industry. Consistent with Skolnick's (1966) concept of the symbolic assailant in police stop and searches, tax officers label an entity as a potential offender once they fit the predefined criteria. Thus, predefined parameters (characteristics) may inform tax officers' decisions to demand more disclosures from particular taxpayers. As confirmed by Skolnick (1966), and Johnson and Morgan (2013), these predefined features are normally informally shared with new officers by experienced officers and may vary among tax types, industries, and organisational sizes. The assumption that underlies risk profiling is that tax officers know what a good tax return looks like and will notice when a taxpayer has not prepared their tax return correctly. For example, one respondent said:

Sometimes people go and register their businesses at Registrar General's department and they will not come to us, and later they will come, after five or ten years before they come and register with us, and so that also will determine how we will look at that business. We want to know what happened in the gap (TO5).

As can be observed above, delay in registering with the tax authority, in this context, is a parameter that may cause a tax officer to become suspicious and demand more disclosures. This approach for identifying tax offenders disproportionately targets smaller taxpayers. Small businesses normally take time to register with the tax authority due to their nature. These small businesses are characterised by poor bookkeeping processes and location problems. Large corporations, unlike small businesses, usually register with the tax authorities before the commencement of business activities. Therefore, using a parameter such as this discriminatorily targets smaller taxpayers, rather than larger organisations who are often able to register and submit their returns periodically.

We also observe that taxpayers may be grouped into high-risk, medium-risk, and low-risk taxpayers. This is usually based on several predefined risk indicators and the impact of these risk indicators on tax revenue. Medium to high-risk taxpayers are therefore targeted for information disclosure purposes.

So we have parameters that are predefined and there are ratings attached to these parameters. So it's like we score the person or company against the parameters, then we apply the rate to determine who is high-risk taxpayer, medium-risk taxpayer, or low-risk taxpayer (TO7).

Consistent with Skolnick (1966), several indicators may be considered when determining a taxpayer's risk level. However, the impact of each indicator on the overall risk level may differ. For instance, not filing tax returns for several years is a greater signal that the taxpayer is high risk than poor bookkeeping, although both are risk indicators. Tax officers, therefore, assign ratings to each indicator in order to determine a taxpayer's overall risk level. Indicators are rated so that tax officers attach a level of importance to them and are less likely to consider immaterial issues when deciding whether or not to demand additional disclosures. Again, the outcome of the risk profiling exercise enhances tax officers' decision-making in terms of the type and scope of information to demand from taxpayers and the prioritisation of resources. This is consistent with Boll's (2014b) view that risk assessment is conducted in order to prioritise resources. The interviews that we conducted reveal that tax officers normally carry out field audits when an organisation is highly risky. This observation agrees with Pentland and Carlile's (1996) view that tax officers' approaches depend on the risk level associated with the taxpayer.

Third-Party Information

Third-party information, particularly from government institutions, contributes to tax officers' suspicions and decisions to demand tax disclosures from taxpayers. It enables tax officers to prepopulate tax returns, leaving the taxpayer to agree or disagree with the amount assessed as payable (IMF, 2018). *Third-party information* is obtained from persons with whom a taxpayer made a transaction. *Third-party information* is not always conclusive. To confirm the details received, tax officers may ask taxpayers to disclose more information. A respondent at the GRA explains:

We also get third-party information from government institutions. Let's say, if you tell us that you are a tailor and you disclose some few things, that this is your tax. We will be there and we will receive information from, let's say, the Ministry of Health, about a particular person who supplied uniforms to nurses. So, they would give us that information, then based on that, we will use that to assess you or investigate you further to know the true nature of information provided (TO5).

Tax officers consider *third-party information* to be more believable than information provided by the taxpayer. The suspicion is that taxpayers may only be willing to provide information to meet the minimum requirements of the law, hence information received from an independent person will be more truthful than information provided by the taxpayer. The advantages of *third-party information* for the tax officer are that it presents some reality about the taxpayer which the officer has no knowledge of and it provides them with information that might not have been disclosed by the taxpayer. This observation is in line with earlier studies by Kleven et al. (2011) and the IMF (2018).

The study, surprisingly, shows that systems for sharing information between taxpayer offices in Ghana are poor. As a result, processes to discover *third-party information* within taxpayer offices are ineffective. This is particularly worrying when the technique has proven to be effective in enhancing compliance and tax revenue in most developed economies. Kleven et al. (2011) reveal that all advanced economies make use of extensive *third-party information* from entities including individuals' employers, banks, investment funds, and pension funds when assessing the taxable income of entities and individuals. The IMF (2018) also reports that compliance in advanced countries is more than 90 per cent where *third-party information* is well established.

Informant Reporting

Informant reporting is a major cue that informs police suspicion to stop and search (Johnson & Morgan, 2013) and includes reported observations by whistleblowers (Allen, 2016). Similarly, in tax administration, information received from informants plays a significant role in tax officers' suspicion formation and their decisions to demand tax disclosures. Information received from informants is similar to *third-party information*. However, the clear distinction is that informants (whistleblowers) usually demand that their identities remain confidential. These informants are usually individuals who are close to the business and who, for one reason or another, decide to secretly supply tax officers with tax-relevant information about it. A respondent from the GRA stated: "Then we have informants, where people come and report, individuals who come and secretly give us further information. We then request the business to provide us with all information we need to validate the informants' claim" (TO5).

Although reports from informants are a rich source of tax information, tax officers may attempt to verify the details upon obtaining them. To this end, tax officers may demand further documents, especially source documents, to enable them to verify the accuracy and completeness of records, as well as to establish accurate tax liabilities. As informants are usually persons who are close to the entity and may not want to impair their relationship with the entity, they usually demand that their identities are kept confidential. They may risk losing their jobs, fear for their lives and those of their family members, or be afraid of being prosecuted. Our interviews with tax officers further reveal that the GRA's whistleblower system is very weak due to the non-existent compensation package for whistleblowers. This discourages individuals from divulging organisations' tax secrets to the GRA. Meanwhile, Chan et al., (2013) note that the implementation of a whistleblowing system is a proactive and effective way to prevent tax fraud.

Incongruent Tax Returns

A police officer may form a suspicion that prompts them to stop and search an individual or vehicle because it appears to be out of place (Johnson & Morgan, 2013). This assumes that the police are knowledgeable and aware of society's norms, and would be suspicious when a situation appears to be different from the norm. As with police stop and search, tax officers form suspicions that prompt them to demand disclosures when they observe that a particular taxpayer's return appears different from the norm. One respondent from GRA said:

Then we have what we call performance indicators. So, we do performance indicators of a taxpayer for a particular period, maybe 3 years or 4 years to know the turnover pattern of the person. Maybe a taxpayer in a particular year was doing very well then, all of a sudden, the sales started dropping. We need to find out why. Maybe in a particular year, a taxpayer was reporting revenue 10,000 and all of a sudden it starts dropping to 8,000 to 7,000. We need to find out why (TO7).

This implies that tax officers expect a certain pattern of tax revenue and would demand disclosures when there is a deviation from this expectation. The demand is made to ensure that the information provided is accurate and complete, as well as to investigate any non-conformity that exists. In this situation, the tax officer will attempt to evaluate the incongruity between observed and expected patterns of tax returns using their knowledge of the person and the tax types. The ability of a tax officer to have expectations about a particular taxpayer depends on their level of familiarity with the taxpayer, as well as the relevant tax types and laws. However,

it is worth noting that, while a return may be reasonable and acceptable in one circumstance (congruent), it may be out of place in another (Alpert et al., 2005). For instance, it would be normal for a tax officer to accept a significant drop in profit in a year when general industry performance is low. It is, however, suspicious when an entity reports negative returns in a period in which the industry's performance has been impressive.

Known Tax Offenders

The study shows that a tax officer may demand additional disclosures from a taxpayer because they have had prior contact with, or hold information about, the taxpayer. When a tax officer reads a past offender's tax return, it may remind them of their previous encounters with that taxpayer. This may cause them to become suspicious and demand further disclosures. Interactions with the tax officers reveal that they may not necessarily have enough evidence of non-compliance but want to convince themselves that the taxpayer has changed. One of the respondents said:

When the person has evaded taxes in the immediate past years, we may base on that grounds to inspect that person further. We may visit the business premises, look through their records to ensure that they are doing the right thing this time around (TO8).

In the above quote, the tax officer assumes that a person who has evaded taxes in the past would commit the same offence again. This evidence is consistent with empirical evidence from police stop and search practices, where individuals who have committed crimes in the past are more likely to be stopped and searched (Quinton et al., 2000). The study also notes that tax officers may demand further disclosures based on a taxpayer's previous returns. One of the respondents, from a Small Tax Office (STO), said this might include "someone who submits the financial information consistently incurring losses for about four or five years, or consistently, the sales figures are the same" (TO1).

This suggests that tax officers may develop suspicions and demand more disclosures when they know the pattern of the taxpayer's behaviour over time. For instance, reporting the same sales or profit figures over a number of years may suggest that the business is cooking the books in order to satisfy the requirements of tax officers and may not necessarily be providing the tax office with a true picture of its financial performance.

Economic and Political Status

The decision to demand disclosures can be informed by a person's economic or political status. The possession of some political or economic status can help a person to avoid tax investigation and the absence of such power can make an entity a target for tax purposes. Some tax officers have suffered at the hands of powerful individuals and entities. They may, thus, avoid targeting such powerful individuals in order to avoid victimisation or job loss, to protect their lives and those of their family members, and to avoid being transferred to rural communities. One tax auditor narrated how his life was threatened by a taxpayer with high political and economic power: "How much will it take me to finish you? Contract killers will not take more than GHS 10,000" (TO2 quoting the taxpayer). The respondent added: "You want to satisfy your boss; however, you have your life, your job, and your family to protect. We get really frustrated in these circumstances" (TO2).

As narrated above, a powerful taxpayer can threaten the life of a tax officer for targeting him for tax audit purposes. The tax officer will then avoid this powerful person for fear of his life and for the wellbeing of his family. However, tax officers are required to meet revenue targets, so they may resort to targeting less threatening or less powerful individuals or organisations in order to meet these. On this matter, TO2 states: “At times, we have no option. We select taxpayers who will not threaten us so that we can meet our revenue target. At least my life will be safe and I can get to keep my job”.

This supports Gracia and Oats’ (2012) view that:

There is some evidence of an enforcement habitus, particularly with regard to relations with smaller tax-payers, such that tax “[i]nspectors are seen as having an aggressive attitude towards taxpayers and being ‘out to get’ as much tax from them as possible” (PCG, 2006) (p. 309).

This practice further supports and enhances the power and wealth of the already powerful while undermining the progress of the disadvantaged minority.

6. POLICY IMPLICATIONS OF STOP AND SEARCH

This study seeks to understand how tax officers form suspicions and decide to demand disclosures from taxpayers. The study shows that *risk profiling or assessment, third-party information, informant reporting, incongruent tax returns*, an awareness of *known tax offenders*, and *the economic and political status of taxpayers* are the themes that explain how tax officers form suspicions and decide to demand tax disclosures.

The problems with suspicion formation leading to stop and search are well discussed in the criminology and social psychology literature (see Flacks, 2018; Qureshi & Farrell, 2006; Vrij, 2008). One major challenge is that the practices are often characterised by discrimination against and unfair treatment of minority groups. This study has shown that a similar phenomenon is evidenced in tax administration, particularly in terms of how tax officers make decisions to demand disclosures from taxpayers. Tax officers use similar cues to those seen in police stop and search procedures, such as risk profiling, knowledge of offenders, and incongruency, when deciding to demand tax disclosures from taxpayers. The challenge here is that such practices can lead to biases and discrimination against some taxpayers. For instance, some taxpayers may be targeted not because they have actually offended but because of stereotyping. For example, the use of the *known tax offender* cue may mean that a taxpayer is wrongfully targeted solely because they have committed a tax offence in the past and not because there is evidence that they are currently committing an offence. This study argues that in the tax field, as in the case of police stop and search, the practice can cause embarrassment, anxiety, and fear, and may threaten public cooperation, trusts, and confidence. Some of these consequences are discussed further in the ensuing paragraphs.

Cooperation between a tax administration and taxpayers is critical to achieving superior tax compliance. Using cues, such as *known tax offenders* and *incongruent tax returns*, can impair the cooperative relationship that exists between tax officers and taxpayers. This is because taxpayers may construe the practices as unfair and lacking procedural justice. Previous studies have addressed the importance of cooperation between tax officers and taxpayers in ensuring that revenue administrative systems are effective and efficient (Kornhauser, 2007; Murphy, 2004).

The use of stereotypes and other unfair cues to identify taxpayers from whom further disclosures should be demanded may also affect the trust that exists between tax officers and taxpayers. Contrary to the traditional theory of compliance, which suggests that individuals are tax compliant due to fear of detection and punishment, the literature on tax compliance reveals that tax compliance is also affected by social norms, such as procedural justice, and the trust and legitimacy of government (Kornhauser, 2007). This implies that taxpayers' compliance levels may be affected when they mistrust the tax administration or perceive the basis of suspicion formation to be unjust. As recommended by several tax studies, in order to achieve superior compliance, tax officers should employ accommodating models of regulation, such as gentle persuasion, trust, and cooperation when dealing with taxpayers (see Braithwaite, 2009; Murphy, 2008; Murphy et al., 2009). Finally, lack of cooperation and trust may further affect the revenue mobilisation capacity of the tax administration. Thus, the inappropriate use of these cues to form suspicion can be counterproductive as the wrong taxpayers may be identified. The procedures may not be economical as resources will be used in the auditing processes.

7. CONCLUSION

We employed the theoretical concept of stop and search in order to understand how tax officers form suspicions and decide to demand tax disclosures. In this study, we focussed on additional disclosures beyond the returns that are filed periodically. We identified six main cues that inform tax officers' suspicions and decisions to demand disclosures from taxpayers. They are: *risk profiling or assessment, third-party information, informant reporting, incongruent tax returns, awareness of known tax offenders, and the economic or political status of taxpayers*. The study observes that some of these cues involve stereotyping and can discriminate against some taxpayers. Additionally, these practices are unfair to the taxpayers targeted and could affect taxpayer cooperation, trust, and confidence in the tax administration. Furthermore, the practices can be counterproductive to tax compliance and tax revenue generation as taxpayers may become uncooperative. Finally, the study contributes to policy. In particular, the study makes policy recommendations with regard to how taxpayers should be managed in order to increase tax compliance and optimise revenue.

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PROCEDURAL JUSTICE: EXAMINING TAX DISPUTE RESOLUTION PROCESSES IN RUSSIA AND SINGAPORE

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Abstract

Tax disputes are a common feature of the modern business environment, whether in Russia, Singapore, or the tax system of any other country. This is particularly the case for business taxpayers and more so for those at the larger end of the spectrum. The Russian tax system allows a taxpayer who is dissatisfied with a tax assessment to formally object to the tax authority. However, lodging an objection with the tax authority is the first mandatory step in the tax dispute resolution process. The Singaporean tax system operates in a broadly similar fashion. In other words, in Russia and Singapore, a taxpayer is only able to legally appeal an adverse decision to either the tribunal or the court after filing a formal objection with the tax authority which undergoes an internal administrative review. Thus, it can be argued that taxpayers are unable to choose the most convenient and effective option for the protection of their rights. Similar tax dispute resolution systems operate in many other countries. This article identifies a set of criteria, or “qualities” that might be expected in any administrative system of tax dispute resolution, and then uses these criteria to address the question of how well the Russian and Singaporean systems fare against these benchmarks. Based on this analysis, the article then provides general recommendations on how access to procedural justice for taxpayers might be improved.

Keywords: Procedural Justice, Tax Disputes Resolution, Administrative Disputes Resolution, Alternative Tax Disputes Resolution, Russia, Singapore.

1. INTRODUCTION

Tax disputes are a common and unavoidable feature of the modern commercial environment, whether in Russia or Singapore (the two countries that are the subject of this article), or in the tax systems of many other countries. When tax disputes occur, it frequently implies that there is a certain degree of asymmetry between the taxpayer and the tax authority in terms of resources and power. Accordingly, the existence of an effective tax dispute resolution system is seen as essential if a fair, competent, and independent determination of such disagreements is to be made. According to Alink and van Kommer (2011), “a proper tax appeals system should be based on a legal framework, is easily accessible to taxpayers and has transparent administrative procedures guaranteeing independent decision-making processes, including provisions ensuring that decisions are promptly acted upon” (p. 332).

If taxpayers have inadequate access to independent and impartial forums for resolving tax disputes with tax authorities, it may adversely affect their views on procedural justice (Murphy, 2004). In the context of tax, procedural justice can be viewed as access to a fair, objective, and

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² This paper builds upon, and contains sections of content from, the following work: Guglyuvatyy and Evans (2015).

independent system of dispute resolution (Tran-Nam & Walpole, 2012). The principle that procedural justice is absolutely necessary for effective dispute resolution is well-established (see, for example, Howieson, 2002; Lind & Tyler, 1988; Tyler, 1994). Additionally, if the tax system does not provide taxpayers with adequate access to procedural justice, it may negatively affect their level of voluntary tax compliance, something which is necessary for the functioning of an effective tax system (Murphy, 2005). Hence, it is important to determine whether any barriers to procedural justice exist and to identify how these barriers might be reduced or eliminated.

The Russian Tax Code provides the principal legislative basis for a taxpayer wishing to object to a tax authority's decision/assessment. Until recently, taxpayers were able to appeal tax authorities' decisions and the actions (or inactions) of tax authorities' officials via either administrative or judicial procedures. Thus, taxpayers were able to choose the most convenient and effective options for the protection of their rights. However, the Russian Ministry of Finance has implemented a mandatory tax dispute resolution process, facilitated by the Federal Tax Service (FTS), for all types of tax dispute. One of the major reasons for the introduction of such a process is an intention to reduce tax-related litigation. The relevant legislation was enacted to apply from January 2014 and ensures that taxpayers are not able to appeal to the Arbitrazh (commercial) courts to resolve their tax disputes with tax authorities without passing this mandatory stage.

Similarly, Singapore's tax system also allows a taxpayer who is dissatisfied with a tax assessment to lodge a notice of objection to the Internal Revenue Authority of Singapore (IRAS).³ If a taxpayer does not agree with an assessment raised by the IRAS, a "notice of objection" must be filed with the IRAS. If a taxpayer wishes to appeal the decision of the IRAS, there are two options—to apply to the Board of Review⁴ or to appeal to the court.⁵ However, the first mandatory step in the tax dispute resolution process is to make an objection to the IRAS. In other words, a taxpayer is only able to legally appeal an adverse decision to either the Board of Review or the court once they have filed a formal objection to the IRAS's decision and their case has then undergone an internal administrative review.

Theoretically, both the Russian and the Singaporean tax dispute resolution systems provide access to effective and impartial tax dispute resolution procedures but, in practice, accessibility to these procedures may be problematic as a result of a number of factors. Although the Singaporean tax dispute resolution system is well-established, it has been criticised for being slow.⁶ The Russian system of tax dispute procedures is less well-developed, and has been criticised for its lack of accessibility and lack of independence.

The development of the Russian internal administrative dispute resolution procedures has certain parallels with that of the IRAS's review processes. The Russian administrative tax dispute resolution reform was conducted in 2014 and some important changes have also been made to the administrative procedures in Singapore in order to accelerate the consideration of

³ Reference to the IRAS in this paper covers the Comptroller of Income Tax, the Comptroller of Goods and Services Tax, and the Commissioner of Stamp Duties.

⁴ Singapore has three Boards of Review for tax matters: the Goods and Services Tax Board of Review, the Income Tax Board of Review, and the Valuation Review Board.

⁵ Income Tax Act ss. 76(2) and (3).

⁶ Generally, the IRAS completes the review within six months from the date of the taxpayer's last correspondence (IRAS, 2019b). However, the taxpayer is required to pay the tax assessed within one month after the date of service of the notice of assessment even if a notice of objection has been lodged (Income Tax Act s.85(1)).

taxpayers' objections. Accordingly, it may prove to be useful to compare and contrast the tax dispute resolution processes in Russia and Singapore, specifically focussing on administrative dispute resolution within the tax authorities in both countries. Using these systems as points of reference, this article develops a set of criteria, or "qualities", that might be expected in any administrative system of tax dispute resolution, and then uses these criteria in order to address the question of how well the Russian and Singaporean systems fare against these benchmarks. Based on this analysis, the article then provides general recommendations as to how access to procedural justice for taxpayers in both countries might be improved.

This section of the article has provided the introductory context and background. Sections two and three discuss, in more detail, the administrative and judicial tax dispute resolution procedures in Russia and Singapore respectively. Section four compares the administrative dispute resolution procedures of the two countries in order to identify appropriate criteria by which to evaluate the ability of each country to provide procedural justice for its taxpayers. In the final section of the paper, conclusions are drawn and recommendations to improve the systems are provided.

2. ADMINISTRATIVE AND JUDICIAL APPROACHES TO TAX DISPUTES RESOLUTION IN RUSSIA

Administrative Procedures for Tax Dispute Resolution in Russia

The Russian Federation's FTS is the executive authority responsible for all state revenue-related matters, including administrative tax dispute resolution. Russian taxpayers are able to apply to the FTS for protection of their rights and legitimate interests relating to tax matters through formal administrative procedures. Under such administrative procedures, an appeal or objection needs to be lodged with either the tax authority that issued the decision being appealed or to a superior level within the tax authority, depending on the matter under dispute. Russian taxpayers do not have access to a formal forum for tax dispute resolution that is comparable to the Boards of Review in Singapore. Hence the administrative tax appeal procedure in Russia involves only the review of objections by the FTS, making it effectively an internal FTS review process.

Previously, in addition to this possibility of internal administrative review, all acts of the FTS were capable of being appealed by taxpayers directly to a court. However, in 2009, a mandatory administrative review stage was introduced,⁷ although at that stage it was only relevant for those decisions of the FTS which were based on the outcomes of tax audits undertaken on selected taxpayers.⁸ This mandatory administrative procedure required that, after completion of a tax audit, a taxpayer could lodge an objection to the branch of the FTS that had conducted the audit.⁹ If the objection was not resolved, the taxpayer could then appeal the decision to a superior level within the tax authority.¹⁰ Only after completion of these administrative stages could an audited taxpayer challenge the FTS's decision in a court. From 1 January 2014, this

⁷ Tax Code of Russian Federation art.101.2.

⁸ According to the Federal Law N 137-FZ *On Amendments to Part One and Part Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation in Connection with the Implementation of Measures to Improve Tax Administration*, which applies from 1 January 2009, taxpayers lost their right to appeal simultaneously to tax and judicial authorities in certain cases.

⁹ Federal Tax Service of Russian Federation, *Settlement of tax disputes out-of-court*, (in Russian) (accessed 02 Oct. 2020).

¹⁰ *Ibid.*

mandatory administrative process of tax dispute resolution applied to all taxpayers—not just those subject to audits.¹¹ Therefore, a taxpayer must file an objection with the FTS and wait for a formal objection decision before applying to a court, or the court will not consider the case.

Generally, the administrative appeal procedure provides a simplified process for appeals or objection considerations.¹² If a taxpayer lodges an appeal with the FTS, the Tax Code provides two channels for such administrative processes: the taxpayer must use either a formal appeal procedure or a general objection procedure. Selection of the appropriate procedure (appeal or objection) depends on whether a contested decision/assessment has entered into force at the point of application or not.¹³ If the decision that is being contested has not yet entered into force, the appeal procedure may be used. If it has already entered into force, the taxpayer is obliged to follow the objection procedure.

Under the appeal procedure, an objection to the decision relating to the imposition of tax liability has to be filed within 30 days from the date of delivery of the FTS's decision to the taxpayer or their representative. The FTS is then required to make a decision within 30 days from receipt of the appeal.¹⁴ In exceptional cases, this period may be extended for a further 30 days but, in such a case, the taxpayer must be notified. For all other categories of appeal relating to decisions that have not yet entered into force, a fast-track appeal process is available. This provides that a decision is to be made in 15 days, with the possibility of extension for a further 15 days. Once the appeal has been lodged, the initial decision will not normally take effect until the appeal has been reconsidered and formally decided by the FTS.¹⁵ During the appeal period, the FTS essentially reviews all of the material relevant to the case and reconsiders its decision.

The FTS is entitled to reject an appeal for a variety of reasons, including: the taxpayer having missed the deadline for filing the appeal; a lack of substance in terms of the subject of the appeal; the appeal having been lodged by a person without the authority to act on behalf of the taxpayer;¹⁶ the existence of documented information confirming that an objection based on the same facts has been lodged with a higher tax authority; and a court decision on the issues contained in the objection having come into force.¹⁷ If the appeal is rejected, the applicant must be informed within eight business days from the date of its receipt. However, the rejection of an appeal for one of these reasons does not exclude the right of the applicant to refile the appeal within the prescribed time limits.

Where decisions taken by the FTS have already entered into force, the appeal is also lodged with the FTS, but only the general objection procedure can be utilised in such a case.¹⁸ The general objection procedure requires a taxpayer to lodge an appeal or objection within one year of the date when they knew, or should have known, about the adverse decision.¹⁹ The FTS, in turn, is then required to make a decision on such an objection within one month from the date of its receipt.²⁰ The general objection procedure is a more formal process than the appeal

¹¹ Federal Law 153-FZ, *On Amendments to Part I of the Tax Code of the Russian Federation*, 2 July 2013.

¹² Tax Code Russian Federation, chapters 19-20.

¹³ A decision made by a tax authority enters into force one month from the date of delivery of such a decision to the taxpayer or the taxpayer's representative.

¹⁴ Tax Code of Russian Federation art.101.

¹⁵ Tax Code of Russian Federation art.141.

¹⁶ Tax Code of Russian Federation s.26.

¹⁷ Tax Code of Russian Federation art.139.

¹⁸ Tax Code of Russian Federation art.101.2.

¹⁹ Tax Code of Russian Federation art.101.

²⁰ Tax Code of Russian Federation art.140 para 3.

procedure; for example, the FTS may require the taxpayer to provide proof of the conditions on which the taxpayer bases any claims in relation to the calculation of the disputed taxes. Following its consideration of an objection, the FTS can change the decision of the tax official who issued the contested decision entirely or in part, and can also issue a new decision.²¹

If the taxpayer appeals only part of the FTS decision, the Arbitrazh Court likewise assesses the legitimacy of the decision only in part. In contrast, the FTS is not bound by the arguments of the taxpayer contained in the objection and has the right to examine the case completely, regardless of whether all or part of it has been appealed by the taxpayer. However, the Supreme Arbitrazh Court²² has somewhat limited the power of the FTS in respect of appeals. Specifically, the Supreme Arbitrazh Court decree²³ states that when the FTS makes a decision on the objection, it may not make a decision that exacerbates the position of the taxpayer; otherwise, taxpayers might well be discouraged from using their rights of appeal. Nonetheless, the FTS is not precluded from conducting an additional tax audit based on any information discovered through the appeal process.²⁴

According to the FTS, the administrative procedure for dispute resolution allows the tax audit department²⁵ to improve the quality of tax administration, to ensure that a uniform approach is taken to the implementation of control measures, to review the quality of tax audits, and to avoid systematic violations which lead to a reduction in tax disputes.²⁶ From the taxpayers' perspective, the FTS administrative procedures for tax dispute resolution has certain advantages. For example, it provides taxpayers with a simplified procedure for filing an objection, has no specific requirements for the form and content of objections, and the reasons for which objections can be rejected are limited. Furthermore, the FTS has introduced a comprehensive online service—"Learn about the complaint"—which provides necessary information about the progress and results of an appeal, including the date of receipt and allocated reference number; the date by which the appeal must be considered; information about any extension in respect of the consideration of the application; treatment status (pending, decision made); and information about the result of the consideration of the application.

Additionally, the protection of taxpayer rights under the administrative appeals procedure involves minimal costs. An appeal under the administrative process is free of charge, whereas lodging a judicial appeal entails the payment of stamp duty.²⁷ Moreover, an objection can be finalised more quickly under the administrative appeals procedure than via the judicial

²¹ Federal Tax Service of Russian Federation, *Settlement of tax disputes out-of-court*, (in Russian) (accessed 02 Jul. 2020).

²² However, it should be noted that, on November 21, 2013, the State Duma of the Russian Federation adopted a bill on the merger of the Supreme Arbitration Court and the Supreme Court. Therefore, the Supreme Arbitrazh Court ceased to exist from 6 August 2014.

²³ Supreme Arbitrazh Court of Russian Federation decree N 5172/09, 28/07/2009.

²⁴ Tax Code of Russian Federation art.89 para.10.

²⁵ The Federal Tax Service of Russian Federation recently established tax audit departments in order to increase the effectiveness of the administrative dispute resolution process. As stated in the Regulation of the Federal Tax Service Number MM-9-3/63, the establishment of a tax audit department within the system of tax authorities was part of a general state policy that aimed to reduce the number of disputes involving government officials in the Arbitrazh Courts.

²⁶ Federal Tax Service of Russian Federation supra n 22.

²⁷ Tax Code of Russian Federation art.333.21. Currently, stamp duty is 300 roubles (£2.90) for individuals and 3,000 roubles (£28.80) for companies.

processes.²⁸ However, there are certain structural defects associated with the administrative dispute resolution procedures. These are considered in more detail in Section 4.

Judicial Procedures for Tax Dispute Resolution in Russia

Judicial procedures for tax dispute resolution provide Russian taxpayers with a vital recourse for the protection of their legitimate rights and interests. The Arbitrazh Court system specifically deals with commercial and administrative disputes, including tax-related cases.

The procedural principles of the Arbitrazh Courts are based on the civil law system's judicial doctrines. The Arbitrazh Procedural Code of the Russian Federation regulates proceedings conducted by the Arbitrazh Courts. The legal basis for an appeal to the Arbitrazh Courts is contained in a number of legislative acts and, in particular, in article 22 of the Arbitrazh Procedural Code.²⁹ The Arbitrazh Court system is divided into the Courts of the First Instance, the Courts of Appellate, the Federal Arbitrazh Courts (Cassation Courts), and the Supreme Arbitrazh Court. Legal proceedings beginning in the Arbitrazh Court of First Instance may be appealed to the appellate court and then to the Federal Arbitrazh Court. Finally, the Supreme Arbitrazh Court hears some cases under its supervising jurisdiction.³⁰ However, due to judicial reform, the Supreme Arbitrazh Court has been eliminated. Instead, a new Supreme Court, that merged the leadership of the Russian Arbitrazh Courts with the regular courts, was created in August, 2014.

Taxpayers have direct access to a court: there is no obligation to file a lawsuit with the help of a counsel or a solicitor. A Court of the First Instance starts proceedings when a claim is filed. The plaintiff is required to deliver a copy of the statement of claim and all supporting documents to each party by registered mail. In contrast to the informal administrative process, a judicial claim must contain the grounds for the appeal, the evidence, and relevant documents supporting the plaintiff's case.³¹

The Arbitrazh Courts do not normally modify a decision made by the FTS³² and if the taxpayer appeals only part of the decision, the court likewise assesses the legitimacy of the decision only in part. In contrast, the FTS is not bound by the arguments of the taxpayer contained in the objection and has the right to examine the case completely, regardless of whether all or part of it has been appealed by the taxpayer. However, the Supreme Arbitrazh Court³³ somewhat limited the power of the FTS in respect of appeals. Specifically, the Supreme Arbitrazh Court decree³⁴ states that when the FTS makes a decision on the objection, it may not make a decision that worsens the position of the taxpayer;³⁵ otherwise, taxpayers might well be discouraged from using their rights of appeal.

²⁸ The consideration of an objection via the administrative process is carried out within one month of the date of the objection receipt (Tax Code of Russian Federation art.140, para.3). The Arbitrazh Courts, on the other hand, consider cases within three months of the date on which the claim is filed. This includes a period of preparation in respect of the case for trial and the decision (Arbitrazh Procedural Code of Russian Federation art.152, para.1).

²⁹ Arbitrazh Procedural Code of Russian Federation art.22.

³⁰ Arbitrazh Court of Russian Federation, *The Structure of the Arbitrazh Courts of the Russian Federation*, (in Russian) (accessed 20 Jul. 2020).

³¹ Arbitrazh Procedural Code of Russian Federation, Chapter 7.

³² Instead, the arbitration courts can overturn the FTS's decisions.

³³ *Supra*, n.22.

³⁴ Supreme Arbitrazh Court of Russian Federation decree N 5172/09, 28/07/2009.

³⁵ For example, the FTS's decision on the objection cannot increase the penalty previously imposed.

Russian Arbitrazh Courts tend to deal with cases relatively quickly.³⁶ Generally, the Arbitrazh Court proceedings, from the Courts of the First Instance to the last instance, take a little over a year to complete.³⁷ Judicial decisions which come into effect are binding for all state authorities, local governments, public officers, individuals, and companies without exception and are subject to rigorous adherence in all territories of the Russian Federation. Criminal, administrative, and other types of liability may be imposed if judicial acts are not fulfilled.³⁸ The resolution of tax disputes is generally more formal and time consuming under these judicial procedures, yet many Russian taxpayers used to prefer such court trials rather than the administrative resolution processes discussed earlier.

3. ADMINISTRATIVE AND JUDICIAL APPROACHES TO TAX DISPUTES RESOLUTION IN SINGAPORE

The Administrative Approach to Tax Disputes Resolution in Singapore

The IRAS is the executive tax authority responsible for state revenue-related matters, including administrative tax dispute resolution, in Singapore. Singaporean taxpayers are able to apply to the IRAS for protection of their rights and legitimate interests relating to tax matters through formal administrative procedures. In Singapore, litigating tax matters in the courts is a last resort. The procedures and timelines related to tax disputes are clearly set out in the applicable legislations.³⁹ As in the case of the Russian administrative tax dispute resolution reform conducted in 2014, some important changes have been made to Singapore's administrative procedures. For example, in order to accelerate the consideration of taxpayers' objections, the IRAS made a number of amendments to the administrative tax dispute resolution procedures which came into effect on 1 January 2014 (see IRAS, 2019b).

Under the Income Tax Act, the Comptroller of Income Tax (CIT) can raise assessments based on the information provided by taxpayers or, in the absence of such information, to the best of their judgment. Thus, a taxpayer may not agree with the IRAS's assessment. In such a case, the taxpayer must file a "notice of objection" with the IRAS (IRAS, 2019b).⁴⁰ The tax dispute resolution process generally involves a number of stages; objection, review, litigation, and finalisation (IRAS, 2019b).

The IRAS determines the amount of income tax due based on the income tax return lodged by the taxpayer. A notice of assessment, which may include a letter or a tax calculation from the IRAS explaining the tax adjustments made, is issued to the taxpayer. According to section 76(2A) of the Income Tax Act, a taxpayer has the right to object to an amended assessment. However, the objection "should be limited to the amendment or any information related to the amendment" (IRAS, 2019b, p.4). That is, if an item of assessment has been finalised previously and there was no valid objection filed in relation to it, the IRAS will not reconsider that item (IRAS, 2019b). Taxpayers may object to tax assessments made by the IRAS within two months of the date on which the notice of assessment was served (IRAS, 2019b). However, this

³⁶ See, for example: Yakovlev (2008); Interview with Anton Aleksandrovich Ivanov, Chairman of the Supreme Arbitrazh Court of Russian Federation, "The results and perspectives of the Arbitrazh proceedings in the Russian Federation" (2008) (in Russian) (accessed 19 Jul. 2020).

³⁷ Ibid.

³⁸ Arbitrazh Procedural Code of Russian Federation art.334.

³⁹ Income Tax Act (Cap 134), Goods and Services Tax Act (Cap 117A) (GST Act) and Stamp Duties Act (Cap 312).

⁴⁰ Income Tax Act s. 76(2).

timeframe only applies to notices of assessment issued on or after 1 January 2014.⁴¹ Importantly, the notice of objection must contain specific grounds for objection or it can be rejected (IRAS, 2019b). The notice of objection can also be rejected if the taxpayer does not provide the necessary information and/or does not reply to the IRAS's requests, or the objection has not been lodged within the two-month timeframe. The IRAS encourages taxpayers to use e-Services in order to file objections "by logging into *myTax Portal* and selecting Revise/Object to Assessment" (IRAS, 2019b, p. 5).

Once a valid notice of objection has been filed, the IRAS will review the submitted information. It may require additional information and, if so, will generally expect the taxpayer to respond to its request within two months (IRAS, 2019b). Importantly, there is no prescribed time limit within which the IRAS must make a decision. Generally, taxpayers' objections are reviewed within six months from the date of receipt of the taxpayer's last correspondence (IRAS, 2019b). However, in some complex cases, consideration of the objection may take longer (IRAS, 2019b). In such a case, the IRAS would advise the taxpayer about the status of the review and the expected date of completion (IRAS, 2019b). The IRAS may refuse to review an objection if the taxpayer fails to provide the requested information within two years of the date on which the notice of objection was received (IRAS, 2019b).

When the review is complete, the IRAS will provide the taxpayer with written details of the reasons for its decision (IRAS, 2019b). The "taxpayer is expected to reply in writing within three months from the date of" this letter (IRAS, 2019b, p. 8). If the taxpayer agrees with the IRAS's decision, the assessment will be considered to be final (IRAS, 2019b). Conversely, the IRAS will issue a notice of refusal to amend the decision if an agreement with the taxpayer has not been reached (IRAS, 2019). Where the IRAS disallows an objection, a taxpayer may, within 30 days of receipt of the decision notice, apply to the appropriate Board of Review for a review (IRAS, 2019b). It is worth noting that the IRAS tends to be responsive to engaging in negotiations with taxpayers in order to reach a compromise that is acceptable for both parties (Yap, 2017). However, the IRAS does not tend to focus on mediation or alternative dispute resolution (ADR) processes.⁴² A taxpayer who does not want to lodge a formal objection may apply to the IRAS for an advance ruling on the tax treatment of a specific transaction or arrangement based on the current tax legislation, but a fee would apply in such a case.⁴³ The ruling is legally binding for the IRAS, although the taxpayer is not obliged to follow the ruling (IRAS, 2013).

Judicial Approaches to Tax Disputes Resolution in Singapore

Once the notice of refusal to amend has been issued, a taxpayer can choose to accept the IRAS's decision or to lodge an appeal with the appropriate Board of Review.⁴⁴ The appeal must be lodged within 30 days of the date of the notice of refusal to amend.⁴⁵ Singapore has three Boards of Review for tax matters; the Goods and Services Tax Board of Review, the Income Tax Board of Review, and the Valuation Review Board.⁴⁶ That is, if the taxpayer is dissatisfied

⁴¹ Income Tax Act s. 76(3). For notices of assessment issued before 1 January 2014, a notice of objection must have been filed within 30 days from the date of service of notice of assessment.

⁴² This point is discussed in section 4.

⁴³ Income Tax Act s.108.

⁴⁴ Income Tax (Board of Review) (Appeals Procedure) Regulations 1990.

⁴⁵ Income Tax Act s. 79(1).

⁴⁶ Income Tax Act (c 134) 2014, s 78; Income Tax (Board of Review) (Appeals Procedure).

with a decision made by the IRAS that relates to Goods and Services Tax (GST), they should lodge their appeal with the Goods and Services Tax Board of Review, while they should appeal to the Income Tax Board of Review if the dispute is related to income tax. The Valuation Review Board is empowered to hear appeals relating to property tax matters. However, a taxpayer who is dissatisfied with a decision made by the IRAS in respect of stamp duties can lodge an appeal directly with the High Court.⁴⁷

The Boards of Review act as quasi-judicial bodies that are similar to, for example, Australia's Administrative Appeals Tribunal. The Boards of Review can ask relevant persons to give evidence and/or produce documents, and have the power to award costs. The Boards of Review's decisions are final if no question of law is involved.

A decision made by the Income Tax Board of Review may only be appealed to the High Court by a taxpayer or the IRAS if the matter involves a question of law, or of law and facts, and the amount of tax disputed exceeds S\$200.⁴⁸ Similarly, there is no unrestricted right of appeal to the High Court in respect of a decision made by the Goods and Services Tax Board. Such a decision may only be appealed if the issue in dispute is a question of law, or law and facts, and the amount of tax disputed exceeds S\$500.⁴⁹ Thus, there is no right to appeal to the High Court in respect of decisions made by the Boards of Review with regard to finding of facts.

The specific appeals procedures for the High Court are set out in Order 55 of the Rules of Court. Generally, a High Court case is heard and determined by a single judge.⁵⁰ The High Court may reaffirm, vary, or annul the decisions made by a Board of Review and may also make other orders.⁵¹ An additional avenue via which a decision made by the IRAS or a Board of Review may be challenged is the judicial review. The judicial review is concerned with the process and the scope rather than the merits of the decision (Thio, 1999). Generally, a judicial review would focus on procedural irregularity, unreasonableness, or illegality of a decision (Thio, 1999). However, in order to apply for a judicial review, the taxpayer must first obtain leave from the High Court.

Finally, if either party is dissatisfied with the High Court's decision, they may choose to lodge an appeal with the Court of Appeal. The Court of Appeal is presided over by three judges, who will consider the appeal and make an appropriate decision.⁵² Like the High Court, the Court of Appeal considers the matter afresh.⁵³ Generally, a taxpayer or their representative may appear before a Board of Review. However, a taxpayer must be legally represented for hearings before the High Court and the Court of Appeal unless that taxpayer is willing to conduct the hearing in person. The decisions of the Court of Appeal are final.

Regulations 1990; Goods and Services Tax Act (c 117a), s 50(10); Goods and Services Tax (Board of Review) Regulations 1993; Property Tax Act (c 254), s 68; and Valuation Review Board (Appeals Procedure) Regulations 1990.

⁴⁷ Stamp Duties Act s. 40.

⁴⁸ Income Tax Act s. 81(2).

⁴⁹ Goods & Services Tax Act s. 54(2).

⁵⁰ Order 55 Rule 2 of the Rules of Court.

⁵¹ Income Tax Act s.81(4); Goods & Services Tax Act s. 54(4).

⁵² Supreme Court of Judicature Act s. 29A.

⁵³ Order 57 of the Rules of Court.

4. CRITERIA AND EVALUATION

The preceding review of the principal administrative components of the tax dispute resolution processes in Russia and Singapore suggest that there are a number of criteria, or “qualities”, that are critical if any such system is to furnish the sort of procedural justice that taxpayers are entitled to expect.⁵⁴ At a very minimum, the internal administrative component of a tax dispute resolution process should have the following attributes:

- Independence – it should include an objective review of the case, independent of the revenue officers who made the initial decision.
- Competence – each objection should be dealt with by revenue officers with competence in the relevant field and who are able to provide high-quality and consistent outcomes based upon the merits of each case.
- Flexibility – the process should be sufficiently flexible to accommodate alternative tax dispute resolution methods or to be able to expedite transmission away from the hands of the revenue authority and to a higher administrative or judicial authority.
- Effectiveness – the process should be conducted, and each outcome delivered, in a timely, cost-effective, and transparent fashion.

The internal review processes of the Russian and Singaporean systems are now evaluated against each of these four criteria with a view to identifying how they are performing and how each country’s system might be improved.

Independence

Under the Russian administrative appeal procedure, taxpayers’ disputes are generally considered by a superior level tax authority.⁵⁵ However, before the appeal is passed “up the chain”, all materials related to the appeal are prepared by the tax officer who made the initial decision. Furthermore, all appeals are handled by a legal department⁵⁶ which is responsible for consideration of appeal cases and the preparation of decisions. The decision about the disputed issue is then formulated before an appeal commission (normally consisting of a legal department representative, other officers who have expertise relating to the subject of the appeal, and the head or deputy head of the tax authority) considers the case (Artemyeva, 2012). In addition, an appeal commission often includes the officer who was initially involved in the tax dispute (Artemyeva, 2012).

A further example of the lack of independence or impartiality/objectivity under the Russian administrative appeal procedure is that large business taxpayers often experience considerable difficulties in obtaining significant Value Added Tax (VAT) refunds (for example, after the construction of a new plant) as a result of the common perception by FTS officers that when a taxpayer is in such a situation, it is a sign that they are participating in a tax minimisation scheme (Batanov, 2013). As a result, large businesses’ VAT-related appeals commonly give rise to court proceedings. Some commentators, criticising the administrative appeal procedures, point to a lack of independence on behalf of tax officers, which they believe arises

⁵⁴ For a detailed discussion of the tax dispute system design principles, see, for example: Jone (2017); Jone (2018); Mookhey (2013).

⁵⁵ For example, Moscow is divided into 12 administrative districts (okrug). There are several tax inspectorates in each district and the superior tax authority for all district inspectorates is the Office of the Federal Tax Service for Moscow.

⁵⁶ All Russian tax inspectorates have internal legal departments and appeal commissions.

as a result of the constant pressure that these officers are under to accomplish predetermined revenue collection targets by any means (Batanov, 2013).

In Singapore, the tax officer responsible for the original tax assessment or a closely interrelated officer may be involved in the consideration of the taxpayers' objections and settlements, and this is specifically the case in the early stages of the process (Quah, 2020). Therefore, some concerns relating to the lack of objectivity of the IRAS internal review procedure can be raised. Generally, the tax officer may seek advice on the settlement of the dispute, but such advice is obtained internally. Since the IRAS does not use formal mediation, a neutral third-party mediator is not involved in the dispute settlement (Quah, 2020). Thus, the IRAS review is a purely internal process that may not be able to facilitate a desirable level of independence in dispute resolutions. In this light, it is beneficial for Singaporean taxpayers to be able to appeal to the Boards of Review. However, it should be noted that members of the Boards of Review are appointed by the Minister for Finance.⁵⁷ Thus, similar concerns related to independence and the perceptions of the Boards' members can be raised with regard to appeals considered by the Boards of Review.

As a result of these shortcomings, it appears that the objection procedures in Russia and Singapore may not always facilitate an independent consideration of tax disputes, and that the attribute of independence may not always be achieved in these countries.

Competence

As a result of the internal review processes in Russia, there are some concerns about the quality of tax dispute resolution outcomes. According to some experts, the tax authorities tend to miss some provisions of the law and jurisprudence when considering appeals and eventually dismiss taxpayers' objections on spurious grounds (Chernik, 2012). In other words, one of the principal reasons for the high number of tax-related cases that taxpayers elected to take directly to the Arbitrazh Courts in the period prior to the introduction of the mandatory administrative review in 2014 was that tax officials were perceived to be both inefficient and incompetent when dealing with taxpayers' objections and appeals (Chernik, 2012; Vasilyeva, 2012).

The introduction of the mandatory administrative procedures for appeals in 2014 has, however, had some positive effects. According to some observers, it has helped to improve the quality of the decisions made by the tax authorities (Chernik, 2012). Arguably, these effects are primarily the result of the fact that when reviews are conducted by officers who are higher up the ranks of the revenue authority, obvious mistakes and miscalculations made at subordinate levels are filtered out. However, complicated tax disputes relating to tax benefits or VAT refunds are often still resolved by way of judicial procedures rather than at the administrative level (Chernik, 2012). In such a situation, the mandatory administrative procedure for dispute resolution can be an obstacle that delays the accomplishment of taxpayer's legitimate interests. Nonetheless, the number of appeals resolved by the courts has fallen by 15 to 20% per year.⁵⁸ Importantly, the share of tax-related cases resolved by courts in favour of the tax authorities was 80% in 2019, compared to 41% in 2010.⁵⁹ It should be noted that, for the tax authority, the reduction in the number of appeals to the court is an indicator of the effectiveness of the process. This is not necessarily the case from the taxpayer's point of view as, for example,

⁵⁷ Income Tax Act s. 78(14).

⁵⁸ Federal Arbitrazh Courts of the Russian Federation. Statistical data. http://arbitr.ru/statisticheskie_dannie/ (in Russian) (accessed 2 Jun. 2021).

⁵⁹ FTS. *Results of pre-trial settlement of tax disputes for 2019*. (in Russian) (accessed 22 Jul. 2020).

litigation involves legal costs and can take several months. In addition, if a case has the potential to affect the established practice of the FTS, a team of lawyers and tax officers will represent the FTS in the court. These can be tax auditors of all levels, starting with those who conducted the audit, and lawyers from the regional or central office. At the same time, taxpayers may not be able to defend their rights because not all companies can afford the services of a tax lawyer. It can be argued that these factors, among others, have contributed to the reduction in the number of court cases and the increase in the number of decisions made that are in favour of the FTS.

In Singapore, as in Russia, a tax officer must follow the tax authority's interpretation of law as expressed in rulings and guidelines (Quah, 2020). This approach provides consistency, although it may have a significant impact on the flexibility of tax officers and negotiated settlements. Tax officers who focus on the IRAS's views and publications may be reluctant to consider those of other authorities that clearly express a contrary position. It has also been suggested that the IRAS's objection process is simply an internal review and is far from being independent (Quah, 2020). Indeed, it is argued, the objection officer should consider the dispute in line with the law, rather than in line with IRAS policies and interpretations. However, on average, the number of tax disputes considered by the Boards of Review and the courts in Singapore remains constantly low. For example, there were only 12 tax-related cases reported in 2017 (Tan & Ying, 2018). While this is twice the number reported in 2016 (Tan & Ying, 2018), the average number of cases is still very low, indicating that the IRAS's administrative dispute resolution process is successfully reducing the number of court cases that take place.

In short, neither country fares perfectly well in terms of this criterion. It should be noted that the IRAS has an established dispute resolution system that successfully limits related litigation. Perhaps one of the first steps required in order to improve the competence and efficiency of the administrative dispute resolution process in Russia and Singapore is the introduction of operational internal audit mechanisms which would be independent of the revenue officer(s) involved in a tax dispute.

Flexibility

In Russia, the implementation of the new mandatory procedure for administrative review means that the option to apply directly to the Arbitrazh Court, thus bypassing the FTS's objection procedure, is eliminated. However, the Russian FTS is trying to address issues that emanate from this lack of flexibility. The newly introduced mandatory administrative review procedure therefore involves a number of relevant innovations. In particular, a fast-track procedure (15 days instead of 30 days under the present law) for decision-making in respect of objections of a non-normative nature⁶⁰ has been introduced.⁶¹ In addition, the time limit for filing an appeal relevant to decisions which have not yet entered into force has been extended from ten days to a month, allowing the taxpayer time to prepare a proper and well-motivated appeal.⁶²

⁶⁰ Acts of a non-normative nature include various documents issued by the FTS, such as requests, resolutions, letters, etc. The formal decision based on the results of a tax audit is a normative document.

⁶¹ Federal Tax Service of Russian Federation *supra* n 22.

⁶² *Ibid.*

The Russian tax officials believe that the new law and procedures provide the real possibility of resolving disputes at the pre-trial stage.⁶³ However, an unresolved issue is that the legislator tries to present these mandatory administrative procedures as a form of out of court settlement. The fundamental difference is that, under an out of court settlement, the dispute is resolved via third-party mediation. Nevertheless, it should be noted that the FTS has become more inclined to settle tax disputes. For example, revenues from settlements with taxpayers has grown significantly, amounting to 4.2 billion roubles in 2019.⁶⁴ These approaches have undeniably provided some extra flexibility to taxpayers. Unfortunately, there is currently no focus on ADR in Russian governmental bodies. Moreover, as mentioned previously, ADR procedures are novel in Russia and, so far, the FTS has focussed on internal review rather than on any alternative methods for resolving disputes. As a result of all of this, Russian taxpayers are further limited in terms of flexibility, as they have no capacity to seek ADR forums.

The IRAS, meanwhile, has a reasonable track record in terms of the flexibility of its approach to internal review. However, there are some concerns about the capability of its internal review process to move rapidly to external administrative or judicial review where it is evident that it is not possible to make progress by way of internal review. According to Allen Tan of Baker & McKenzie, “the IRAS has shown itself to be amenable” to discussions with taxpayers “in a bid to obtain a compromise favourable to both parties, and to avoid unnecessary tax litigation” (“How To Avoid A Tax Dispute In Singapore”, 2012). There is no formal approach to commence negotiations and either party may start such discussion (“How To Avoid A Tax Dispute In Singapore”, 2012).

Importantly, the Singapore authorities recently signed the United Nations’ Convention on International Settlement Agreements Resulting from Mediation, also known as the “Singapore Convention on Mediation” (Quah, 2020). However, the IRAS is somewhat hesitant to embrace mediation or a formal ADR process for tax disputes resolution. According to Quah (2020), its reluctance to implement ADR procedures may be explained by the fact that “the IRAS may not see the cost benefits of mediation as it is already extremely efficient in collecting its taxes” (para. 26). The IRAS is progressively increasing the amount of tax revenue collected; for example, in 2018/19, S\$52.4bn (£28.2bn) was collected (IRAS, 2019a). In addition, the IRAS has audited 10,301 cases and recouped about S\$389m (£209.4m) in taxes and penalties in the same financial year (IRAS, 2019a, 8.12). That might provide a significant deterrent to changing an already effective system. This is unfortunate, as the implementation of ADR procedures could provide taxpayers with the opportunity to settle disputes earlier and with the assistance of a third party which could, in turn, enhance procedural justice principles (van Hout, 2018).

Moreover, as noted above, less progress has been made in relation to the capacity of the internal review system to operate effectively and with sufficient flexibility where an obvious impasse has been reached. There is no legislated time limit within which the IRAS must make a decision (IRAS, 2019b). A review of the taxpayer’s objection that lasts for six months or more diminishes the effectiveness of such an option and, thus, it does not fare well in terms of flexibility. It may be argued that the taxpayer should have the option to bypass the IRAS’s objection process and apply directly to the Boards of Review or, in complex cases, the court. A fast-track process to external review should be made available for complex cases. This would allow for an objection decision to be expedited where resolution of the dispute at the objection

⁶³ *Federal Tax Service proposes to expand the scope of the special rules of procedure for mandatory pre-trial appeal.* (27) Russian business newspaper 856, 24 July 2012.

⁶⁴ Federal Tax Service of Russian Federation supra n 22.

stage is unlikely. An obvious criticism of this proposal is that it would not be easy to establish a borderline between simple and complex cases on a legislative level.

Effectiveness

Effectiveness, as noted above, relates to the capacity of the administrative review system to operate in a timely, cost-effective, and transparent fashion. According to the Russian Ministry of Finance, the introduction of the mandatory administrative review stage for all tax disputes provides a faster and less expensive way by which to resolve tax disputes and to reduce the number of tax cases resolved in the Arbitrazh Courts (“Sergey Arakelov: Every year there are less and less conflicts with taxpayers”, 2012). Furthermore, the Ministry of Finance suggested that the introduction of mandatory administrative dispute resolution procedures for all types will enhance the ability of taxpayers to exercise their rights and legitimate interests (“Sergey Arakelov: Every year there are less and less conflicts with taxpayers”, 2012). In other words, the aims of the Ministry of Finance are similar to those of the IRAS; both focus on the reduction of tax-related litigation. The recent evidence is quite encouraging, as the amount of tax-related litigation taking place has notably reduced. The number of tax cases going to the Arbitrazh Courts in 2009, when the mandatory administrative review process was introduced on a limited basis, was 87,900.⁶⁵ The number of such cases has decreased significantly since then, falling from 53,000 in 2013 to about 11,000 cases in 2019.⁶⁶

Singapore has fared reasonably well in terms of cost-effectiveness, but has not always done as well on the timeline front. More particularly, the IRAS has been criticised for delays in respect of its decision-making process when handling objections. The fact that there is no mandatory time limit for the consideration of the taxpayers’ objections is concerning. While the majority of the objections are resolved by the IRAS within six months, the consideration period for some cases is significantly longer than that. Notwithstanding such concerns, the IRAS’s intentions to resolve disputes at an early stage and to avoid litigation are evident. Although certain issues still exist with regard to the effectiveness of the IRAS’s dispute resolution system, most tax disputes in Singapore are resolved via these administrative procedures, and only a miniscule number of disputed cases are appealed to the Boards of Review and the Court.

Therefore, one may argue that, despite having certain drawbacks, the Singaporean administrative tax dispute resolution system is a reasonably effective operative mechanism, providing taxpayers with a relatively efficient forum for the resolution of tax-related disputes. The Russian administrative tax dispute resolution system has also made significant progress in terms of reducing litigation. This decrease is positive when disputes are resolved more efficiently and taxpayers are satisfied with the results. Unfortunately, this is not always the case in Russia where, in some cases, taxpayers cannot protect their rights due to the factors previously discussed.

5. CONCLUSIONS

The Russian government has established a kind of “filter” in the form of a mandatory administrative procedure for all tax disputes. It may be argued that the FTS has tried to increase the quality of the decisions made and has also managed to decrease the significant number of

⁶⁵ *Summary of the Arbitrazh Courts of the Russian Federation Decisions Concerning Cases involving Tax Authorities*. (in Russian) (accessed on 08 Jul. 2020).

⁶⁶ *Summary statistical information on the activities of federal arbitration courts for 2019*. (in Russian) (accessed on 08 Jul 2020).

losses that it previously suffered in the courts. However, as a result of this new mandatory process, taxpayers' access to justice has been further limited.

The Singaporean experience, where mandatory internal administrative review has been a key feature of the system for many years, suggests that internal review per se may not be enough to ensure a workable system. The system must: have a certain degree of objectivity and independence; be able to provide consistent, high-quality decisions based upon the merits of each case and not the partiality of the institution; provide flexibility in its approach; and be effective, in the sense of being timely, cost-effective, and transparent. The Singaporean system does not always achieve all of these goals, but it performs sufficiently well with regard to some of them so as not to cause undue concern on an ongoing basis.

The tax disputes administration system in Russia is still at an early stage of development, and it may not yet be the case that the necessary qualities of a fully functioning administrative review system are fully in place. In the light of this, the prompt introduction of ADR and/or mediation procedures would help to promote procedural justice for taxpayers. Moreover, the Russian government might wish to consider introducing a flexible forum for tax dispute resolution—similar to the Singaporean Boards of Review—that is able to provide a merits-based review of the FTS decisions. This may be particularly important in the light of the recent constraints on access to judicial tax dispute resolution.

Overall, and despite the infancy of the Russian system, the administrative tax dispute resolution practices in both Russia and Singapore face similar problems relating to the competency of the officers involved in the process and, as a result, the quality of the tax authorities' decisions. It is clearly the case that Russia could benefit from studying some of the practices and processes adopted in Singapore in this sphere. However, the IRAS may also be able to learn from some of the approaches taken by the Russian FTS. In particular, the IRAS—an organisation often accused of being tardy in its decision-making—could consider introducing fast-track procedures, such as the FTS's 15+15 days process. The introduction of ADR and/or mediation procedures would also benefit the Singaporean system and help to promote procedural justice for taxpayers.

If Russia and Singapore were to take the measures discussed, it would certainly not fix all of the problems related to the tax disputes resolution via internal review processes that exist in each nation. However, it may go some way to ensuring that the principles of procedural justice continue to be available in both countries.

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THE TAX COMPLIANCE COST FOR BUSINESSES AND ITS KEY DETERMINANTS: EVIDENCE FROM GREEK BUSINESSES

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Abstract

This paper aims to investigate the key determinants of the costs that arise for businesses during the voluntary tax compliance process in accordance with the current tax system's requirements. Essentially, this work seeks to highlight the parameters of a "hidden" cost for businesses given, as seems particularly important, the peculiarities and weaknesses of tax system. Methodologically, the research was conducted using a representative sample of businesses operating in the Greek economy. A questionnaire was employed and the data obtained was processed using factor analysis. The results of the survey revealed that the two main factors that determine the cost of tax compliance are the complexity of the tax system and the level of electronic tax services provided by the tax administration. In practice, the recognition and analysis of these factors will make a decisive contribution to the reduction of businesses' operating costs. This is necessary if businesses are to maintain their sustainability and achieve satisfactory growth rates, and thus be able to compete in the modern economic environment. This study is, to our knowledge, the first to examine the issue of the tax compliance costs in the Greek economy from this perspective, and lays the keystone for monitoring them on a more systematic and regular basis.

Keywords: Tax Compliance Cost, Complexity, E-Government.

JEL Classification: H22, H25, M41

1. INTRODUCTION

The concept of tax compliance essentially refers to the various activities undertaken by taxpayers to fulfil their tax obligations. Since these taxes are paid at the will of the business, based on its submitted tax returns, tax compliance is called voluntary. On the other hand, according to Alm (1999), the illegal and deliberate actions of taxpayers in order to reduce their legal tax obligations constitute the phenomenon of tax evasion. According to the United States' Internal Revenue Service (IRS), which is known for its effectiveness, there are three main obligations for taxpayers: the timely submission of tax returns, the honest and accurate transfer of data for the submitted tax returns, and the payment of the resulting taxes, voluntarily and in a timely manner (Brown & Mazur, 2003). Taxpayers, therefore, comply when they meet these obligations.

The cost of tax compliance refers to the expenses incurred by taxpayers in order to fulfill their tax obligations. In other words, this cost refers to the expenses incurred by taxpayers in order to comply with the requirements of the tax provisions. In particular, the cost of tax compliance, as evidenced by the review of the relevant literature below, includes expenses related to the preparation, drafting, and submission of tax returns, and to the monitoring of relevant tax

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legislation. It is treated as a “hidden” taxation cost (Tran-Nam et al., 2000). Therefore, if the tax system is characterized by excessive complexity, it leads to higher tax compliance costs (Slemrod & Blumenthal, 1996).

The investigation of tax compliance costs faced by businesses and potential solutions to reduce these form a particularly important field of research. Not only can businesses benefit directly from reduced compliance costs (external tax advisors and tax professionals’ fees, equipment, books, subscriptions to tax journals, training seminars, hardware, software, etc.), they can minimize the amount of time that employees in their accounting departments spend on matters that do not produce added value (Eichfelder & Schorn, 2012). These employees could then spend more time on productive work that creates added value for themselves, the businesses that they represent, and the national economy as a whole (Yilmaz & Coolidge, 2013). In addition, tax compliance costs include the psychological costs associated with stress, frustration, and anger caused by tax compliance efforts in highly complex tax environments (Sandford, 1995; Sandford et al., 1989).

While the issue of tax compliance costs for businesses has long occupied the thoughts of economists in developed countries (Coolidge, 2012), it has not yet been explored at both a theoretical and an applied scientific level in relation to Greece. In the context of the assumption that these costs form a significant part of businesses’ total operating costs, this paper seeks to highlight and investigate the issue, given the weaknesses of the Greek tax system. In addition, understanding the relationship between taxes and compliance costs can help us to focus on compliance cost management efforts in areas that have greater impacts (Marcuss et al., 2013).

Based on the above reasoning, the study’s research questions were structured to focus on the non-productive costs incurred by businesses in order to fulfill their tax obligations. These non-productive costs, which deprive businesses of valuable resources, consist mainly of direct labor, office supply, software and machinery, and external professional services (e.g., accountants, tax experts, etc.) costs. Methodologically, the research was carried out using stratified sampling in order to ensure that each category of business, in terms of size, industry and legal form, was included in each sample. Simple random sampling was then applied to each category. Structured questionnaires were also used in the research in order to extract the necessary primary data. The statistical processing and analysis of the data obtained from the questionnaires was performed using factor analysis. The purpose of the research was to capture the main factors that determine tax compliance costs for businesses operating in the Greek economy. At the same time, it sought to decode these factors so that their main components could be analyzed and suggestions for improvement could be made.

This research is innovative based on the fact that it seems, from the review of the relevant literature, that this is the first time that the issue of business tax compliance costs in Greece has been investigated from this point of view. The contribution made by the research is twofold. On the one hand, it aims to fill the observed research gap in terms of theoretical scientific knowledge. On the other hand, in terms of applied scientific knowledge, it aims to draw useful conclusions and propose ways in which business tax compliance costs can be reduced. These conclusions and proposals can be used by the companies themselves and by those responsible for determining tax policy, in order to generate significant benefits for businesses and the entire national economy.

2. LITERATURE REVIEW

Taxpayers' compliance and fulfillment of their tax obligations requires that they incur some compliance costs. These costs are borne by taxpayers in order to meet tax legislation and tax authorities' requirements. According to Sandford (1995), a tax compliance cost is a cost beyond the actual payment of tax and beyond any concept inherent in the nature of the tax—a cost that would disappear if the tax were to be abolished. Tax compliance costs include the fees and expenses of lawyers and accountants, the expenses of the special tax departments that maintain large enterprises, and the time taken and efforts made by taxpayers when organizing their files and preparing tax declarations (Weistroffer et al., 1999). The work required in order to meet tax compliance obligations is performed in the context of tax accounting, which is part of general accounting. Therefore, the cost of this work is borne by a business's accounting department. According to Tran-Nam et al. (2000), the three main cost areas related to tax compliance activities are: a) time spent by taxpayers, unpaid assistants, and internal employees; b) remuneration to external paid tax advisors; and c) non-labor costs associated with taxes on ancillary expenses or general business expenses, such as equipment, computers, stationery, photocopies, postage, telephone, television, electricity, and travel, etc.

While tax compliance costs have long been recognized in theoretical literature, the first empirical study focusing on them was conducted in the United States by Haig in 1935. In the early 1970s, the cost of tax compliance was named the “hidden cost” of taxation (Tran-Nam et al., 2014). It was treated as such for a long time (Chan et al., 1999; Chittenden et al., 2010; Fichtner & Feldman, 2015). The research that has been conducted into tax compliance costs is often overlooked by those who shape tax policy and this results in financial burdens, mainly for small businesses and the self-employed, as a result of unreasonable and burdensome tax regulations (Godwin, 1978). Furthermore, the costs involved in compliance are not disclosed in annual business reports or other publicly available information sources (Eichfelder & Hechtner, 2018).

One feature of the tax system that seems to have a decisive effect on the size of tax compliance costs is the complexity of the tax system. The simplest tax systems are not necessarily the best, but tax system complexity does not necessarily serve a useful purpose (Slemrod & Blumenthal, 1996). The complexity of tax systems seems to correlate positively with tax compliance costs (Evans, 2003; Marcuss et al., 2013). Primarily, tax legislation complexity creates additional compliance costs (Lassila & Murphy Smith, 1997; Mills, 1996; Slemrod & Blumenthal, 1996). Complex tax systems require taxpayers to obtain additional training and to seek external professional advice in order to be compliant (Musimenta, 2020), as the need for tax advice increases (Christian et al., 1993; Eichfelder et al., 2012). The simplification of tax legislation and tax procedures can contribute significantly to cost reductions (Alm, 1996; Marcuss et al., 2013; Slemrod & Yitzhaki, 2002).

In addition, according to Eichfelder and Kegels (2014), the existence of a non-friendly tax administration increases the burden of tax legislation compliance by about 27%. According to Mathieu et al. (2010), there is a positive relationship between total compliance costs and the difficulty of dealing with tax matters, which is unsurprising. This highlights the negative effects of complexity on the cost of tax compliance and reinforces the argument for examining compliance costs when designing tax regimes.

Moreover, the cost of tax compliance has an impact on the voluntary compliance. When facing the disproportionately large costs incurred under a complicated tax system, taxpayers can

become frustrated and dissatisfied with the tax legislation and, ultimately, this can lead to more non-compliance (Erard & Ho, 2003; Slemrod, 1989). The tax administration should avoid addressing the issue of tax non-compliance by increasing the complexity of the tax laws, as this leads to a vicious cycle of growth of tax non-compliance, precisely because of the increased compliance costs faced by taxpayers in order to meet the demands of a complex tax system (Franzoni, 2000).

The use of modern technologies can make a significant contribution to the reduction of business compliance costs (Azmi et al., 2016; Martins & Picoto, 2019). The use of electronic filing systems makes it easier and less time consuming for taxpayers to prepare and file their tax returns, and pay taxes. It also results in fewer calculation errors appearing in tax returns. In addition, it creates a more predictable tax environment, as all the information needed by taxpayers is available online and is easy to find (World Bank & PwC, 2017). At the same time, the simplification and improvement of tax return filing processes can also help to reduce compliance costs.

According to Harju et al. (2019), VAT taxation compliance costs in Finland could be reduced by fully automating the relevant processes and merging VAT reporting forms with the annual income tax filing procedure. Certainly, the reduction in compliance costs as a result of the application of modern technologies, which contributes to the reduction of the complexity of tax system, presupposes an initial investment cost (Marcuss et al., 2013). Essentially, however, the use of technology can help to alleviate complexity at various levels, such as in the tax payment process, by improving the ability of taxpayers to deal effectively with certain types of tax complexity (Goolsbee, 2004). Nevertheless, it is important to reduce the impact of tax administration on compliance costs and minimize opportunities for direct contact with taxpayers wherever possible (Chattopadhyay & Das-Gupta, 2002).

When taxpayers pay tax to the state, the processes involved also generate administrative costs that are borne by the tax administration. The administrative cost relating to the costs incurred by the tax administration to implement tax legislation and to assess and collect taxes is a decisive parameter for the complexity of tax law. In Greece, the administrative cost is very high. The cost of tax revenue collection as a percentage of total tax revenue is much higher in Greece than in other countries. However, this has not had a positive impact on efforts to reduce taxpayers' compliance costs, as these costs are also very high in Greece. According to available estimates, the total administrative cost for the collection of all tax revenues in Greece is 1.61% of total tax revenue, while it is 0.86% in Canada. The administrative cost for collecting income tax in Greece is 2.39% of total income tax collected but is 1.0% in Canada and 0.6% in the United States (Bank of Greece, 2010).

The sum of compliance costs and administrative costs is the total cost associated with the tax compliance of taxpayers. This is often referred to as the operating costs of a tax system. Slemrod (1989), studying the relationship between compliance costs and tax evasion, argued that the overall cost of tax collection (including taxpayers' compliance costs) is an indicator of a tax system's complexity. Moreover, Slemrod (2019), studying the case of the IRS, found that the cost of increased tax administration enforcement includes administrative costs (which appear in the IRS budget), compliance costs (which do not appear in the IRS budget), an additional weight (due to behavioral reactions of all kinds), and the additional uncertainty created in taxpayers.

The estimation of tax compliance costs typically requires painstaking research and involves the collection of large amounts of data that is not available from published sources (Tran-Nam et al., 2000). Nowadays, the necessity of measuring compliance cost burdens is widely accepted as being demonstrated by the implementation of the standard cost model in European countries (Nijssen & Vellinga, 2002) or the business taxpayer burden model in the United States (Guyton et al., 2003). In the relevant studies, the cost of tax compliance is expressed as the amount of time required for a business to meet its obligations so that it complies with the provisions of the tax legislation.

The total time required by each business in European Union countries to prepare, register, and pay taxes is, on average, 166 hours (Steinmo, 2018). However, this varies from country to country. It has been reported that it is 200 hours in Romania and 269 hours in Italy (Steinmo, 2018). According to the World Bank and PwC (2017), it takes, on average, 193 hours a year for a business in Greece to comply with its tax obligations. These hours are divided as follows: 78 on income taxes, 69 on consumption taxes, and 46 on labor taxes. However, the cost of tax compliance remains high in many developed countries with very well-organized tax administrations. According to Evans et al. (2014), “tax compliance costs remain high” and “do not appear to be diminishing over time” in four countries distinguished for the advanced nature of their tax services: Australia, Canada, South Africa, and the United Kingdom (p. 453).

Evidently, the compliance cost burden rises with business size, while the relative cost burden is notably higher for small businesses. However, this increase is not proportional (Stamatopoulos et al., 2017). In addition, according to Slemrod and Venkatesh (2002), tax compliance costs for small and medium-sized enterprises (SMEs) are high in the absolute sense and are higher in proportion to their size than they are for larger businesses in the United States. According to Smulders et al. (2012), taxation compliance costs and basic accounting costs are inversely related to the size of the business, with the tax compliance burden being heavier for smaller businesses.

Citing numerical data, the research carried out in Australia by Evans et al., (2013) found that the tax compliance burden as a percentage of turnover was much higher for micro-businesses (with turnovers under A\$75,000), amounting to A\$75.84 per A\$1,000 of turnover, than for small businesses (with turnovers of A\$75,000-A\$1,999,999) and medium-sized businesses (with turnovers of A\$2 million-A\$50 million), whose tax burdens were A\$14.09 and A\$3.34 per A\$1,000 of turnover respectively. In an earlier survey in the United Kingdom, Sandford et al. (1989) found that the cost of tax compliance for small businesses (with taxable turnovers of up to £100,000) was 0.79% of taxable turnover. The cost of tax compliance for medium-sized businesses (with taxable turnovers of between £100,000 and £1 million) was significantly reduced and amounted to 0.15% of taxable income, while the cost for large businesses (with taxable turnovers of more than £1 million) was even lower, at 0.04% of taxable turnover. Therefore, many surveys in various countries have shown that the cost of tax compliance disproportionately burdens small businesses, which have fewer staff, less experience, and less time to dedicate to handling this situation (Freedman, 2009).

Small businesses with limited resources are forced to allocate some of these to activities that do not offer value, such as tax compliance, and this creates unwanted and unnecessary burdens in terms of tax compliance costs (Matarirano et al., 2019). The compliance burden for the smallest businesses in Australia is, characteristically, about 9 percent of sales revenue (Lignier et al., 2014). However, it should be taken into account that small businesses usually consider all of the costs involved in the preparation of accounting records to be compliance costs. This

perception of small businesses is largely related to the accounting/tax overlap of the activities performed in their accounting departments, as these tasks are performed, on the one hand, to meet the need to provide information to the management and, on the other hand, to fulfill tax compliance requirements (Tran-Nam, 2001). Moreover, this perception is probably related to the excessive burden placed on small businesses when compared to larger businesses in terms of tax compliance costs, as mentioned above. According to Mahangila (2017), the regressive nature of tax compliance costs leads to lower tax compliance rates for SMEs than for large businesses.

In addition, businesses face higher compliance costs as the complexity of tax legislation increases and higher compliance costs burden those with the most complex tax situations (Slemrod & Blumenthal, 1996). Smulders et al. (2017) also argued that, although the legal form, age, use of tax concessions for small businesses, level of education of respondents, and type of accounting system used are statistically significant determinants of tax legislation compliance costs, turnover is the biggest determining factor. In contrast, Lignier et al. (2014) argued that the legal form of a business is not significantly correlated with tax compliance costs. In a study conducted in the Netherlands by Allers (1994), it was found that the size of enterprises (measured by the number of employees) positively correlated with the cost of tax compliance. The results of two surveys from European Union countries regarding the support of external tax advisers were ambiguous. Eichfelder and Schorn (2012) found that small businesses in Germany reduced their tax compliance costs by outsourcing tax processes to tax advisers. In contrast, the results of an earlier survey of small businesses in the United Kingdom, conducted by Hansford et al. (2003), revealed that outsourcing work to tax advisers resulted in increased tax compliance costs. Despite the burden that tax legislation compliance places on businesses, the efforts that they make to comply and the costs involved in this also have a positive side: Businesses record accounting events more accurately and this helps to boost the efficiency of their management (Sandford et al., 1981).

In the Greek economy, the vast majority of businesses are SMEs. Therefore, the finding that this cost is positively correlated with the size of businesses but is a heavier burden for small businesses is of particular importance. In order to reduce tax compliance costs—something that will have a positive effect on all operating businesses, but primarily on SMEs—it is necessary to identify the factors that determine the cost of tax compliance, and to investigate and understand them.

3. METHODOLOGY

The research questions emerged in the context of what was captured from the literature review. They were based on the commonly accepted assumption that there is an urgent need to reduce businesses' operating costs and aimed to identify the key factors that determine the cost of tax compliance. The main goal of the research was to identify the factors that contribute most to the formulation of tax compliance costs and why this happens. In particular, the research questions relate to the following topics:

- The number of provisions in the tax legislation (Eichfelder & Kegels, 2014; Marcuss et al., 2013; Oats & Morris, 2015). In Greece, the tax legislation consists of a variety of laws, clarifying circulars, and decisions. It also includes judicial jurisprudence decisions that are binding for the tax administration, resulting in the excessive expansion of the relevant legal framework.

- The variability of tax legislation. It is a fact that tax provisions change frequently, which makes the current tax framework difficult to interpret (Eichfelder et al., 2011; Rametse and Pope, 2002).
- The uncertainty created by the fact that the tax legislation provisions are difficult to interpret and apply (Marcuss et al., 2013; Sawyer, 2011). The intended meanings of these provisions are not presented in a simple and comprehensible way.
- The complexity of the appeals procedure both at the stage of the administrative examination of disputes and in the administrative courts in order to resolve tax disputes that arise from the way in which tax audits have been conducted (Chattopadhyay & Das-Gupta, 2002).
- The existence of conflicting provisions in tax legislation which is likely to lead to the subjective viewing and interpretation of the current tax legislation by businesses and tax administration employees (Edmiston et al., 2003).
- The extent to which tax provisions are codified in a single text of law by type of tax (Yin, 2018).
- The range and level of the online electronic tax services provided by the tax administration (Chatfield, 2009).
- The degree to which the tax administration's information system and businesses' accounting information systems are interconnected (World Bank & PwC, 2018).
- The degree to which taxpayers need to visit the tax administration's premises in person (Chattopadhyay & Das-Gupta, 2002; World Bank & PwC, 2018).
- The level of electronic tax data exchange between business accounting information systems (Bellon et al., 2019).

The study population included all active businesses in the Greek economy. A sample of 310 small, medium, and large businesses was used. These businesses were selected using stratified and simple random sampling methods. The use of the stratified sampling method ensures that sub-groups in the population are represented in the sample, while the use of simple random sampling gives each respondent in the subgroup a randomized chance of being included in the study. The data concerning the population of businesses operating in the Greek economy, based on their size in terms of the number of employees, their economic activity sector according to the European Union's Statistical Classification of Economic Activities in the European Community (NACE) revision 2, and their legal form was drawn from the Hellenic Statistical Authority's Statistical Businesses Register for 2017. Data from the Ministry of Development and Investment's General Commercial Register was used in order to select businesses for the sample.

The research was conducted using anonymous structured questionnaires in order to extract the necessary primary data, which was then processed. The data was collected in November and December 2019. The questionnaire included closed-ended questions about the subjects of the research developed above. The questionnaire was then checked for reliability and validity through an initial audit of 5% of the sample. The questionnaire was sent to 500 businesses operating in the Greek economy. It was administered and collected in person. Ultimately, 310 questionnaires were completed and the response rate was 62%. The statistical processing and analysis of the questionnaire data was performed using factor analysis, which reduces a large number of variables to a smaller number of significant variables using the correlations observed between them as a criterion. The important variables are called factors, which are thought to reflect the underlying processes that have created the correlations between the variables (Tabachnick & Fidell, 2019). The extraction method used to form the factors was the method of principal components.

The model of factor analysis for n variables and p factors is:

$$F_i = \sum_{j=1}^n W_{ij} Y_j = W_{i1} Y_1 + W_{i2} Y_2 + \dots + W_{in} Y_n$$

for $i = 1, \dots, p$

where:

F_i = the common non-observed factors,

W_{ij} = the coefficients of the factors,

n = the number of the observed variables used,

p = the number of factors extracted.

Each of the observed variables can be attributed as a linear combination of common factors, as follows:

$$Y_j = a_{j1} F_1 + a_{j2} F_2 + \dots + a_{jp} F_p + e_j$$

for $j = 1, \dots, n$

where:

F_i = the common non-observed factors,

a_{jp} = the specific coefficients that burden the factors (loadings),

e_j = the factor for the specific variable.

A pilot survey of 25 businesses was conducted in order to minimize response errors. The questionnaire included demographic characteristics, as well as ten questions concerning the determinants of tax compliance costs. These questions were to be answered using a five-point Likert scale. On this scale, the answer with the number 1 corresponds to the lowest grade, while the number 5 corresponds to the highest grade. A corresponding variable was created for each question.

The following variables were used in the analysis: 1. Length of tax legislation (Lenleg), 2. Changes in tax legislation (Legchang), 3. Legal uncertainty (Uncertleg), 4. Appeals (Appeals), 5. Conflicting provisions (Conprov), 6. Codification of tax legislation (Coditax), 7. Electronic tax services (Eservices), 8. Electronic connection (Econnect), 9. Number of visits (Numvisits), 10. Electronic tax data interchange (ETDI).

4. RESULTS

From the analysis of the sample data based on the descriptive statistic, it emerged that 94.2% (292) of the businesses that responded belonged to the category of very small businesses (0-9 employees), 4.5% (14) belonged to the category of small businesses (10-49 employees), 1% (3) belonged to the category of medium businesses (50-249 employees), and 0.3% (1) belonged to the category of large businesses (250+ employees). In addition, 35.8% (111) of the businesses in the sample were active in the primary sector of the economy (agriculture, mining,

etc.), 9.3% (29) were active in the secondary sector (manufacturing, construction, etc.), while 54.9% (170) were active in the tertiary sector (trade, services, etc.). Finally, by the legal form, 87.7% (272) were sole proprietorships, 7.4% (23) were general or limited partnerships, and 4.9% (15) were legal entities (public limited or limited liability companies).

Data processing with factor analysis showed that the value of the Kaiser-Meyer-Olkin (KMO) measure was 0.843, much higher than the acceptable value of 0.70. This measure shows that several variables are predicted in each factor. The results of the Bartlett's Test of Sphericity showed that the variables are well correlated to provide a basis for factor analysis, since the significance value is less than the value of 0.05. The results of the KMO and Bartlett's tests are presented in detail in Table 1.

Table 1: KMO and Bartlett's Test Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.84
Bartlett's Test of Sphericity	Approx. Chi-Square	1,291.70
	df	45
	Sig.	0.00

Communalities measure the rate of variation of each variable, interpreted by all factors. As shown in Table 2, no communality is low and therefore all variables are related to a factor.

Table 2: Communalities

	Initial	Extraction
Lenleg	1.00	0.61
Legchang	1.00	0.55
Uncertleg	1.00	0.61
Appeals	1.00	0.63
Conprov	1.00	0.67
Coditax	1.00	0.62
Eservices	1.00	0.42
Econnect	1.00	0.70
Numvisits	1.00	0.55
ETDI	1.00	0.57

The processing showed that only two of the ten initial factors had eigenvalues higher than value 1. The eigenvalues after varimax rotation, which maximizes the number of variables that have high loadings on each factor, appear in Table 3. The first two factors explain 59.15% of the total variation. In general, a percentage of the total variation greater than 50% is considered satisfactory.

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.68	46.37	46.37	4.68	46.37	46.37	3.27	32.68	32.68
2	1.28	12.77	59.15	1.28	12.77	59.15	2.65	26.47	59.15
3	0.79	7.92	67.07						
4	0.74	7.44	74.51						
5	0.64	6.42	80.93						
6	0.58	5.37	86.29						
7	0.47	4.50	90.94						
8	0.38	3.81	94.75						
9	0.29	2.94	97.70						
10	0.23	2.30	100.00						

The scree plot (Figure 1) shows the factors on the horizontal axis and the corresponding eigenvalues on the vertical axis. Given the inclination of the curve, the scree plot confirms that only the first two factors should be included in the analysis.

Figure 1: Scree Plot

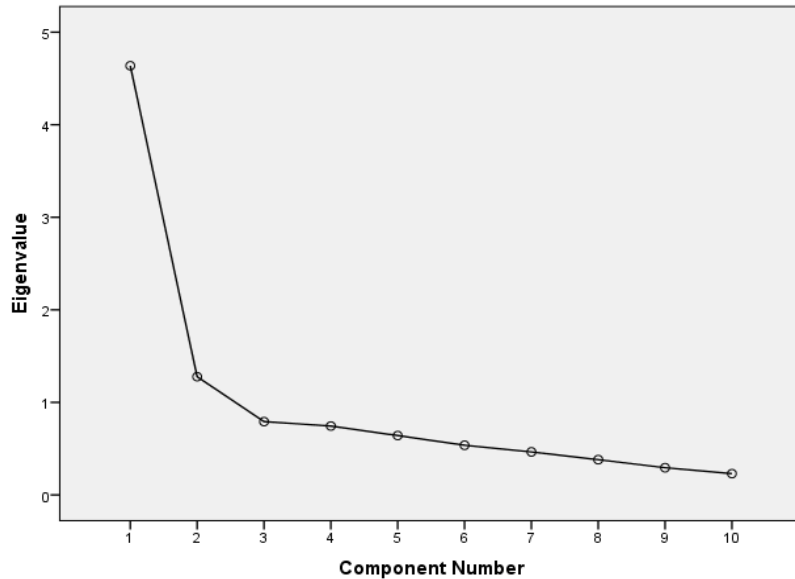


Table 4 shows the component matrix after rotation. Loadings with values greater than 0.6 are considered high, while loadings with values lower than 0.3 are not included in the factor naming process.

Table 4: Rotated Component Matrix

	Component	
	1	2
Lenleg	0.78	0.12
Legchang	0.77	-0.09
Uncertleg	0.72	0.30
Appeals	0.71	0.45
Conprov	0.67	0.40
Coditax	0.61	0.54
Eservices	-0.08	0.78
Econnect	0.27	0.70
Numvisits	0.18	0.62
ETDI	0.41	0.62

The first factor includes six variables: length of tax legislation (Lenleg), changes in tax legislation (Legchang), legal uncertainty (Uncertleg), appeals (Appeals), conflicting provisions (Conprov), and codification of tax legislation (Coditax). The second factor includes four variables: electronic tax services (Eservices), electronic connection (Econnect), number of visits (Numvisits), and electronic tax data interchange (ETDI). Based on the factor analysis, the table shows that the first factor, with high loadings of six variables, could be called “Tax System Complexity”, while the second factor, with high loadings of four variables, could be called “Administration Services”.

The reliability of the factors created was then examined using the Cronbach alpha reliability coefficient. The value of this coefficient was 0.85 for “Tax System Complexity” and 0.66 for “Administration Services”. Given that the above values exceed or approach the value of 0.70, the factors created are considered reliable.

5. DISCUSSION

The results of the survey show that there are two groups of factors that largely determine the cost of tax compliance for businesses operating in the Greek economy. The first group of factors is called “Tax System Complexity” while the second is called “Administration Services”. As can be seen from the literature review, businesses under the Greek tax system are burdened with high tax compliance costs (World Bank & PwC, 2017). This is mainly due to the excessive complexity of the Greek tax system and the unsatisfactory penetration of e-government tax services.

The excessive complexity of the Greek tax system is due to a number of factors, as evidenced by the previous analysis. A key parameter is the large number of tax laws and related interpretative circulars. It is noteworthy that from 1975 to the present, an average of six tax laws have been issued each year. In addition to the provisions of these laws, a very large number of tax provisions have been included in laws that were not purely tax laws. Furthermore, thousands of circulars that interpret the provisions of the laws have been issued.

The overproduction of laws and circulars also causes a further problem that increases the complexity of the tax system to arise. The frequent alternation of laws and circulars means that

there is no stable tax framework. A tax object, such as income tax, may be amended three or even four times in a year, so it may be difficult to identify the provisions that apply each time.

In addition, many of the provisions of the laws and many circulars are difficult to understand. Taxpayers take more time to understand and interpret them, and may need to contact the authorities for clarification. Furthermore, many of the provisions of the laws are in conflict with one another, especially when different tax objects have a common basis. When the government discovers this, it has to issue clarifying circulars.

Another problem relates to the procedures for administrative settlement and the judicial settlement of disputes arising between the tax administration and businesses. These procedures are complex and time consuming, especially in the case of litigation. Decisions issued by administrative courts and by the dispute resolution services are added to the provisions of laws and circulars, and exacerbate the already great confusion. Finally, the complexity of the tax system is increased by the lack of codification in a single text of the current tax legislation by type of tax, as it arises from the provisions of the laws, the clarification circulars, and the decisions made by the administrative dispute resolution services and administrative courts.

With regard to the “Administration Services” group of factors, the research showed that the level of electronic services offered by the tax administration needs further improvement. In particular, there are still several types of tax that are not serviced in the appropriate way or at all by the relevant tax administration websites. In addition, the links between the tax administration’s information system and businesses’ accounting information systems are generally unsatisfactory, and are still at a very early developmental stage in respect of some areas, such as the tax audit process.

The above findings are also confirmed by the relatively high number of in-person visits made by business representatives, and accounting and tax advisors, to the relevant tax authorities’ headquarters to resolve issues that cannot be resolved remotely. Finally, as the research shows, the electronic exchange of tax data across businesses is not yet at a satisfactory level.

The results of the survey show that the reduction of tax system complexity contributes significantly to the reduction of tax compliance costs. This result is consistent with the results of other researchers’ work (Alm, 1996; Marcuss et al., 2013; Slemrod & Blumenthal, 1996; Slemrod & Yitzhaki, 2002). The improvement of e-government services relating to tax administration also makes a significant contribution here.

Since 2014, when broad tax reforms were made, primarily with regard to income tax law, the tax procedure code, and the Greek accounting standards, the Greek tax administration has made progress in terms of tackling the critical issue of reducing tax system complexity, but further efforts are needed. In addition, in the field of e-government, the procedures should be accelerated in order to reduce the cost of tax compliance, as well as administrative costs.

In particular, according to the results of the research, tax compliance costs could be reduced by following the recommendations below:

- The continuous issuance of tax laws and circulars should be limited in order to build a stable tax environment.
- Tax legislation should be simplified further so that it is easy to interpret, does not contain conflicting provisions, and is not subject to frequent changes.

- The process of resolving disputes, both at the administrative and judicial levels, should be simplified.
- Tax legislation needs to be codified in order to create a single text per tax object.
- The process of integrating e-government with tax services should be accelerated.
- The electronic interconnections across business accounting information systems and tax administration systems should be strengthened.
- Electronic interconnections between businesses, in terms of accounting and tax matters (e.g. electronic invoicing, electronic file exchanges, etc.), should be enhanced.

In order to encourage businesses to invest in new technologies that would reduce the cost of tax compliance, tax incentives in the form of increased deductions of the cost of the investment from gross income could be offered. The reduction of compliance costs could, in some cases, increase the tax authority's administrative burden, which means that these reforms must be carefully implemented in order to reduce overall costs and increase economic efficiency (Harju et al., 2019).

This study contributes to the research by exploring this issue in the context of Greece, which has chronic problems with regard to widespread tax evasion, complexity of tax legislation, and excessive bureaucracy. As the review of the literature shows, the case of Greece has not been rigorously investigated and we address this gap using modern analytical methods.

To our knowledge, the only research on this issue with regard to Greece was conducted by Stamatopoulos et al. (2017). They found that the average cost of tax compliance in respect of a legal entity's most important tax liability—the submission of its income tax return—amounted to €5,864.46 (Stamatopoulos et al., 2017). At the same time, they found that compliance costs correlated with certain business characteristics, such as size, firm age, industry, location, and legal form (Stamatopoulos et al., 2017). The present study, in contrast to the above work, focuses primarily on identifying the key determinants that shape the excessively high cost of tax compliance for businesses operating in the Greek economy. It divides these tax compliance costs into two broad categories—the complexity of the tax system and the electronically supplied services of the tax administration—with the aim of identifying the root causes of the high tax compliance costs. In addition, based on the analysis of the main components, it proposes ways in which to deal with the excessive complexity of the Greek tax system and improve the electronic services provided by the tax administration in order to reduce businesses' tax compliance costs.

This study also contributes by drawing useful conclusions and proposing methods by which the cost of tax compliance can be reduced. These findings and proposals can be used by the businesses to which the research refers and by those who shape the country's tax policy. If the costs of, and barriers to, tax compliance are reduced, businesses will have more resources for their main activities, bringing significant benefits in the short term and the long term.

With regard to proposals for future research, this work could be repeated on an annual basis in order to construct a reliable model by which to monitor the cost of tax compliance. In addition, the survey could be extended in order to determine the total cost of tax compliance for all businesses in the Greek tax system as a percentage of gross domestic product. This model could investigate the relationship between tax compliance costs and additional business characteristics, such as business size, legal form, industry, geographic area, etc.

6. CONCLUSION

It is particularly important to investigate the cost of tax compliance in order to reduce both businesses' operational costs and the overall cost of tax compliance borne by the national economy. The results of this study agree with a section of the literature that states that tax legislation complexity and e-government are the most important factors to affect the cost of tax compliance. In this paper, the components of these two factors were investigated and proposals were made in order to reduce the complexity of the tax system and to accelerate the penetration of e-government within the framework of the Greek tax system. However, as this subject is of particular interest in the current, highly competitive, business environment, further research should be conducted and the amount of progress made should be regularly monitored.

DISCLOSURES

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TAX POLICY: THE EFFECT ON HEDGE FUND INVESTOR BEHAVIOR

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Abstract

The purpose of this essay is to empirically analyze the effect of changes in tax policies on hedge fund flows. We analyze the effect of the Tax Information Exchange Agreements (TIEAs) on hedge fund flows and, indirectly, on hedge fund manager and investor behavior in six tax haven countries.

The results show that the introduction of TIEAs caused structural changes in hedge fund net flows 20 months prior to their signature dates. Investors are aware that TIEAs will be signed before the actual signing date and act on this information. We also examine whether the hedge fund flows of the countries that signed TIEAs differed from that of the countries that did not sign TIEAs. The results show that although TIEAs cause structural changes and some outflow in tax haven countries' hedge fund dollar flows and net flows, it is not enough to offset the other benefits of investing in these countries because both the dollar flows and net flows of these countries increased after their structural breakpoints (SBPs). We conjecture that this is due to an amalgam of factors and that a different class of investors took the place of those who shifted their funds due to the regulatory changes.

Keywords: Taxation, Hedge Funds, Tax Havens, Tax Policy, Funds Flow.

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1. INTRODUCTION

The hedge fund industry has grown dramatically during the last few decades. Hedge funds are classified into two broad categories on the basis of domicile: onshore hedge funds and offshore hedge funds. Offshore hedge funds have contributed more to the rapid growth rate than onshore hedge funds, because they provide tax benefits, are less transparent, and exist within a looser regulatory environment, whereas onshore hedge funds "are subject to strict marketing prohibitions, accredited investor requirements, a limited number of investors, and tax disadvantage" (Aragon et al., 2014, p. 74). In our study, we focus on the offshore component and specifically on how changes in taxation regulation affect investor behavior.

In 2013, the Organisation for Economic Co-operation and Development (OECD) stated that there were "almost 800 bilateral TIEAs worldwide" (OECD, 2013, p. 6; See also Braun & Zagler, 2015; United Nations Conference on Trade and Development, 2011). While hedge fund

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studies have proliferated, there is comparatively little research focusing on hedge fund behavior as it relates to taxation issues. On the other hand, relevant research exists with respect to general taxation issues in tax havens. Bennedsen and Zeume (2018) report that the signing of TIEAs “is associated with a 2.5% increase in the value of affected firms” (p. 1221). Omartian (2016) finds that the use of TIEAs has led to a drop in the number of offshore incorporations. Li et al. (2018) document an increase in the use of tax avoidance strategies in politically uncertain times. On the other hand, Kemme et al. (2017) “find very limited evidence” that TIEAs “reduce tax evasion” (p. 519).

In this paper, we examine the effect that tax policy can have on hedge fund flows and (indirectly) on fund manager and investor behavior in six major tax haven countries. These are the Bahamas, the British Virgin Islands, the Cayman Islands, Guernsey, Bermuda, and Luxembourg. The first four countries listed were among the first major tax havens to sign TIEAs with the United States. The latter two countries did not sign TIEAs with the United States during the sample period (January 1998-December 2004). Like Kemme et al. (2017), we hypothesize that TIEAs caused changes to the hedge fund flows of these six countries. Consequently, it follows that hedge fund flows in the countries that signed TIEAs differ after their SBPs from fund flows in the countries that did not sign TIEAs. Later in this paper, we also discuss the rationale as to why tax policy, in the form of TIEAs, should not be expected to affect hedge fund flows.

We find that the use of TIEAs affected the structural stability of hedge fund flows. Specifically, they caused structural changes in both hedge fund dollar flow (Agarwal et al., 2009) and net flow (Chevalier & Elison, 1997; Sirri & Tufano, 1998) in tax haven countries. Both measures are widely accepted in the hedge fund literature.⁵ The results suggest that tax policy does affect hedge fund manager and investor behavior. In addition, we use the month of signature as the theoretical SBP for the countries that signed TIEAs with United States and Nov 2001 (the SBP of the Cayman Islands) as the theoretical SBP for the countries that did not sign TIEAs with the United States. It is the earliest signature date in this study and structural changes in capital flow are expected to occur from this date. Our initial tests suggest that both hedge fund dollar flow and net flow increased in all six countries after their respective SBPs when considering both hedge fund dollar flow and net flow before and after the SBPs. When analyzing fixed effects (country and year), we note that there was outflow from the tax haven countries. This suggests, as we explain later in the paper, that although TIEAs cause structural changes in hedge fund flows and initial outflows, as suggested by the fixed effects tests, the disadvantage of disclosing tax information may not be sufficient to offset the advantages of investing in these tax havens.

Our results have significant implications, both from tax and methodology perspectives. First, we show that a change in tax policy does not necessarily have a large and significant impact on hedge fund flows and investor behavior. The results show that the introduction of TIEAs caused structural changes in both the hedge fund dollar flow and net flow of the six tax haven countries studied (the Bahamas, the British Virgin Islands, the Cayman Islands, Guernsey, Bermuda, and Luxembourg). The structural break in the six tax haven countries’ hedge fund dollar flows occurred about 20 months after their theoretical SBPs (the months in which the countries signed their TIEAs). This is largely due to the two-year lockup period restrictions for new investors. On the other hand, the hedge fund net flows—which capture the change in size

⁵ Studies by Goetzmann et al. (2003), Baquero and Verbeek (2005), Agarwal et al. (2009), Ding et al. (2009), and Getmansky (2012) show that hedge fund flows and net flows are appropriate measures.

due to net capital flow—show that the structural breaks in the six tax haven countries' hedge fund net flows occurred 20 months before the dates on which the countries signed their TIEAs. We conjecture that investors can circumvent tax agreements by moving funds into different jurisdictions, thus diminishing the effectiveness of important policy tools used to collect additional tax revenue. Second, there are methodological implications. The results also show structural breaks in hedge fund flows between 2000 and 2003, suggesting that future studies using time series methodology could benefit from taking structural breaks into account (i.e., many studies use the sample period 1998-2010 without testing for potential structural changes) in addition to fixed effects.

2. HEDGE FUND OVERVIEW, RELATED LITERATURE, AND HYPOTHESES

Hedge funds represent a distinct investment class as they differ from traditional investment vehicles in terms of both legal structure and investment strategies. When compared to mutual fund managers, hedge fund managers are much less restricted in their investment activities. For example, hedge fund managers can use leverage, sell (short) or buy (long) securities they do not own, or take highly concentrated positions in specific stocks, countries, or industries.

Onshore hedge funds differ significantly from offshore funds. Onshore funds achieve their freedom from registration and regulation under the Investment Company Act of 1940 by satisfying the exemption qualifications of either section 3(c)(1) or section 3(c)(7) of the Act. A section 3(c)(1) fund must have fewer than 100 accredited investors. A section 3(c)(7) fund can have an unlimited number of qualified purchasers only. However, the Securities Exchange Act of 1934 requires hedge funds with more than 499 investors to report on a quarterly basis. Hence, in order to avoid quarterly reporting, a section 3(c)(7) fund, must have fewer than 499 investors. In general, onshore hedge fund investors are usually accredited or qualified investors, as defined by Rule 501 of regulation D under the Securities Act of 1933. In contrast, offshore hedge funds, in general, are not concerned with the exemption requirements because they are typically corporations registered in tax havens such as the Bahamas, the British Virgin Islands, the Cayman Islands, Bermuda, or Luxembourg, where tax liabilities for non-U.S. investors are minimal.

Most onshore hedge funds are structured as limited partnerships in order to pass through taxable income to fund investors (Aragon et al., 2014; McCrary, 2002). Aragon et al. (2014) note that the use of a partnership structure:

exposes tax-exempt investors to unrelated business taxable income (UBTI) that is generated from leveraged investments (LePree, 2008). Offshore funds, on the other hand, are generally organized under a corporate structure that avoids UBTI, making them more appealing to tax-exempt investors, like endowments and pension funds, in addition to non-U.S. investors (p. 74).

According to BarclayHedge's Hedge Fund Database, only 25.68% of hedge funds are domiciled in the United States, while 53.38% are domiciled in the Caribbean, 18.23% are domiciled in Europe, and 2.71% are domiciled in the rest of the world.

Onshore hedge funds, meanwhile, are generally held by a limited number of accredited or qualified taxable U.S. individual investors. Cumming and Dai (2010), as cited in Aragon et al. (2014, p. 74, fn. 4) studied hedge fund regulations in 29 countries and discovered that, unlike offshore hedge fund managers, "onshore fund managers are restricted to only one (private

placement) of a possible seven distinct marketing channels: banks, fund distribution companies, wrappers, private placements, investment managers, other regulated financial service institutions, and nonregulated financial intermediaries". Therefore, onshore hedge funds are subject to more restrictions in respect of investor account numbers, investor types, and marketing channels than offshore hedge funds. According to Liang and Park (2008), "in the recent survey by WSJ.com, some economists warned against heavy regulation on hedge funds: '... we would push them offshore if we tried to regulate with a heavy hand. Better have them onshore with light regulation'" (p. 7).

Despite the increased research into hedge funds as an asset class, there is little research focusing on the influence of tax policies on the mobility of capital flows. Kudrle (2009a) suggests that many current and past tax haven initiatives use reputation as a foundation for making changes to existing tax legislation. One example, according to Kudrle (2009a), is the Financial Action Task Force, which uses factors such as money laundering, transparency, insufficient cooperation and, more recently, the financing of terror organizations in order to push for tax reforms. Other organizations, such as the Organisation for Economic Cooperation and Development (OECD), have persistently used reputation and other tools to drive changes in tax cooperation among countries (Kudrle, 2009a). One such tool is the TIEA. The European Union has issued various directives in this area, notably the Savings Tax Directive (STD), which came into effect on January 7, 2005. As a result of the European Union's STD, "all EU member countries and some third countries and dependent territories are required to either" withhold taxes "or exchange information on the interest income of foreign citizens" (Schwarz, 2009, p. 97). There are a number of reasons why countries may not want to sign STDs or TIEAs. Schwarz (2009) argues that countries with highly profitable financial sectors are often reluctant to sign such agreements. Non-participation also prevents or minimizes effects from spilling over into the labor market.

In this paper, we focus on the effect that TIEAs may have on the hedge fund flows. The OECD Global Forum Working Group on Effective Exchange of Information developed a model TIEA agreement in 2002. The text of the agreement states that its purpose is "to promote international co-operation in tax matters through exchange of information" (OECD, 2002). Of the countries that signed TIEAs with the United States, we focus on the following: the Bahamas (Jan 25, 2002), the British Virgin Islands (April 03, 2002), the Cayman Islands (Nov 27, 2001), and Guernsey (Sep 19, 2002). Our reasoning for this is that more than 70% of offshore hedge funds are domiciled in these countries. We compare these countries with Bermuda and Luxembourg, the two major offshore hedge fund countries that did not sign TIEAs with the United States.

Overall, we expect to find no difference between the hedge fund flows for the countries that signed TIEAs with the United States in the sample period and the countries that did not. The reasons for this are as follows. First, as mentioned previously, investors may be able to circumvent tax agreements by moving funds into different jurisdictions, thus diminishing the effectiveness of important policy tools used to collect additional tax revenue. Second, a decrease in flows may affect liquidity as investors seek to move their assets elsewhere through the redemption process. Clarke et al. (2007) suggest that sustained redemptions often require fund managers to sell their less liquid assets, which may depress asset values. They argue, therefore, that the desire of fund managers to not depress the fund values should act as a damper on fund cash flows, even in the face of TIEAs. Third, Yang (2013) finds that the behavior of hedge fund managers is affected by an amalgam of factors, including investment strategy, past performance on returns and the expectation of performance persistence, regulation, and tax

strategy. Yang (2013) also found that individual fund characteristics had bigger impacts on hedge fund cash flows than country of origin.

The month of signature is used as the theoretical SBP (see Table 1) for the countries that signed TIEAs with United States. We used November 2001 (the SBP of Cayman Islands) as the theoretical SBP for the countries that did not sign TIEAs with the United States because it is the earliest signature date in this study and structural change in capital flow are expected from this date onwards. The earliest date is chosen because it signifies to investors that other countries may also sign agreements, but at a later date. This is similar to a signaling effect, where the signature of one agreement signals that agreements may be signed by other jurisdictions.

Table 1: Descriptive Statistics of Funds from Different Domiciles

Domicile	Active Funds	Inactive Funds	Total Funds	Date of Signature	Theoretical SBP	Total TIEAs Signed
BAH	36	103	139	25-Jan-2002	Jan-2002	27
BVI	260	394	654	3-Apr-2002	Apr-2002	19
CI	1152	1547	2699	27-Nov-2001	Nov-2001	26
GUE	85	73	158	19-Sep-2002	Sep-2002	18
BER	172	234	406	N/A	Nov-2001	N/A
LUX	87	74	161	N/A	Nov-2001	N/A

Table 1 shows the number of funds operating in each of the six tax havens. For four of the countries, the date of signature and, therefore, the theoretical breakpoint is shown, along with the total number of TIEAs signed. U.S. = the United States, BAH = Bahamas, BVI = British Virgin Islands, CI = Cayman Islands, GUE = Guernsey, BER = Bermuda, LUX = Luxembourg, SBP = Structural Breakpoint.

Hypothesis 1: TIEAs caused structural changes in tax haven countries' hedge fund dollar flows.

Hypothesis 2: TIEAs caused structural changes in tax haven countries' hedge fund net flows.

Hypothesis 3: Hedge fund dollar flows in the tax haven countries that signed TIEAs are no different after their SBPs than hedge fund dollar flows in the tax haven countries that did not sign TIEAs after their SBPs.

Hypothesis 4: Hedge fund net flows in the tax haven countries that signed TIEAs are no different after their SBPs than hedge fund net flows in the tax haven countries that did not sign TIEAs after their SBPs.

3. DATA AND DESCRIPTIVE STATISTICS

There are several hedge fund data providers. Here, we use monthly data on individual hedge funds and fund-of-funds (FOFs) obtained from the BarclayHedge Hedge Fund Database. Both hedge funds and FOFs are included for the purpose of the study. We also include both active and inactive funds in order to minimize survivorship bias. Survivorship bias has been widely studied in both the mutual fund and hedge fund industries. It can result in mutual fund performance overstatements of about 0.5 to 1.4% per year if the data only contains survivor funds (Brown et al., 1992; Brown & Goetzmann, 1995; Malkiel, 1995). Liang (2000) finds that, for hedge fund returns, "survivorship bias exceeds 2% per year" (p. 309; see also Brown

et al., 1999, and Fung & Hsieh, 1998). Therefore, it is necessary to include both active and inactive funds in any study. In addition, most hedge fund studies do not differentiate between onshore and offshore hedge funds. The majority use aggregated samples (e.g., Getmansky, 2012; Liang, 1999). A few recent studies (Aragon et al., 2014; Brown et al., 1999; Kudrle, 2009a) have begun to depart from the practice of aggregation by dividing their samples into onshore and offshore funds.

Table 2: Descriptive Statistics of Fund Characteristics

Panel A: Fund Asset Under Management (in millions of dollars)

AUM	BAH	BVI	CI	GUE	BER	LUX
1998	24200	131000	2040000	13700	69900	37300
1999	27600	133000	2420000	12600	91600	47600
2000	37300	183000	4270000	16000	134000	48300
2001	51900	240000	7090000	20000	188000	38700
2002	53100	264000	10200000	28500	222000	45400
2003	57500	371000	15900000	59400	290000	55800
2004	86100	611000	31100000	109000	491000	106000

Panel B: Fund Annual Dollar Flow (in millions of dollars)

ADF	BAH	BVI	CI	GUE	BER	LUX
1998	8274	19125	72103	1706	12229	11981
1999	3099	9525	32862	-1484	20392	9665
2000	9456	32941	183396	3365	42084	708
2001	14459	35230	279323	3838	52523	-9475
2002	1094	2608	306039	8474	33986	6951
2003	3807	62294	562696	30441	65883	10037
2004	28213	127531	1508063	48565	199854	49831

Panel C: Fund Annual Net Flow

ANF	BAH	BVI	CI	GUE	BER	LUX
1998	0.566	0.134	0.164	0.109	2.275	0.360
1999	0.073	0.334	0.345	0.008	1.240	0.042
2000	0.545	0.315	0.563	0.097	0.535	0.020
2001	0.373	0.185	0.547	0.015	0.402	0.222
2002	0.612	0.296	0.931	0.101	0.388	0.790
2003	0.305	2.070	0.708	0.899	0.537	0.311
2004	1.276	1.349	0.925	0.627	1.265	0.583

Table 2 shows the descriptive fund characteristics of each tax haven for the years 1998 through 2004. Panel A shows fund assets under management in millions. Panel B shows the annual dollar flow in millions by year by jurisdiction. A negative sign equals a net outflow. Panel C shows the annual net flows scaled by size. US = United States, BAH = Bahamas, BVI = British Virgin Islands, CI = Cayman Islands, GUE = Guernsey, BER = Bermuda, LUX = Luxembourg, AUM = Assets Under Management, ADF = Annual Dollar Flow, ANF = Annual Net Flow.

Our sample period extends from January 1998 to December 2004. We focus on this period for several reasons. First, offshore hedge funds are relatively young compared to onshore hedge funds (Brown et al., 1999). We note that there were only a few offshore hedge funds in operation prior to our sample period. Second, the tax haven countries signed TIEAs with the United States from late 2001 to late 2002. Third, in December 2004, the U.S. Securities and Exchange Commission passed a rule that removed the private adviser exemption by requiring

hedge fund advisers to register under the Investment Advisers Act of 1940. However, since this rule excludes any fund with a lockup period of more than two years, hedge fund advisers can circumvent the registration by imposing a two-year lockup period on investors. As a result, investors might increase their holdings in offshore hedge funds that do not have such prolonged lockup periods. Since fund flows might be influenced by this new registration rule, we do not include the data past December 2004, which allows us to focus on hedge fund flows before and after the TIEAs. The summary statistics for the six tax haven countries studied in this paper are shown in Tables 1 and 2.

Computation of Dollar Flows

Using the methodology proposed by Agarwal et al. (2009), monthly dollar flows for country i during month m are computed as:

$$DF_{i,m} = AUM_{i,m} - AUM_{i,m-1}(1+R_{i,m}) \quad (1)$$

where DF is equal to dollar flow for country i in month m , $AUM_{i,m}$ is assets under management for country i during month m , and $R_{i,m}$ represents the average hedge fund return for country i during month m .

Computation of Net Flows

Early studies—including Spitz (1970), Smith (1978), and Patel et al. (1991)—reported relationships between a fund’s annual dollar growth and both its size and returns. Sirri and Tufano (1998) examined funds flows into and out of individual U.S. equity mutual funds to better understand this behavior. They found that hedge fund returns are positively related to fund flows. In a more recent study, Goetzmann et al. (2003) found that fund size affects hedge fund flow and that small funds experience greater inflows whereas large funds are more likely to experience outflows. We take Getmansky’s (2012) approach to dealing with the size effect as related to fund flow. She measured net flows by scaling the beginning-of-quarter assets under management to measure flows where DF captures the change in net money flows independent of size. We compute monthly net fund flows ($NF_{i,m}$) of each country i during month m by scaling monthly dollar flows by beginning-of-month AUM in order to capture the size effect on net capital flows

$$NF_{i,m} = DF_{i,m}/AUM_{i,m-1} \quad (2)$$

Hedge fund dollar flows and net flows from the six tax haven countries are shown in Figures 1 to 6.

4. METHODOLOGY

We focus on the hedge fund flows of six countries that are considered to be tax havens for the purposes of taxation on investment income: (1) The Bahamas, (2) The British Virgin Islands, (3) The Cayman Islands, (4) Guernsey, (5) Bermuda, and (6) Luxembourg. We analyze the time period from January 1998 to December 2004. The first four countries signed TIEAs with the United States within this time period while the last two countries did not.

Figure 1: The Bahamas - Monthly Hedge Fund Dollar Flow and Net Flow

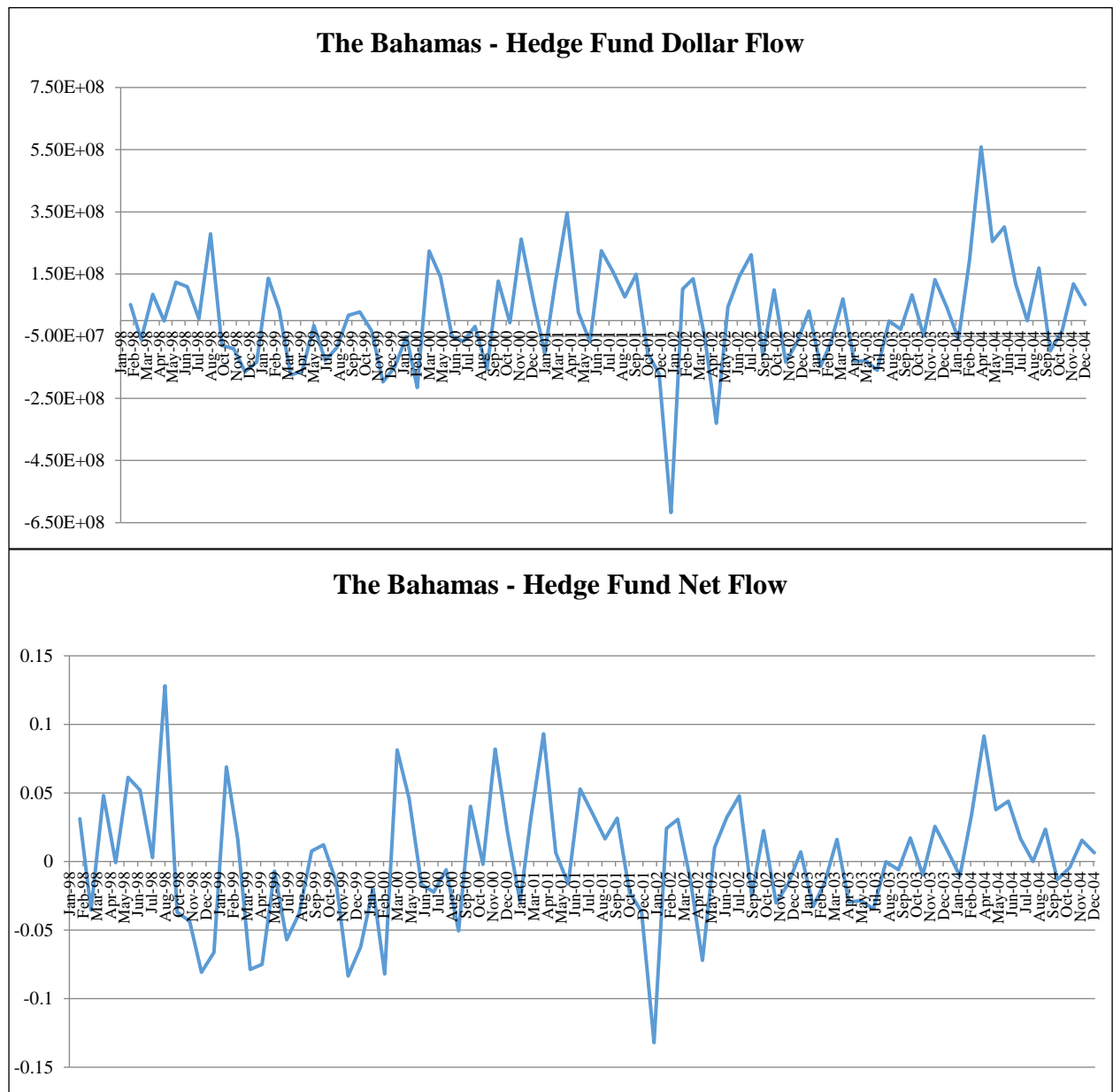


Figure 2: The British Virgin Islands - Monthly Hedge Fund Dollar Flow and Net Flow

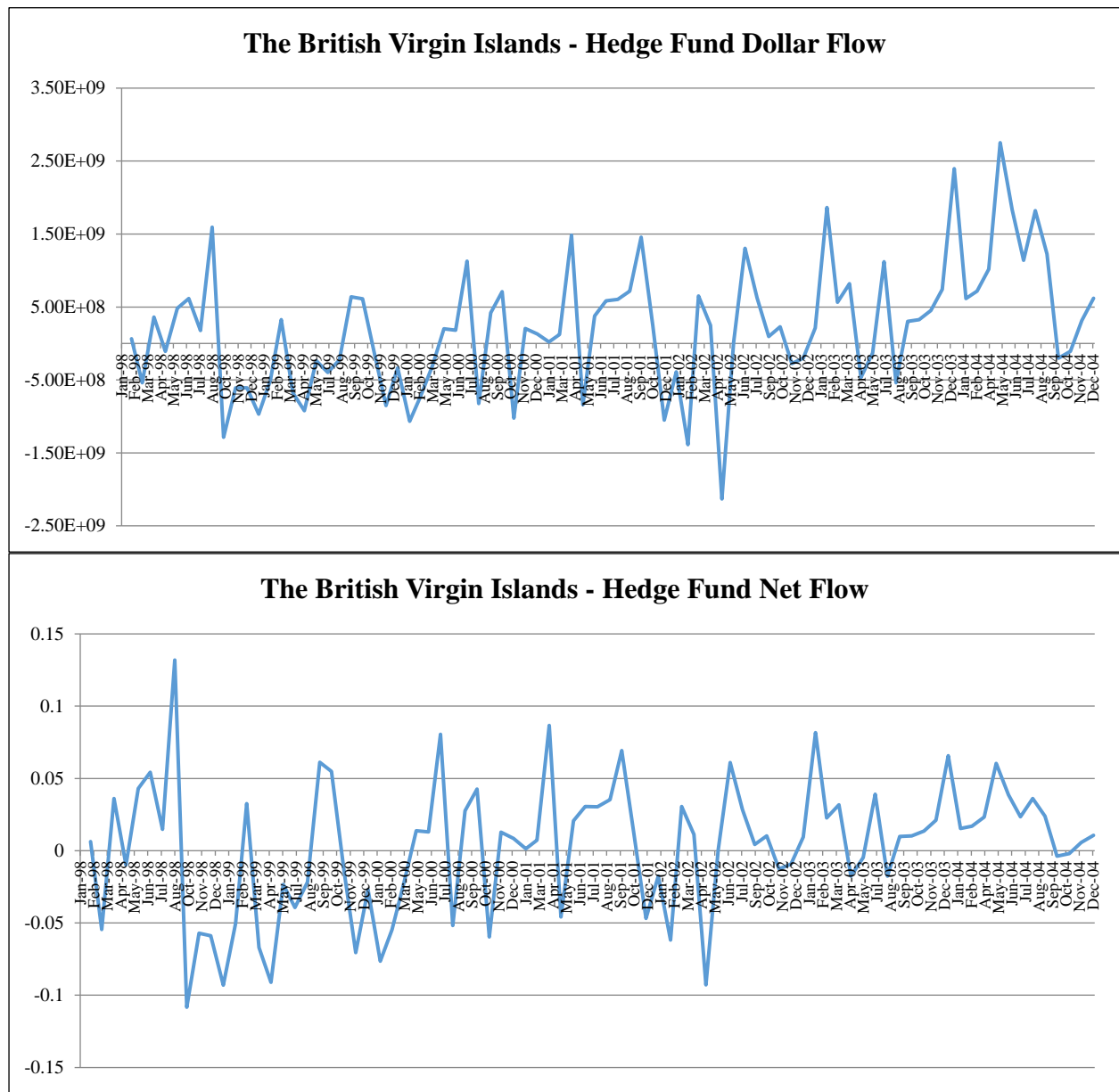


Figure 3: The Cayman Islands - Monthly Hedge Fund Dollar Flow and Net Flow

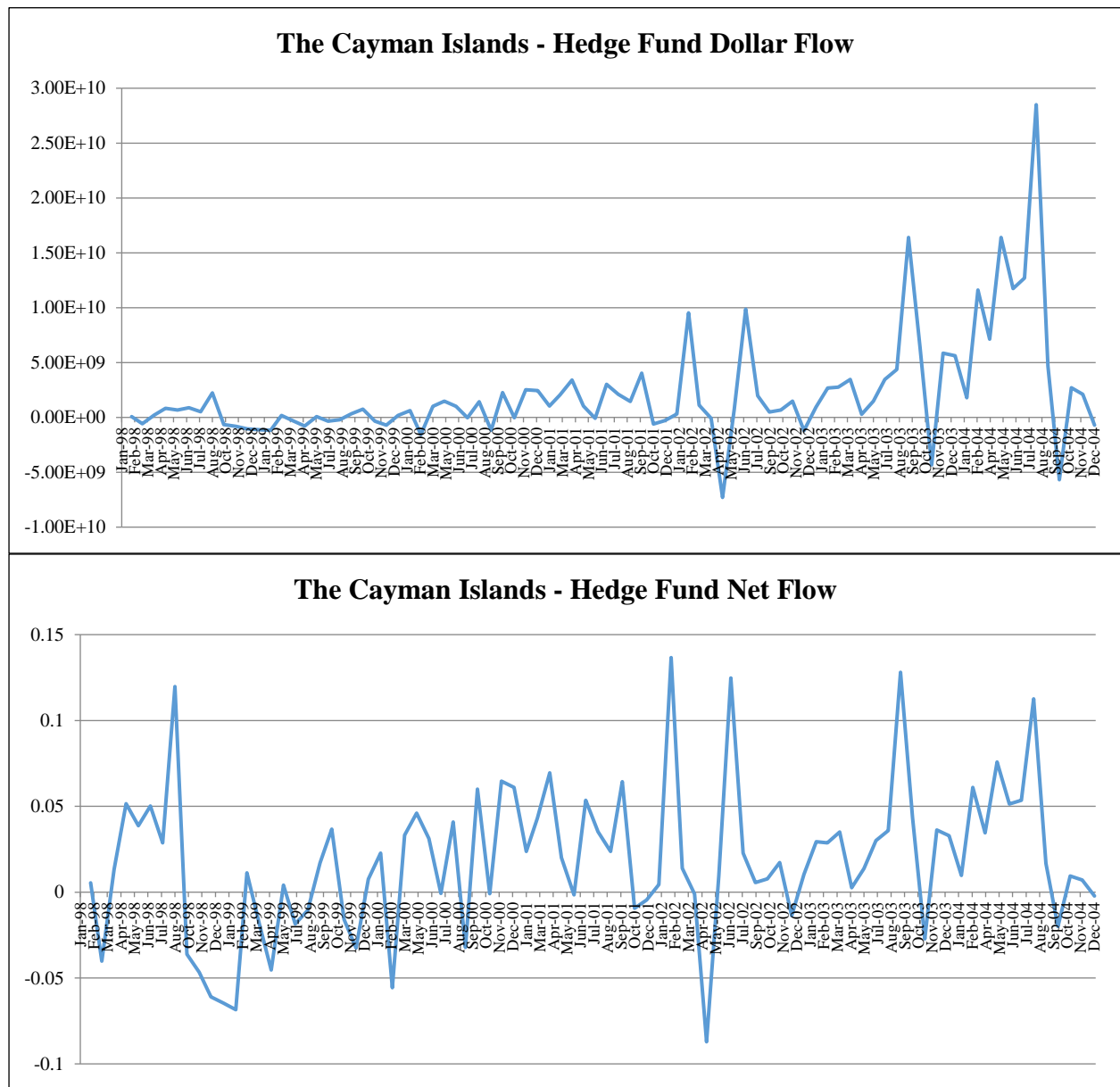


Figure 4: Guernsey - Monthly Hedge Fund Dollar Flow and Net Flow

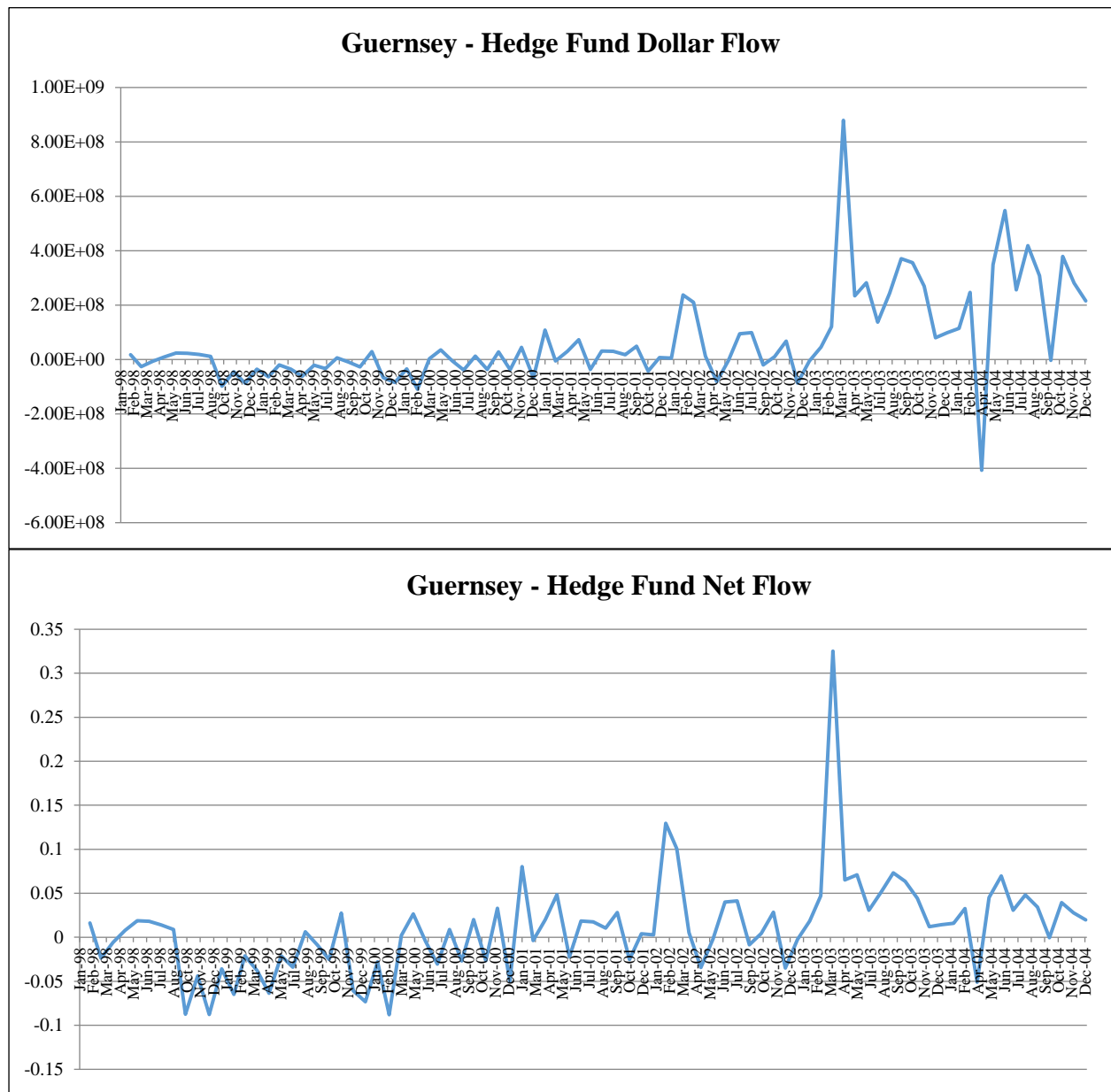


Figure 5: Bermuda - Monthly Hedge Fund Dollar Flow and Net Flow

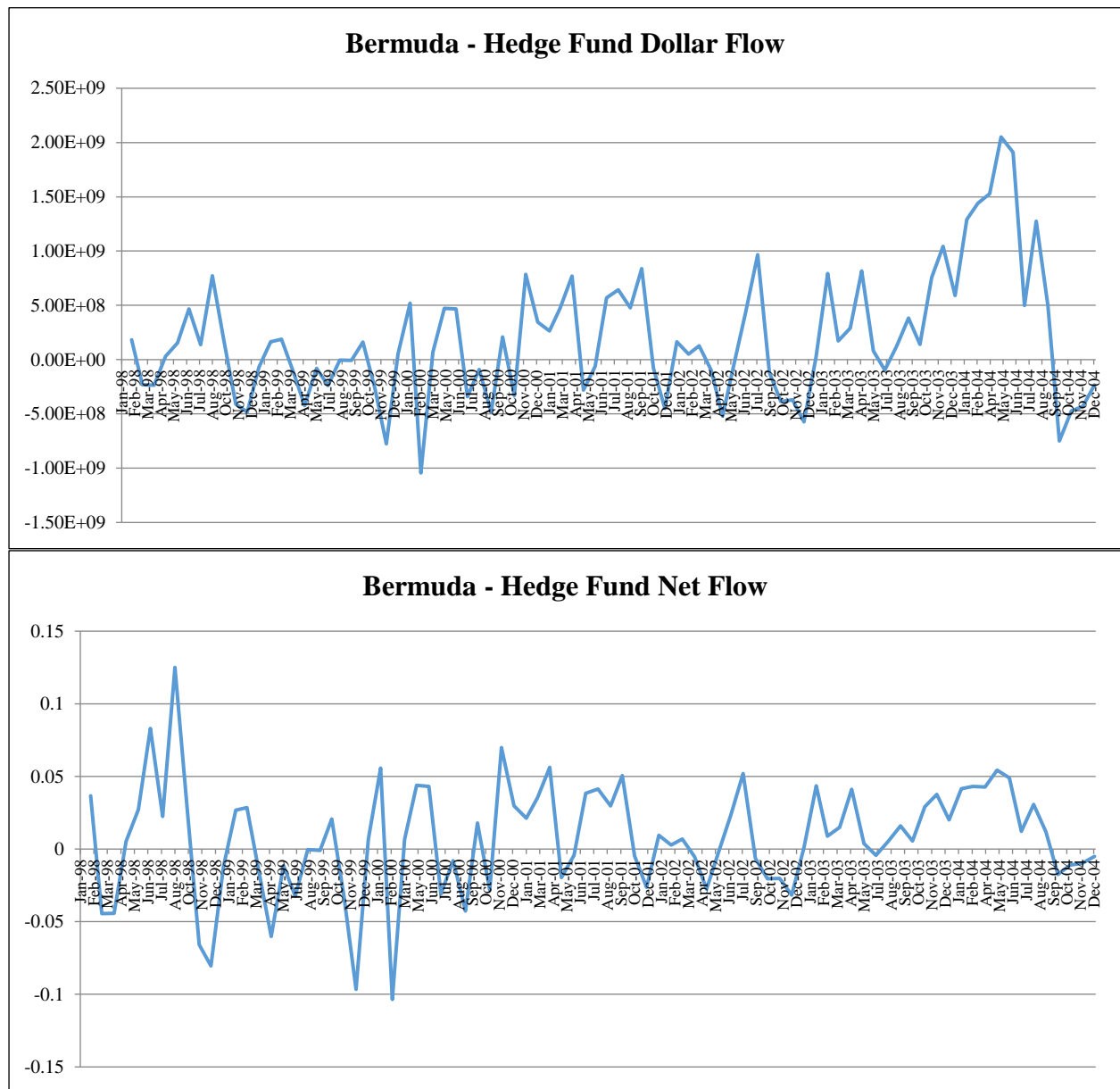
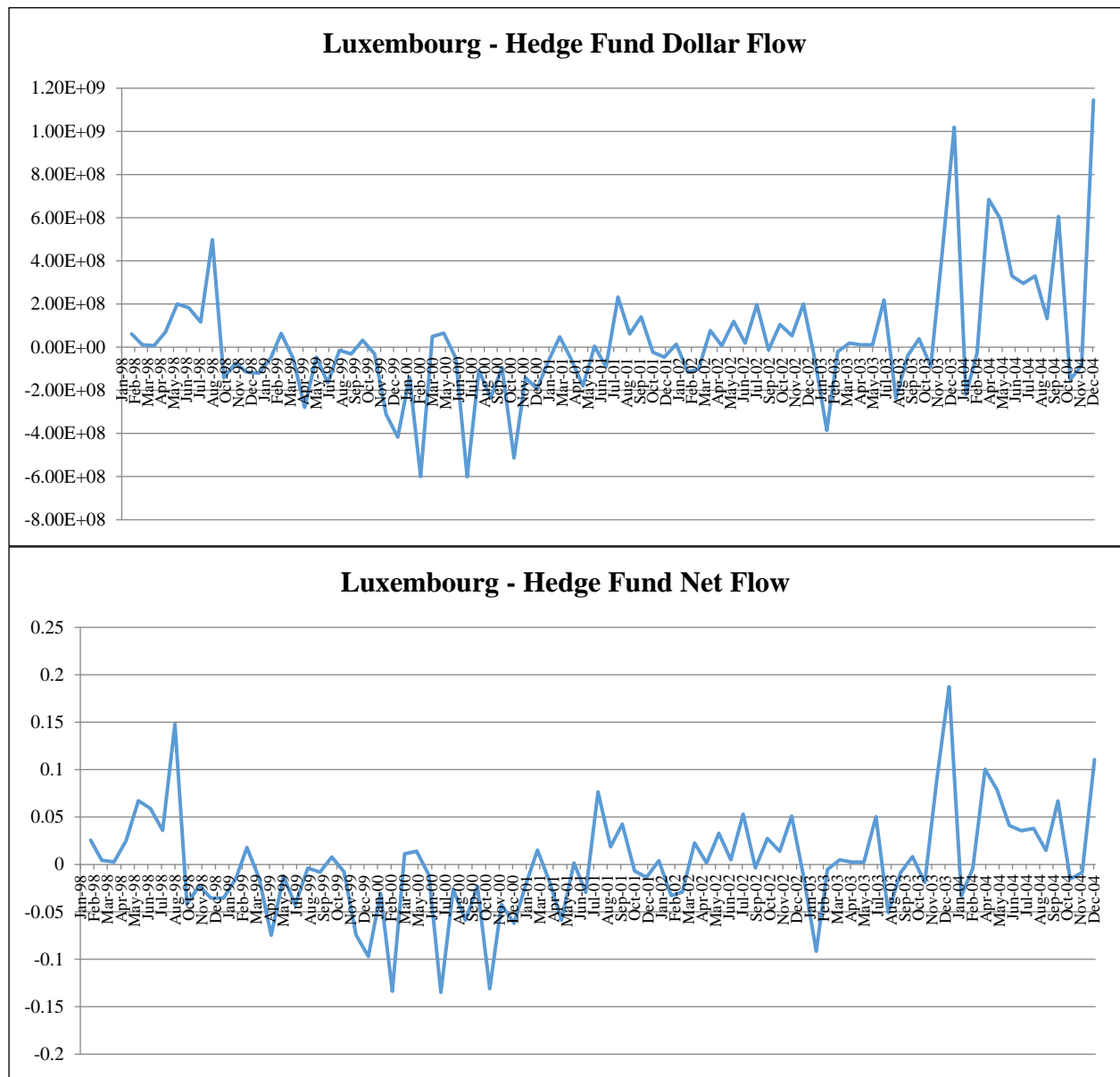


Figure 6: Luxembourg - Monthly Hedge Fund Dollar Flow and Net Flow



With regard to Hypotheses 1 and 2, we specify the following two sets of regression models in order to investigate whether capital flow structural changes occurred at the SBP:

$$\text{Time Period } 01/1998 \text{ to } SBP_i: DF_{i,m} = \gamma_1 + \gamma_2 DF_{i,m-1} + u_{1m} \quad (R.1.A)$$

$$\text{Time Period } SBP_{i+1} \text{ to } 12/2004: DF_{i,m} = \delta_1 + \delta_2 DF_{i,m-1} + u_{2m} \quad (R.1.B)$$

$$\text{Time Period } 01/1998 \text{ to } 12/2004: DF_{i,m} = \alpha_1 + \alpha_2 DF_{i,m-1} + u_m \quad (R.1.C)$$

$$\text{Time Period } 01/1998 \text{ to } SBP_{i+1}: NF_{i,m} = \kappa_1 + \kappa_2 NF_{i,m-1} + u_{1m} \quad (R.2.A)$$

$$\text{Time Period } SBP_i \text{ to } 12/2004: NF_{i,m} = \mu_1 + \mu_2 NF_{i,m-1} + u_{2m} \quad (R.2.B)$$

$$\text{Time Period } 01/1998 \text{ to } 12/2004: NF_{i,m} = \beta_1 + \beta_2 NF_{i,m-1} + u_m \quad (R.2.C)$$

where $DF_{i,m}$ represents dollar flow as calculated in (1) and $NF_{i,m}$ represents net dollar flow as calculated in (2). The us represent the error terms. SBP_i represents the SBP for country i .

Regressions (R.1.A), (R.1.B), (R.2.A), and (R.2.B) assume that the regressions in the two time periods are different, i.e., the intercept and the slope coefficients are different. The pooled regression (R.1.C) and (R.2.C) assume that there is no difference between the two time periods. In other words, they assume that the intercept and the slope coefficient remain the same over the entire time period; that is, there is no structural change. If there is no structural change, then $\gamma_1 = \delta_1 = \alpha_1$, $\gamma_2 = \delta_2 = \alpha_2$, $\kappa_1 = \mu_1 = \beta_1$, and $\kappa_2 = \mu_2 = \beta_2$.

The Chow (1960) test can be used to test for structural changes when the SBP is known. In this case, however, the theoretical SBP might not be the actual SPB. First, investors might have got wind of the TIEAs before the actual signing date and withdrawn their investments early. Second, some hedge fund managers imposed prolonged lockup periods on investors, so investors might not have been able to withdraw funds as quickly as they would like. Therefore, the actual SPB would be unknown.

The Quandt-Andrews Breakpoint Test, meanwhile, can be used to test for one or more unknown SPBs for a specified equation.

5. RESULTS

The results from the Quandt-Andrews Breakpoint Test are shown in Table 3. Andrews (1993) recommends setting a trimming parameter which equals 15%. As a result, the first and last 7.5% of the observations are excluded. We report the values of the three test statistics and their corresponding p -values: the Supremum or Maximum statistics, the Exp statistics and the Ave statistics (Andrews, 1993; Andrews & Ploberger, 1994; Quandt, 1960). The SBP is only significant if two or three of the test statistics are significant.

The Quandt-Andrews Breakpoint Test result for hedge fund dollar flows shows that significant structural changes occurred in five of the six countries tested, namely the British Virgin Islands, the Cayman Islands, Guernsey, Bermuda, and Luxembourg. All three test statistics (MaxF, ExpF, AveF) are significant for these five countries. Therefore, Hypothesis 1 is supported. Structural changes in hedge fund dollar flows occurred as a result of the use of TIEAs.

The Quandt-Andrews Breakpoint Test result for hedge fund net flows shows that significant structural changes occurred in three out of the six countries tested, namely the Cayman Islands, Guernsey, and Luxembourg. All three test statistics (MaxF, ExpF, AveF) are significant for these countries. Therefore, Hypothesis 2 is partially supported. Structural changes in hedge fund net flows occurred as a result of the use of TIEAs.

Table 3 reveals that structural breaks in each of the six tax haven countries' hedge fund dollar flows occurred in 2003, which is after their theoretical SBP (the month of signing their TIEA). As we mentioned earlier, offshore hedge funds are relatively young compared to onshore hedge funds, and fewer offshore hedge funds existed before 1998. Therefore, the offshore hedge funds in our sample tend to have more new investors. The average lockup period is two years for new investors. This limits capital outflow. Our results confirm this. In Table 1, we saw that the structural breaks in the six tax haven countries' hedge fund dollar flows occurred about 20 months after their theoretical SBPs.

On the other hand, the structural breaks in the six tax haven countries' hedge fund net flows occurred mostly in 2000 or early 2001 (except for Luxembourg), which is before their theoretical SBPs. From equation (2), we know that the net flow captures the change in size due to net capital flow. In this case, net flow is better at capturing investors' reactions to TIEAs. Since investors may know about the TIEAs before the date on which the agreements are signed, the SBPs in the six tax haven countries' hedge fund net flows should occur before their theoretical SBPs. Our results show that the structural break in the tax haven countries' hedge fund net flows (with the exception of that of Luxembourg) occurred about 20 months before the dates on which their TIEAs were signed.

Table 3: *Quandt-Andrews Breakpoint Test Results*

Panel A: Quandt-Andrews Breakpoint Test Results for Fund Dollar Flow

DF	MaxF-stats	P-value	ExpF-stats	P-value	AveF-stats	P-value	SBP
BAH	6.261	0.3783	1.3683	0.3561	1.8420	0.4348	2003M11
BVI	12.980**	0.0274	4.8240**	0.0098	7.1547**	0.0080	2003M10
CI	13.059**	0.0265	4.3146**	0.0161	5.7438**	0.0216	2003M06
GUE	38.379***	0.0000	15.6761***	0.0000	12.5530***	0.0004	2003M03
BER	12.608**	0.0321	4.8285**	0.0097	7.5067**	0.0063	2003M10
LUX	31.980***	0.0000	12.0329***	0.0000	8.1731***	0.0041	2003M11

Panel B: Quandt-Andrews Breakpoint Test Results for Fund Net Flow

NF	MaxF-stats	P-value	ExpF-stats	P-value	AveF-stats	P-value	SBP
BAH	2.991	0.8896	0.5463	0.8261	0.9603	0.7999	2000M03
BVI	8.192	0.1910	2.1894	0.1467	3.5840	0.1117	2000M04
CI	9.957*	0.0963	2.7560*	0.0800	3.9493*	0.0839	2000M03
GUE	14.478**	0.0143	5.1248**	0.0073	7.8606**	0.0050	2001M01
BER	2.287	0.3095	1.2268	0.4144	2.2866	0.3095	2000M11
LUX	13.755**	0.0196	3.9284**	0.0237	5.0503**	0.0361	2003M11

The results from the Quandt-Andrews Breakpoint Test are shown in Table 3. Panel A shows the Quandt-Andrews Breakpoint Test results for fund dollar flow and Panel B shows the same for net dollar flow. ***, **, * denotes significance at the 1%, 5%, and 10% levels respectively. P-value is calculated using Hansen's (1997) method. US = United States, BAH = Bahamas, BVI = British Virgin Islands, CI = Cayman Islands, GUE = Guernsey, BER = Bermuda, LUX = Luxembourg, SBP = Structural Breakpoint.

In Table 4, we compare the mean and standard deviation of hedge fund dollar flow and net flow both before and after the structural break.

As mentioned earlier, we expect the hedge fund flows from the four tax haven countries that signed TIEAs with United States to be no different than the hedge fund flows of the two tax haven countries that did not sign TIEAs. Hypothesis 3 is supported by Table 4, which shows that the average hedge fund dollar flows and standard deviations in all six tax haven countries increased after their SBPs. Furthermore, the average hedge fund net flows, which are better at capturing investors' behavior than dollar flows, also increased in all six tax haven countries after their SBPs. Therefore, both Hypotheses 3 and 4 are supported. We now turn our attention to difference-in-difference tests. Table 5 shows the initial difference test for tax havens versus non-tax havens.

The dependent variable is monthly dollar flows for country i during month m , calculated as $DF_{i,m} = AUM_{i,m} - AUM_{i,m-1}(1+R_{i,m})$. The independent variables are lagged monthly dollar flows for country i during month m ($LAG_DF_{i,m}$), $Sign$ is the indicator variable controlling for the period after the country signed the TIEA, and $TAXHAVENS$ is the indicator variable controlling for countries that are designated as tax haven countries. The model is estimated with Ordinary Least Squares (OLS) regression with fixed effects for the year. The non-tax haven countries are the United States, France, Ireland, and the Netherlands. We conducted a Wooldridge test for autocorrelation in the panel data set and the results suggest no autocorrelation ($F = .912$; p -value = .3424). We did an additional test for heteroskedasticity (Modified Wald Test) in the fixed effects regression which resulted in a rejection of the null of homoskedasticity. Therefore, we used robust standard errors to correct for this issue. We also tested between the random effects model and fixed effects model using the Hausman test. The results supported the use of a fixed effects model. Overall, the results still support our conclusion that the tax haven countries experienced an increased flow of funds after signing TIEAs.

Table 4: Mean and Standard Deviations of Hedge Fund Flows Before and After SBPs

Panel A: Average Monthly Dollar Flows Before and After SBPs

DF	SBP	Ave DF Before SBP (in millions of dollars)	Ave DF After SBP (in millions of dollars)		Std. Dev. Before SBP (in millions of dollars)	Std. Dev. After SBP (in millions of dollars)	
BAH	2003M11	-11.7	125	↑	153	171	↑
BVI	2003M10**	29.6	1020	↑	762	858	↑
CI	2003M06**	848	6880	↑	2260	8030	↑
GUE	2003M03***	2.77	257	↑	64.6	234	↑
BER	2003M10**	76.6	733	↑	414	888	↑
LUX	2003M11***	-44.7	364	↑	184	419	↑

Panel B: Average Monthly Net Flows Before and After SBPs

NF	SBP	Ave NF Before SBP	Ave NF After SBP		Std. Dev. Before SBP	Std. Dev. After SBP	
BAH	2000M03	-0.0135	0.0064	↑	0.0554	0.0390	↓
BVI	2000M04	-0.0186	0.0132	↑	0.0573	0.0352	↓
CI	2000M03*	-0.0041	0.0288	↑	0.0442	0.0390	↓
GUE	2001M01**	-0.0206	0.0328	↑	0.0351	0.0555	↑
BER	2000M11	-0.0039	0.0153	↑	0.0491	0.0256	↓
LUX	2003M11**	-0.0098	0.0502	↑	0.0476	0.0601	↑

Table 4 shows the mean and standard deviations of hedge fund flows before and after SBPs. Panel A shows the average monthly dollar flow before and after the SBP whereas Panel B shows the net dollar flow before and after SBP. Both Panel A and B show the standard deviation of the funds flow before and after the SBP. ***, **, * denotes significance at the 1%, 5%, and 10% levels respectively. SBP = Structural Break Point, DF = Dollar Flow, NF = Net Flow. US = United States, BAH = Bahamas, BVI = British Virgin Islands, CI = Cayman Islands, GUE = Guernsey, BER = Bermuda, LUX = Luxembourg.

Table 5 provides results evaluating the difference model that incorporates both tax haven and non-tax haven countries to provide comparisons between the dollar flows. The model is statistically significant at the .001 level with an F-value of 142.08. The adjusted R-square is .0083, suggesting that the model only explains a small amount of the variance of the dollar

flow. Evaluating the independent variables specifically, we find that the *TAXHAVEN* variable is statistically significant at a .01 level with a t-value of 2.79. The coefficient is positive, suggesting that countries classified as tax havens are associated with positive dollar flows relative to their non-tax haven counterparts. The *Sign* variable takes a value of 1 at the point where a tax haven country signs a TIEA with the United States. The variable is positive and statistically significant coefficient with a t-value of 6.12 and a p-value smaller than .001.

Table 5: Difference Test: Tax Haven Versus Non-Tax Haven Countries

Panel A: Number of Observations

Number of Observations Read	53058
Number of Observations Used	51195
Number of Observations with Missing Values	1863

Panel B: Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1032943	197189	5.24	<.0001
LagDF	1	0.08478	0.00493	17.19	<.0001
Sign	1	2499942	408558	6.12	<.0001
TAXHAVENS	1	1017046	364510	2.79	0.0053

Table 6 shows the fixed effects for country and year. In Panel A, we estimate regression parameters for tax haven versus non-tax haven countries. In Panel B, we use only tax haven countries. The dependent variable is monthly dollar flows for country *i* during month *m*, calculated as $DF_{i,m} = AUM_{i,m} - AUM_{i,m-1}(1 + R_{i,m})$. The independent variables are lagged monthly dollar flows for country *i* during month *m* ($LAG_DF_{i,m}$), *Sign* is the indicator variable controlling for the period after the country signed the TIEA, and *TAXHAVENS* is the indicator variable controlling for countries that are designated as tax havens. The model is estimated with OLS regression with fixed effects for the year.

$$DF_{i,m} = \alpha + \beta_1 LAG_DF_{i,m-1} + \beta_2 SIGN + \beta_3 TAXHAVEN + \beta_4 Fixedeffect_{Year \& Country} + \varepsilon_1 \quad (9)$$

The results in Panel A, which is the main test for fixed effects, suggest that tax haven countries do not have statistical differences in dollar flows when compared to non-tax haven countries in our sample period. This is supported by the statistically insignificant coefficient for *TAXHAVEN*. The *Lag_DF* is statistically significant at the .001 level, suggesting that the lag fund flows variable has a positive association with the fund flow. Lastly, *SIGN* coefficient is positive and statistically significant at the .05 level. This suggests that countries that signed TIEAs experienced positive fund flows. When reducing the sample to only include tax haven countries that signed and that did not sign agreements (Panel B), the results suggest a positive and statistically significant variable for the lag dollar flows. However, the results also suggest that tax haven countries that signed TIEAs experienced negative dollar flows, as supported by

a negative statistically significant coefficient at the .10 level. We attribute this to negative initial reactions to the tax agreements from investors.

Table 6: Fixed Effects for Country and Year

Panel A: Parameter Estimates: Tax Haven Versus Non-Tax Haven Countries

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	779067.30	2115655	0.37	<.0001
Lag_DF	1	0.036	0	7.530	0.0000
SIGN	1	1141032.000	518947	2.200	0.0280
TAXHAVENS	1	-901528.500	2456567	-0.370	0.7140

Panel B: Parameter Estimates: Tax Haven Countries

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1226524	1545450	0.79	0.427
Lag_DF	1	0.145736	0.006617	22.03	0
SIGN	1	-2080612	1086660	-1.91	0.056

Summarizing our findings, we note that there is no significant performance increase in any of the countries tested that might lead to increased investment incentives in the hedge fund industry. This suggests that, although the introduction of TIEAs caused structural breaks in the six tax haven countries' hedge fund flows with some initial negative outflows, it was not enough to offset the other potential attractions of investing in these offshore tax havens. We discussed this above when formulating Hypotheses 3 and 4. Part of the explanation may be that some investors are affected by the new agreements whereas others are not. For example, tax-exempt institutional investors, such as pension funds or endowment funds, will keep on investing in these countries regardless of the TIEAs because these agreements have minimal effects on them. This finding confirms that of Agarwal and Naik (2005), in which a shift in hedge fund investor type is noted. They point out that:

In the early 1990s, the typical investor was a high net-worth individual investor who invested in macro funds, which then took levered bets on currencies and other assets. Today, the typical investor is an institutional investor, for example a pension fund, which invests in hedge funds for diversification reasons, seeking investment vehicles with low correlation with other traditional asset classes such as equities and bonds (Agarwal & Naik, 2005, p. 106).

This shift of investor type largely accounts for the fast growth of offshore hedge funds. This supports our argument that there is an increase in the dollar flow following the signing of a TIEA, but our conclusion is moderated when we take only take into account tax havens (Table 6, Panel B) where the results are significant at the .10 level, indicating an initial outflow from countries that signed the agreements.

6. CONCLUSIONS

The United States, the European Union, and other OECD countries make significant efforts to ensure that various parties pay appropriate taxes. Recently, tax havens have received increased attention, especially those that provide tax efficiency in respect of financial institutions. Many studies point out that offshore hedge funds have been growing significantly faster than onshore hedge funds due to their tax and regulatory advantages. In this essay, we empirically analyze the effect that the introduction of TIEAs may have on hedge fund flows in order to assess their potential impact on the hedge fund industry.

The results show that the introduction of TIEAs caused structural changes in both hedge fund dollar flow and net flow in the six tax haven countries that we studied (the Bahamas, the British Virgin Islands, the Cayman Islands, Guernsey, Bermuda, and Luxembourg). The structural break in hedge fund dollar flows occurred about 20 months after their theoretical SBPs (the month of signing the TIEA). This is largely due to the two-year lockup period restrictions for new investors. On the other hand, hedge fund net flow, which captures the change in size due to net capital flow, shows that the structural break occurred 20 months before the TIEAs were signed. Investors are aware that TIEAs will be signed before the actual signing date and act on this information. We also examine whether the hedge fund flows of the countries that signed TIEAs differed from those of the countries that did not sign them. The results are more nuanced. When we compare fixed effects for tax havens versus non-tax havens, the initial results hold. Although TIEAs causes structural changes in tax haven countries' hedge fund dollar flows and net flows, it is not enough to offset the other benefits of investing in these countries because both the dollar and net flows of these countries increased after their SBPs. We conjecture that this is due to less uncertainty and that a different class of investors took the place of the investors that shifted their funds due to the introduction of the TIEAs. Overall, the fixed effects analysis supports the same conclusion. However, when we analyze the fixed effects using only tax haven countries, the results show outflows (statistically significant at the .10 level). Our results have the following implications. First, they show that investors anticipate tax changes and change their strategies accordingly. This may result in lower tax collections due to an increase in shifting of investable funds. Second, they show that the introduction of TIEAs resulted in increases in both cash flow and net cash flow, suggesting that the design of the tax regulation may have a positive effect on the industry itself. This could boost tax collections while simultaneously promoting industry growth.

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THE DISTANCE BETWEEN US: A PRELIMINARY INQUIRY INTO TAXPAYERS' SOCIAL DISTANCE FROM TAX OFFICERS IN INDONESIA

Kristian Agung Prasetyo^{1,2}

Abstract

The self-assessment system relies on taxpayers' voluntary compliance. The literature provides that the closer the distance between taxpayers and tax officers is, the more likely taxpayers are to comply. The purpose of this research is to analyse this phenomenon in the Indonesian context, a topic that is not covered extensively in the literature. In doing so, a group of small business owners were asked to complete a questionnaire, the design of which was based on Bogardus's social distance scale. One group, named Friends of Tax/FoT (*UKM Sahabat Pajak/USP*), was of particular interest due to its close association with the tax office. The USP members' social distance score is then compared to that of other taxpayers using both the standard t-test and the Mann-Whitney U test. The results suggest that FoT members are significantly less socially distanced from tax officers than other taxpayers, which explains their close association with the tax office. Further comparison of social distance scores across groups of taxpayers are then made. The findings indicate that those who identify themselves solely as small business owners are significantly less socially distanced from tax officers than those who are also salaried. Other findings include the fact that taxpayers with higher education levels tend to be more socially distanced from tax officers than FoT members. Older taxpayers, on the other hand, often place themselves at similar social distances from tax officers to FoT members. These findings suggest that the Indonesian tax office could improve taxpayer compliance levels by focussing on reducing the social distance between tax officers and taxpayers. This could be accomplished by helping taxpayers to address their business concerns rather than focussing on tax-only campaigns. These programs could be aimed, primarily, at younger business owners, particularly those with higher education levels.

Keywords: Tax, Social Distance, Individual, Small Business, Compliance, Hard To Tax.

1. BACKGROUND

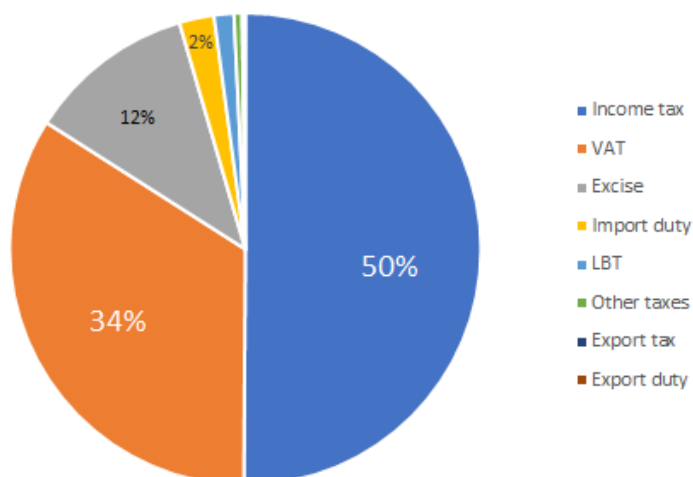
Indonesia relies heavily on taxation as a revenue source. In 2019, for instance, taxation³ accounted for nearly 79% of all revenue (Badan Pemeriksa Keuangan Republik Indonesia [BPK], 2020). It generated more than Rp 2,000 trillion rupiah (approximately £104.44 billion as of February 2021) across all types of revenue (BPK, 2020). The majority of this (nearly 40%) was in the form of income tax, with the next largest contributor being Value Added Tax (VAT) at 27%. Most of the tax-based revenue of around Rp 790 billion (approximately £41.3 million as of February 2021) was also income tax, making income tax the largest revenue contributor in taxation. The second largest was VAT, which contributed approximately Rp 535 billion (£27.9 million), 34% of tax revenue (Figure 1).

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² An earlier version of this paper was presented at the 8th annual conference of the Tax Administration Research Centre (TARC), which took place on 15-17 December 2020. <https://tarc.exeter.ac.uk/events/researchconferences/>

³ This includes taxes administered by both the Indonesian tax office and the customs office.

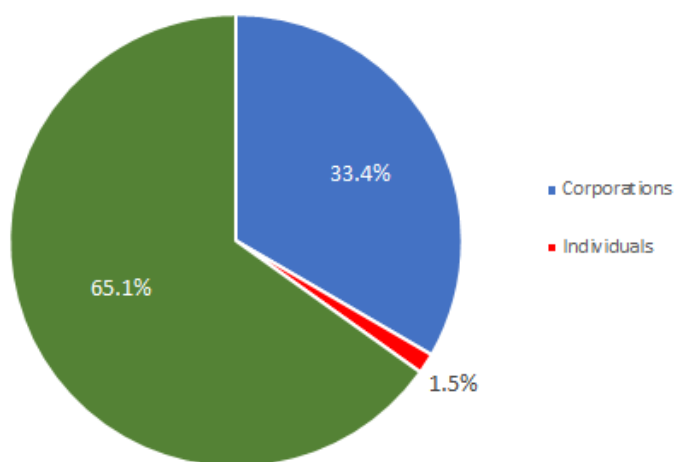
Figure 1: Tax Revenue Composition (2019)



Source: BPK (2020)

If we take a closer look at the overall income tax revenue (Figure 2), almost all of it was either collected by third parties based on the withholding mechanism or paid by corporations.

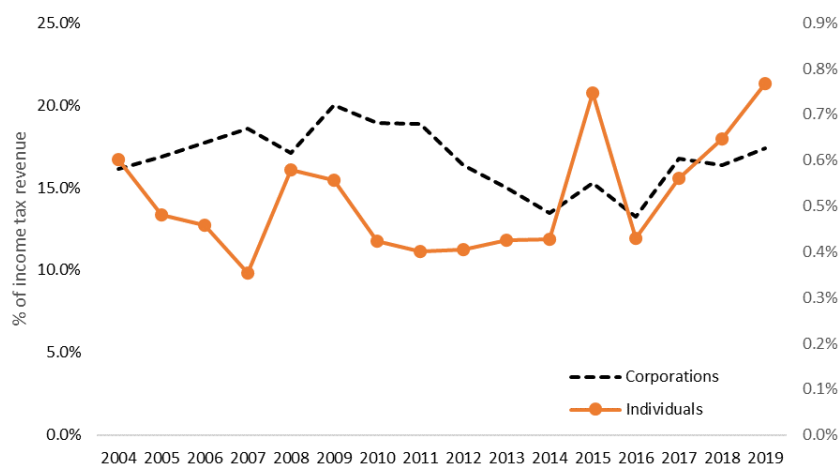
Figure 2: The Composition of Income Tax Revenue (2019)



Source: BPK (2020)

On average, individual taxpayers contributed just over 0.5% of the overall tax revenue on a voluntary basis between 2004 to 2019. During this period, the share of income taxes paid by individuals in the total tax revenue was between 0.35% and 0.77% with an average of around 0.52% (Figure 3). In the same time period, corporate taxpayers contributed an average of 16.75% of Indonesia’s total tax revenue, a much higher amount than individuals. This provides evidence that there is a reliance on corporations in respect of the overall tax revenue in Indonesia.

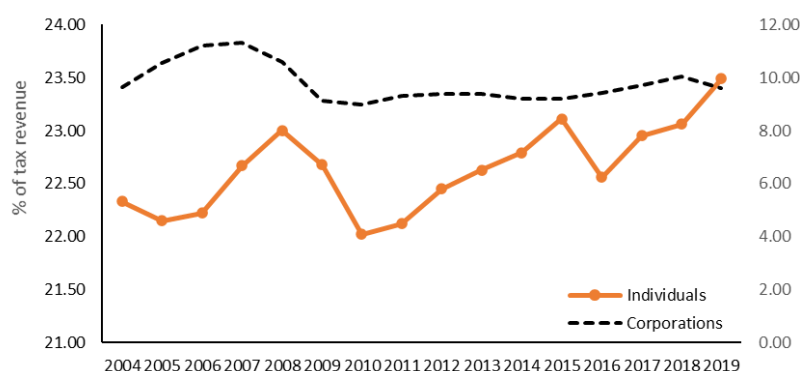
Figure 3: Individual and Corporation Income Tax as Shares of Total Tax Revenue (Indonesia, 2004-2019)



Source: BPK (n.d.).

As a comparison, the contribution of individual income tax to the overall tax revenue in Organisation for Economic Co-operation and Development (OECD) member countries in 2004-2019 was between 22.02% and 23.49%, with an average of 22.64% (OECD, 2020), as seen in Figure 4. In contrast to what is evident in Indonesia, average income tax payments made by corporations in OECD member countries was less than 10% of the total tax revenue, which was approximately less than half of the payments made by individuals. The lowest and highest figures were 8.99% and 11.33% respectively in 2010 and in 2007 before the sub-prime mortgage crisis in the United States. Thus, there is empirical evidence to support the notion that developed countries accumulate more income tax from individuals than from corporations (Tanzi & Zee, 2001).

Figure 4: Individual and Corporation Income Tax Shares of the Total Tax Revenue (OECD Average, 2004-2019)

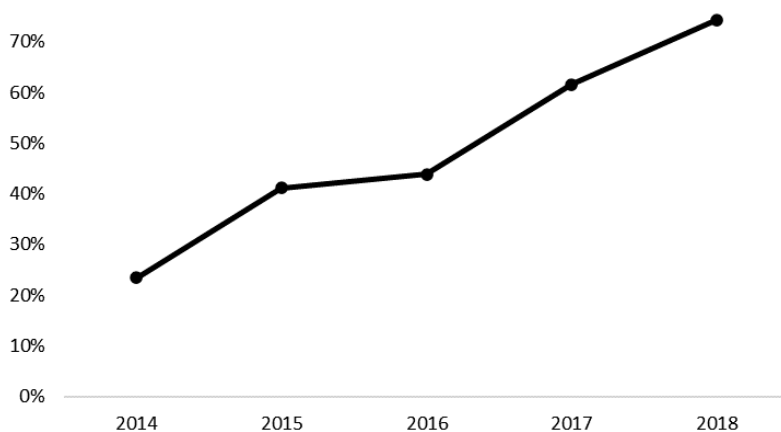


Source: <https://data.oecd.org/tax/>

One might question the comparability of OECD member countries with Indonesia, as tax revenues in OECD countries are generally higher than in the rest of the world (Aizenman et al., 2019). Nevertheless, the OECD tax data provides a useful frame of reference. The comparison also teaches Indonesia that there is still potential for revenue to be collected from individual income taxpayers. As tax payments in a self-assessment system are a function of taxpayer compliance, it can be argued that there is an urgent need to improve the compliance of individual income taxpayers in Indonesia. The question would then be “what factors need to be taken into account if one wishes to improve compliance?”.

Another aspect worth looking at when considering compliance is the income tax lodgement rate. Tax return lodgement is recognised as part of administrative compliance (OECD, 2001). It is, without doubt, essential for taxpayers to lodge income tax returns in order to ensure compliance. The Indonesian tax office classifies the income tax return lodgement rate as an indicator of formal compliance.⁴ As seen in Figure 5, the proportion of individual income taxpayers who lodged tax returns between 2014 to 2018 was continuously increasing.

Figure 5: Individual Tax Return Lodgement Ratio (2014-2018)



Source: Nur and Valentinus (2020)

While this is generally desirable, it must be considered in the context of the respective shares of individuals’ and corporations’ contributions towards the overall income tax revenue, as shown in Figure 3. The small contribution made by individual taxpayers towards tax revenue, as shown in Figure 2, indicates that the information contained within the tax returns lodged by these taxpayers may not be entirely truthful. To make matters worse, a high proportion of small business owners are not registered as taxpayers and, as such, do not contribute towards income tax revenue (Rosadi, 2019).

At the moment, it is estimated that fewer than 3% of approximately 59.2 million small business owners in Indonesia are registered as taxpayers. Around 26% of these taxpayers—shown in Figure 5—did not lodge tax returns in 2018. Hence, it can be argued that, although they are registered as taxpayers, this does not mean that they pay income tax and lodge tax returns

⁴ Another indicator of compliance is material compliance, which generally refers to the accuracy of the contents of the tax returns.

accordingly. In other words, those who should be registered as taxpayers are not registered and those who are registered may not fully pay their share of tax. Some taxpayers even stop paying tax after making the initial payment when they register (Direktorat Jenderal Pajak, 2019). This explains the phenomenon of low individual income tax payments shown in Figure 3. Furthermore, 58.87% fewer newly registered taxpayers actually paid income tax in 2019 than in 2018 (Direktorat Jenderal Pajak, 2019).

It is in this context that the community named Friends of Tax/FoT (*UKM Sahabat Pajak/USP*) is of interest. This community-based organisation was initially composed of small business owners in the neighbourhood of South Tangerang. It was originally formed in a town in Pondok Aren, a district in South Tangerang, on the outskirts of Jakarta.

The local tax office in Pondok Aren often provides USP members with assistance in the form of marketing, branding, or accounting workshops. USP members, in return, regularly organise tax information sessions for fellow small business owners on a voluntary basis. They frequently use themselves as living examples of compliance with tax rules in these sharing sessions, by publicly displaying their lodged tax returns, for example, or creating billing codes to facilitate tax payments. USP members are known to have a close association with the tax office for these reasons (Prasetyo & Djufri, 2019).

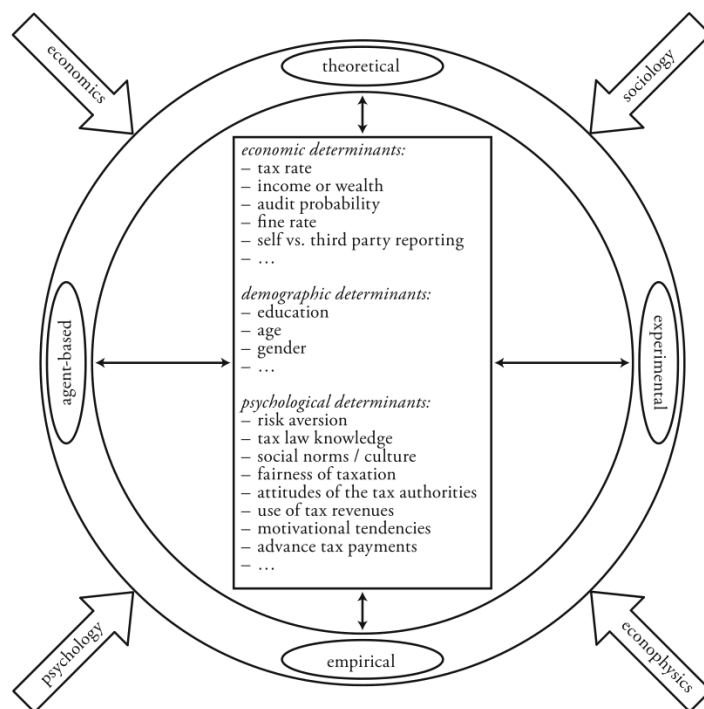
The contemporary literature identifies several factors that significantly affect taxpayer compliance. These will be discussed in detail in the literature review section. One of these factors is social distance. According to the literature, the greater the distance between taxpayers and tax officers is perceived to be, the more difficult it is for tax officers to make taxpayers comply with tax rules. This paper aims to shed light on the nature of the social distance between some small business owners and tax officers in Indonesia. It seeks to investigate whether there is a significant difference in social distances between FoT members and tax officers, and non-members and tax officers. It further seeks to analyse the differences in social distance scores by socio-demographic determinants, such as age, gender, and education level (Figure 6).

The paper is organised as follows. Section 1 outlined the overall background. In Section 2, a brief literature review, showing the contemporary picture of taxpayer compliance and how social distance comes into play, is presented. Section 3 lays out the steps taken in this paper to address the aims of the research. Section 4 consists of a short presentation and discussion of the results. This paper concludes with a short summary of the overall research, including a description of its shortcomings.

2. LITERATURE REVIEW

As previously mentioned, taxpayer compliance is one of the essential ingredients of a tax system based on self-assessment. Taxpayer compliance has been studied extensively. The existing literature generally evolves along several distinct streams (Schmutz, 2016). Initially, theoretical models are developed and tested in order to identify the factors that significantly affect non-compliance. Laboratory experiments are also conducted at this stage, particularly in order to study individual taxpayer behaviour. The dynamics between various groups of actors in the compliance games are simulated in these laboratory experiments. These steps have resulted in a number of factors, as shown in Figure 6.

Figure 6: Factors Influencing Taxpayer Compliance



Source: Schmutz (2016, p. 128). Reproduced without changes under a Creative Commons Attribution 4.0 International License (CC BY 4.0), <https://creativecommons.org/licenses/by/4.0/>

Researchers specialising in taxpayer compliance started by producing work based on the econometrical model developed by Allingham and Sandmo (1972), which is based on the work of Becker (1968). The main assumption of Allingham and Sandmo's (1972) model is that taxpayers behave rationally, in the sense that they strive to maximise their utility. Hence, taxpayers will minimise tax payments as much as possible because, by doing so, they maximise their financial utility. Allingham and Sandmo (1972) conclude that penalties and the probability of detection can generally be used as tools to significantly improve taxpayer compliance. Taxpayers' incomes and tax rates, they assert, do not have clear-cut effects on compliance (Allingham & Sandmo, 1972).

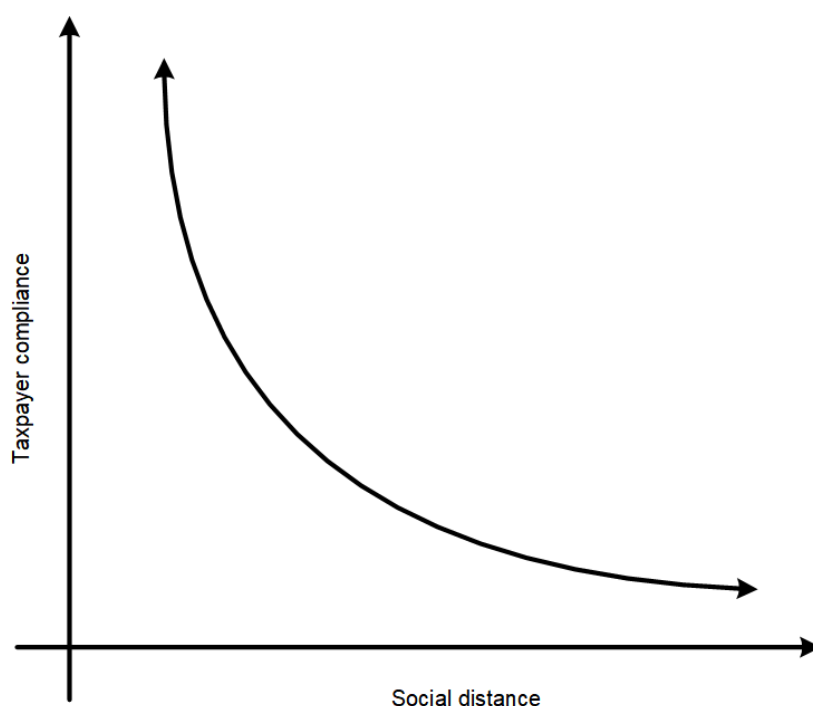
While this model is generally considered to be logical, later works nevertheless provide that the econometrical approach is not supported by sufficient empirical evidence (Kirchler et al., 2010). Researchers have subsequently found that taxpayer compliance is often higher than predicted by Allingham and Sandmo's (1972) model (Alm et al., 1992; Feld & Frey, 2002). Psychological determinants—such as norms, culture, or trust in the tax authority—are thus offered in order to complete the picture (Figure 6). Tax morale, fairness, and complexity are also considered to be important in shaping taxpayer compliance (Taing & Chang, 2020). Additionally, in the Indonesian context at least, referral groups are reported to significantly affect taxpayer compliance (Inasius, 2019).

One key factor not widely discussed in the literature on this topic is social distance. According to Braithwaite et al. (2007), individuals can communicate their preferred social distance from other parties, such as tax authorities, by sending messages or signals about how those individuals wish to place themselves beyond the other party's reach. The establishment of

social distance indicates that individuals do not wish to hear or follow the other party's demands and are willing to fully accept the consequences of such an action. It is driven by a comparison of one's position with that of another (Ein-Gar & Levontin, 2013).

It is believed that social distance can significantly affect taxpayer compliance. Fullarton (2013), for instance, considers social distance to be one of the factors that generally provided a background in shaping the decision of miners in Pilbara, Western Australia, to participate in a mass-marketed tax avoidance scheme in the 1990s. The greater the perceived distance, the lower the miners' compliance would be (Fullarton, 2013). This makes it more difficult for the tax authority to actually persuade people to comply with the rules (Bartel & Barclay, 2011). According to Fullarton (2013), the relationship between tax compliance and social distance can be best illustrated in Figure 7.

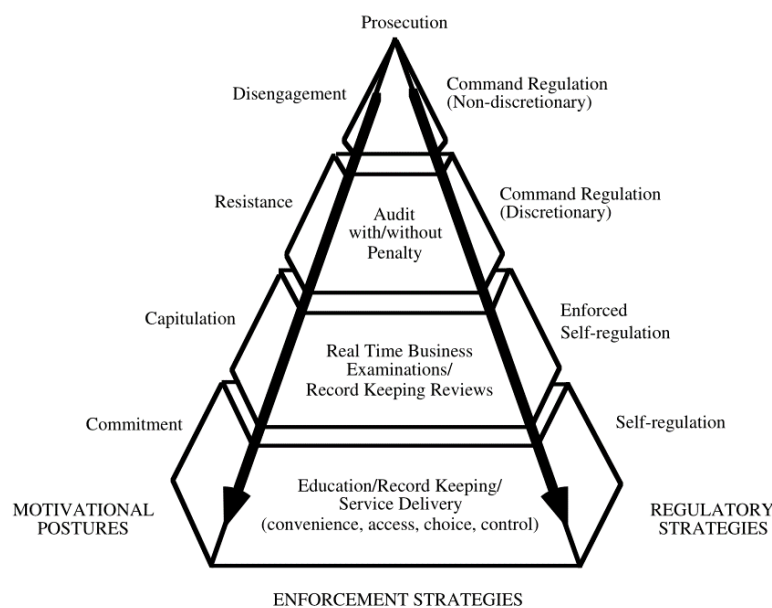
Figure 7: Social Distance and Taxpayer Compliance



Source: Fullarton (2013, p. 104). Reproduced with minor changes under a Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia License (CC BY-NC-ND 3.0 Australia) <https://creativecommons.org/licenses/by-nc-nd/3.0/au/>

One way in which to see the importance of social distance towards taxpayer compliance is through the so-called motivational posture. Motivational posture, as coined by Braithwaite (2003b), generally refers to how a person perceives their relationship with the authority (see Figure 8). This ranges from commitment (being cooperative) to disengagement (being non-cooperative) (Braithwaite, 2003b). In the disengagement stage, which is the furthest distance, taxpayers deliberately put themselves outside of the system (Hartner et al., 2008).

Figure 8: Motivational Posture



Source: Braithwaite (2003a, p. 3). Reproduced with the kind permission of Professor Valerie Braithwaite.

As individuals continuously evaluate the tax authority's performance, they regularly examine their position towards the authority. This positional evaluation eventually builds up over time. Central to this concept of positioning is the social distance advocated by Bogardus (1925). How a person associates themselves with the authority generally dictates the distance that person wants to place between themselves and the authority (Braithwaite, 2003b).

In a rather different context, it was shown that those with less social distance between themselves and a donation target tend to be willing to donate more than those with greater distance between themselves and that donation target (Ein-Gar & Levontin, 2013). Based on this literature, it is therefore reasonable to believe that taxpayers with less social distance between themselves and tax officers will tend to be more willing to comply than those at a greater social distance from tax officers.

If this is the case, USP members should be less socially distanced from tax officers than other taxpayers. This paper seeks to discover whether this is, indeed, the case. It also attempts to see whether there are significant differences in social distance across several demographical attributes, such as age, education, occupation, and gender.

For this purpose, it is firstly hypothesised that taxpayers who belong to FoT are significantly less socially distanced from the tax authority than those outside of the FoT community. In an attempt to answer the second objective, this research then compares changes in social distance across the aforementioned demographical factors. These factors were chosen because the literature has shown that taxpayer compliance varies as they change. This will be discussed in detail in the following section.

3. METHOD AND DATA DESCRIPTION

To address the research objectives outlined in the preceding section, this research uses a set of questionnaires. The questionnaires were constructed based on the concept of the social distance scale developed by Bogardus (1925). This scale has been used to measure intergroup relations and attitudes between different groups in numerous contexts (Geisinger, 2010).

The questionnaires were administered to two groups of taxpayers. The first group comprised USP members in South Tangerang. The second group consisted of small business owners who had participated in a series of tax workshops organised by the tax office and PKN STAN.⁵ Three of these workshops took place in August 2020, but the questionnaires were only administered to the participants of the workshops conducted on the 24th and 31st August 2020 (approximately 300 people).⁶

These two groups of taxpayers were asked to complete an online questionnaire saved as a Google Form.⁷ The questionnaire consisted of seven questions and aimed to identify the social distance between the research participants and tax officers. The participants were asked to respond to the questions using a 4-point Likert scale.

This marks a departure from the original Bogardus scale, where respondents are not normally asked to complete a Likert scale and use a fixed score for each question instead. Although the fixed score approach has, as previously noted, been regarded as reliable, some drawbacks are nevertheless evident (Clogg & Sawyer, 1981; Mather et al., 2017). For this reason, this research uses a modified version of the Bogardus scale. A final score—named iScore—based on the respondents' complete answers was then calculated using the procedure outlined by Mather et al. (2017). The iScore means across the group of respondents were then compared in order to obtain an overview of the social distance between the two groups of taxpayers and tax officers. The mean social distance score reported by the FoT members was used as a benchmark, as FoT members are, generally, known for their close relationships with the tax office.

143 of the (approximate) 300 training session participants completed the questionnaire in full, resulting in a response rate of approximately 47.67%. Nearly 31% of these respondents claimed to be affiliated with the FoT, with most of these (74%) belonging to the productive age group of between 29 and 50 years of age. The respondents were also generally well-educated, as more than 81% were educated to graduate level or higher. Interestingly, more women than men responded (64%). As for occupation, it seemed that most respondents had jobs, either as civil servants or in private companies, in addition to owning businesses. Fewer than 21% of respondents worked solely as small business owners.

The FoT members who responded were mostly in similar situations. More than 80% of the 44 members who responded to the survey were female, and the FoT respondents were predominantly (57%) between 29 and 50 years old. In addition, FoT members were generally well-educated, as more than 60% of them had at least a bachelor's level education. Unlike those who were not part of the FoT community, however, most of the respondents who identified themselves as FoT members (61%) stated that their sole occupation was small business owner.

⁵ PKN STAN is a vocational college under the administration of the Ministry of Finance.

⁶ This number is an approximation as the exact number of those attending the events was not available to the researcher.

⁷ The questionnaire can be accessed at https://bit.ly/Anda_dan_Petugas_Pajak.

It is against this background that the social distance measurement was undertaken. The following section outlines the results in detail.

4. RESULTS AND DISCUSSION

This section outlines a set of results obtained from analysing the respondents' answers. The analysis was carried out using Minitab 19 and parametric statistical techniques, as they offer more opportunities, are relatively robust to violations of normality, and can be relatively accurate when applied to the data on Likert scale (Norman, 2010). Non-parametric procedures are also performed for comparison purposes. Furthermore, the interpretation of the results and discussions was carried out using the respondents' attributes as background information.

The presentation of the results starts with an overall description of the social distance score. As previously stated, 143 people responded to the online survey. The mean of the social distance score is 47.20 (SD=17.48) with minimum and maximum scores of 28 and 102 respectively. Furthermore, the median social distance score does not seem to depart significantly from the mean (Q2=44, IQR=24). The overall social distance score, however, does not follow the normal distribution (AD=3.41, $p < 0.01$).

As expected, FoT members have a significantly lower mean social distance score than non-members (Table 1).

Table 1: Social Distance Mean Score (Affiliation)

Affiliation	Mean	Median	SD
FoT	41.9	38.5	12.5
Non FoT	49.5	47.0	18.9

FoT members, in this case, have a mean social distance score of 41.93 (SD=12.46), which is lower than that of non-members. At a 95% confidence level, the t-test shows that this score difference is indeed statistically significant ($p < 0.01$). The Mann-Whitney U test also provides the same result ($p = 0.025$). Thus, it can be concluded that FoT members do have closer relationships with tax officers than those who are not FoT members. This provides the answer to the first research question.

The second part of this section deals with the comparison of social distance scores across several groups of the respondents based on their demographic determinants. The first demographic used is the respondents' genders (Table 2).

Table 2: Social Distance Mean Score (Gender)

Gender	Mean	Median	SD
Female	47.0	45	16.1
Male	47.5	43	19.8

The t-test shows that the mean score difference between the two groups of respondents is not statistically significant ($p=0.44$). The Mann-Whitney U test also produces a similar conclusion ($p=0.710$). Hence, we can see from these results that there seems to be no significant difference between male and female respondents' views of their social distance from tax officers. Furthermore, both male and female respondents' mean social distance scores are significantly different from the FoT members' mean score of 41.9 (Table 1).

Table 3: Comparison of Differences in Mean Social Distance Scores (Gender)

Education	Mean	SD	p	Significant?
Female	47.02	16.1	.004	Yes
Male	47.52	19.8	.046	Yes

Mean social distance score comparisons were next performed for respondents with different education levels. This comparison is of particular interest because laboratory experiments conducted in Indonesia have indicated that more educated taxpayers tend to be less compliant than less educated taxpayers (Juanda, 2010; Prasetyo & Sinaga, 2017). Social distance has been recognised as a concept by which to explain how individuals position themselves in relation to the tax authority (Braithwaite et al., 2007) and, therefore, it is a means by which we can evaluate the effectiveness of the tax authority's efforts to persuade individuals to comply with certain regulations (Bartel & Barclay, 2011). Therefore, it is closely linked to the concept of compliance. Table 4 provides the mean social distance scores for respondents by education level.

Table 4: Mean Social Distance Scores (Education)

Education	Mean	Median	SD
Primary	35.0	35.0	N/A
Senior high	12.8	33.5	12.8
Bachelor	45.6	45.0	16.6
Masters	50.8	49.5	19.1
Doctoral	47.4	42.0	16.7
Other	42.8	38.0	13.4

Table 4 shows that mean social difference scores do not significantly differ for taxpayers of different education levels ($p=0.189$). The results obtained from the Kruskal-Wallis test also confirm this ($p=0.227$). However, further analysis reveals that the mean social difference score for respondents with bachelor's level education does not differ significantly from that of FoT members (Table 1). In contrast, those educated to master's level and beyond have a significantly higher mean social distance score than FoT members (Table 5).

Again, if taxpayer compliance decreases as taxpayers become more socially distanced from tax officers, the results shown in Table 5 are consistent with the literature. This means that it will be harder to make respondents with higher education levels comply with tax law than those with lower education levels.

Table 5: Comparison of Mean Social Distance Scores Between Education Level Groups and FoT Members

Education	Mean	SD	p-value (difference)	Significant?
Bachelor's degree or lower	43.6	15.8	.496	No
Master's degree or higher	50.0	2.1	< .010	Yes

Another noteworthy result is evident when comparing the mean social distance scores of respondents by their additional occupations (Table 6).

Table 6: Mean Social Distance Scores (Occupation)

Additional Occupation	Mean	Median	SD
Employee (civil service)	48.3	47	18.6
Employee (company)	55.6	48	20.5
Business owner	42.1	38	14.6
Other	43.4	47	18.6

As shown in Table 6, small business owners have a lower mean social distance score than those with other occupations. By contrast, those who also work in private entities (companies) tend to place themselves furthest from tax officers. The analysis of variance (ANOVA) shows that certain groups of occupations have significantly different mean social distance scores ($p=0.017$) although the Kruskal-Wallis test fails to provide validation ($p=0.057$). Further examination using Tukey's pairwise comparisons procedure provides that the mean social distance scores of small business owners and respondents who also work as employees in private companies are significantly different statistically. The same can also be said of employees in companies and respondents who did not specifically claim to have additional occupations ($M=43.4$, $SD=18.6$). Respondents who also work as employees—either as civil servants or as employees in the private sector—tend to have significantly different mean social distance scores when compared to the FoT members shown in Table 1 (Table 7).

Table 7: Comparison of Mean Social Distance Scores Between Additional Occupation Groups and FoT Members

Additional Occupation	Mean	SD	p-value (difference)	Significant?
Employee (civil service)	48.4	18.6	.01	Yes
Employee (companies)	55.6	20.5	< .01	Yes
Business owner	42.1	14.6	.94	No
Other	43.4	13.1	.51	No

These results raise the question of whether the employees' significantly higher mean social distance scores arise as a result of their lack of social interaction with the tax office. It is quite possible that those who solely rely on running small businesses as an occupation have more intensive interaction with the tax office. Those who also work as employees—and perhaps only run businesses in order to top up their regular salaries and wages—may not interact with the tax office as intensively. They may believe that the income tax withheld by their employers sufficiently covers all of their tax matters, something which is often not the case.

The final part of the analysis deals with the comparison of means across age groups (Table 8).

Table 8: Mean Social Distance Score (Age)

Age (years)	Mean	Median	SD
18-28	42.5	40	11.9
29-39	48.9	46	18.1
40-50	46.2	44	16.1
51-61	48.6	43	22.5
>61	50.3	53	18.1

The results of using the ANOVA procedure indicate that there are no significant differences in mean social distance scores across respondent age groups ($p=0.689$), something which is also corroborated by the Kruskal-Wallis test ($p=0.897$). Further comparisons, however, reveal a different picture. Respondents aged between 29 and 39 years have a significantly higher mean social distance score than FoT members ($p=0.01$). In contrast, the mean social distance scores of those outside of this age group do not differ significantly from those of FoT members (Table 9). FoT members have a mean social distance score of 41.9, as shown in Table 1.

Table 9: Comparison of Mean Social Distance Scores Between Age Groups and FoT Members

Age (years)	Mean	SD	p-value (difference)	Significant?
18-28	42.5	11.9	.87	No
29-39	48.9	18.1	.01	Yes
40-50	46.2	16.1	.06	No
>51	48.8	21.7	.14	No

The results shown in Table 9 are generally consistent with the literature, which notes that the older generation tends to be more compliant. As social distance decreases, compliance increases. In this context, compliance increases with age due to improved financial conditions, better tax knowledge, and more interaction with tax officers (Hofmann et al.), or perhaps simply due to differences in taxpayers' mental accounting (Alm et al., 2012). By contrast, the younger generation is normally considered to be less compliant (Alm, 2019). As indicated in Table 9, making younger taxpayers comply might be challenging.

5. CONCLUSION

The literature identifies social distance as being one of the key factors that influence taxpayer compliance. The concept of social distance generally explains where taxpayers position themselves in relation to the tax authority. It has been generally established that the greater the social distance is, the more difficult it is for a tax administration to persuade taxpayers to comply. In this sense, therefore, social distance is related to taxpayer compliance. This research seeks to shed light on this topic by focussing on some small business owners in Indonesia. For this purpose, an online questionnaire based on Bogardus's (1925) work was distributed to two distinct groups of taxpayers: FoT members and non-members.

In a nutshell, it can be concluded that FoT members generally have significantly lower social distance scores than non-members, which explains their close relationship with the tax office. A second set of comparisons was also conducted in order to explore social distance score differences across various demographic groups. The results show that there are no significant differences in social distance scores across ages, genders, and education levels. If it is accepted that social distance is negatively correlated with compliance, these results differ from the evidence found in the literature, where young taxpayers and taxpayers with higher education levels are generally regarded to be less compliant. Furthermore, this research reveals that small business owners are generally closer to tax officers in terms of social distance than respondents employed by private companies. This result also differs from the evidence contained in the literature, where self-employed taxpayers are seen to be less compliant and, thus, should have higher social distance scores. Again, this interpretation assumes a negative correlation between social distance and taxpayer compliance.

Policy Implications and Research Limitations

This research sheds light on the nature of taxpayers' social distance from tax officers. The literature recognises that when there is a large social distance between the two parties, it only makes it more difficult for taxpayers to persuade taxpayers to comply. One direct policy implication of this is that the tax office needs to make more effort to close the gap between taxpayers and tax officers. In this regard, more social interactions are certainly preferred. It is essential to organise events that aim to provide taxpayers with assistance. The focus should be

on closing the social gap and helping taxpayers to expand their business networks, as opposed to providing one-way information dissemination with the sole intent of making taxpayers comply. It would, therefore, be more desirable to run events such as business networking functions, marketing and trade exhibitions, or entrepreneurial workshops than seminars or tax education events, as the latter are normally geared towards introducing new sets of tax rules. Providing taxpayers with services and assistance may improve compliance, particularly in a place where trust in the authority and its power to enforce rules is perceived to be weak (Batrancea et al., 2019). The Indonesian tax office currently has a business development service program which, if well executed, could serve this purpose.

This research does, however, have one main weakness. It collected the data of taxpayers who attended tax education workshops. Therefore, questions can be raised regarding the views of those who did not attend these workshops as their voices were clearly under-represented. This certainly makes generalisation problematic, as not all taxpayers had the same chance to be included in the survey. Therefore, this research does not attempt to make generalisations beyond the participants of this research. It is, in a way, an early attempt to measure social distance between taxpayers and tax officers. As such, the results reported in this paper must be carefully read and interpreted, taking their limitations into account.

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MANAGING THE TAXATION OF THE INFORMAL BUSINESS SECTOR IN MOGADISHU

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Abstract

Somalia has been experiencing civil unrest since 1991. This has resulted in social, economic, and political instability, as well as the destruction of systems of governance, including the taxation culture. During this period of fragility, businesses of different sizes have, in general, grown informally and no public bodies have asked them to pay tax. The new government, which was established in 2012, has officially resumed tax collection operations in the capital city, Mogadishu. This is the country's largest city. It hosts most of the informal business activities in the country and is the only fiscal space in which the Federal Government of Somalia (FGS) operates.

In this study, we use administrative data from the revenue department, together with information gained from interviews with experts and business owners, with the aim of showing how the revenue department managed to tax the informal business sector in Mogadishu (the FGS's only revenue source) after re-establishing the tax system. It also considers the challenges associated with this and recommends several technical solutions. The findings show that, in Mogadishu, informality is common amongst small and medium-sized enterprises (SMEs). Although the government has increased taxpayer registration rates, begun to tax the sector indirectly, and improved licensing, the study shows that the nature of Somalia's economy, the existence of undertaxed sectors, the limited administrative capacity, the high costs involved in enforcing compliance and formalizing businesses, and a historical weakness in terms of engaging with the business community continue to hinder the proper management of the taxation of the sector in Mogadishu.

We provide recommendations for both the federal revenue authority and revenue officers in the Mogadishu Municipality to help them to develop better administrative and enforcement measures. These measures could enable them to reduce the number of business activities that are taking place outside of the tax net. We also highlight the importance of sequencing the reforms, creating a promising environment for SMEs, simplifying the tax system, and providing taxpayer education.

Keywords: Informal Sector, Taxation, Mogadishu, Municipality, Banadir, Somalia, SMEs.

1. INTRODUCTION

Informality is common in developing economies and the situation is worse in war-torn countries. The tax administrations of countries such as Zimbabwe (Dube & Casale, 2019),

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<https://tarc.exeter.ac.uk/events/researchconferences/>

South Africa (Ryan, 2014), Zambia (Phiri & Nakamba-Kabaso, 2012), and Nigeria (Udoh, 2015), as well as Somalia, have struggled to manage informal businesses and force them to pay tax. In addition, the informal economies of Somalia's neighboring countries, Ethiopia, Djibouti, and Kenya exceed, on average, 40 percent of their gross domestic products (GDPs) (Schneider, 2005). The issue of the taxation of the informal business sector in transition countries has received increasing attention in recent years. According to Joshi et al. (2013) and Keen (2012), taxing the informal business sector is difficult due to: the limited revenue potential involved: their regressive nature, as small informal businesses are often owned by the poor; the high costs involved in collection; and the potential opportunities for corruption and perverse impacts on small businesses. At the same time, the benefits of taxing the sector are: the government becomes accountable to more of its people; economic growth; the development of an important source of local government revenue; and improvements in governance, tax compliance, and taxpaying culture (Joshi et al., 2013).

Since its first appearance in the early 1960s, the term "informal business sector" has become so popular in government systems that it now has different meanings in various circumstances. According to Chambwera et al. (2011):

On first hearing the phrase 'informal economy' (IE), most people think of illegal activities, such as trading in drugs or prostitution, paying bribes or avoiding taxes. As such, it is often regarded as something that should be eliminated in pursuit of a formal economy (FE). Without much analysis, one can even assume that the IE is a transitional route to formality as economies grow and regulation becomes stronger (p. 1).

Hence, the total economy is divided into two sectors: the informal and formal. According to the Organisation for Economic Co-operation and Development (OECD, 2002), "the informal business sector is broadly characterised as consisting of units engaged in the production of goods or services, with the primary objective of generating employment and incomes to the persons concerned" (p. 217). Meanwhile, Smith (1994), as cited in Schneider (2009, p. 1080), defines the shadow economy as the "market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP". Although Somalia's economy largely depends on imports, and the agriculture and service sectors, administrative challenges seem to make it difficult for the tax authorities to detect non-compliance at both the national and sub-national levels. Hassan et al. (2018) argue that informal business does not just take place at domestic market levels, but also occurs during the import and export of commodities. For example, it is illegal to export female animals (livestock), scrap metal, and charcoal, but the informal export of these items is widespread. For the purpose of this study, we focus on income and consumption taxes, and assess the management of the collection of such taxes from informal businesses in Mogadishu, the only city that the FGS manages to tax. The tax systems of all other Somalian cities are managed by their respective Federal Member States and this situation will continue until a nationwide fiscal decentralization agreement is reached.

The country's prolonged economic and political instability has caused the taxation culture to disappear and the number of untaxed businesses operating to increase (Mohamud & Isak, 2019). In fact, trade taxes have dominated the revenue base throughout Somalia's taxation history—which began in the Italian and British colonial eras—due to the lack of a conventional economy and the absence of widely taxable formal markets in the country (Jamal, 1988). Although most businesses and services were provided by European companies, their

governorates aggressively taxed trade using strong fiscal policies which no one could challenge. In addition, during the early stage of the military regime, most businesses were state-owned and there were fewer monopolistic private companies in certain sectors (Mubarak, 1996). This situation continued until 1991, when civil war broke out (Mubarak, 1996). Since then, there has been a dramatic increase in the number of informal businesses in operation, and no strong tax regime or regulatory bodies in place (Mohamed et al., 2019; Mubarak, 1996). During this period, the private sector has undergone extensive development at micro, small, medium, and large-scale levels. These businesses have shown resistance and the sector has been a key driver of the economy. Although financial services—including banks and money transfer businesses, telecommunications firms, and trade, transport, and construction service providers—were contributing to the GDP (International Monetary Fund, 2019) and paid scant amounts of tax (Isak, 2018), small-scale businesses and the entire agriculture, livestock, and fishery sectors, which are relieved by statute, paid taxes neither to the federal government nor to the Mogadishu Municipality.

On the other hand, as noted by Tellander and Hassan (2016), Somalia's other Federal Member States are also experiencing issues. For example:

Somaliland does not have a formal coherent tax policy and Somaliland's duty and tax collection is a patchwork that is lacking proper legal and institutional support. The tax base is small because of the large informal economic sector, the low economic growth, and the fact that the largest corporations do not pay tax according to their earnings. In recent years the face of tax collection has begun to shift, from informal systems to more professional and automated systems of collecting taxes (Tellander & Hassan, 2016, p. 2).

During the civil war, large private sector operators enjoyed more power than the weak transitional governments that were in place prior to 2012. When the government that came into power in 2012 re-established domestic revenue collections after a break of two decades, it faced widespread resistance and evasion activity from the city's business communities (World Bank, 2017b) and from those politicians who were business shareholders or stakeholders at the time. Mohamed et al. (2015) argue that, in Somalia, small businesses provide livelihoods to the wider urban population while companies in the rural, livestock, and agricultural sectors sustain the rural community on a day-to-day basis, but all of these business types are associated with unpaid taxes.

The current tax administration in Somalia (Raballand & Knebelmann, 2020; World Bank, 2015) hinders revenue collection in many ways, such as by failing to manage the collection of tax from informal businesses and SMEs or to enforce compliance within the informal sector effectively. This has ultimately resulted in the existence of a huge tax gap (Raballand & Knebelmann, 2020; World Bank 2017b) which, in turn, has caused Somalia to have the lowest tax to GDP ratio in the world (World Bank, 2019). This gives an indication of weak tax capacity as well as tax to GDP per capita. Studies such as those by Mohamud and Isak (2019), the United Nations (U.N.) Economic Commission for Africa (2019), and the World Bank (2015) provide evidence to support this. The following table shows Somalia's revenue by type as a proportion of GDP in recent years, showing how severely limited the state tax capacity is.

Table 1: Revenues (Only from Mogadishu's Tax Base) as a Proportion of Somalia's GDP

Description	2013	2014	2015	2016	2017	2018	2019
Domestic revenue/GDP	1.7	2.2	2.8	2.7	3.2	3.9	4.6
Tax/GDP	1.6	1.8	2	2.1	2.5	2.9	3.1
Non-tax revenue/GDP	0.1	0.4	0.8	0.6	0.7	0.9	1.5

Data sources: (International Monetary Fund [IMF], 2020; World Bank, 2017b).

Finally, there are, in general, few studies that investigate Somalia's tax system. Some works have examined taxation challenges and weaknesses (Isak, 2018; Raballand & Knebelmann, 2020), tax reforms (Mohamud & Isak, 2019), the state-building aspects of taxation (Abshir et al., 2020), and community-driven revenue generation (van den Boogaard and Santoro, 2021) in the country, but these do not address the challenges faced when trying to tax informal businesses. This paper aims to fill that gap in the literature by exploring the institutional experience of taxing informal businesses and the challenges associated with it in the context of the FGS. It focuses on taxation within the capital city, Mogadishu, as this is the FGS's only source of revenue. Other regions and cities in Somalia are taxed by their respective governments as fiscal harmonization policies have not yet been agreed. However, the sub-national governments can also benefit from this research, as informality is a nationwide economic challenge.

During the research, we used some tax data obtained from the revenue department. We also interviewed eight economists and tax officials, and three owners of small-scale businesses, in order to obtain their opinions about matters that the data and authors' observations do not address. A lack of statistical information about the sector prevented us from quantifying the number of SMEs and the extent of the informal economy in the city, and from measuring the revenue gap. However, the paper highlights the importance of conducting further quantitative studies.

We discuss informal taxation in the second section of the paper, and the establishment of the tax system in Mogadishu in the third. We examine experiences in taxing the informal sector in the fourth section, the challenges associated with this in the fifth section, and present our conclusion and recommendations in last section.

2. THE INFORMAL SECTOR AND ITS TAXATION

Once upon a time, economists paid no consideration to commercial and economic activities that were carried out outside of the formal framework of the economy. Sociologists and anthropologists were the only ones who appeared to study the importance of such business activities. However, in the 1950s and 1960s, the subject of the informal sector became increasingly important to economists (Gërkhani, 1999). The informal business sector was originally observed in developing countries and attracted increased attention in developed countries. The informal sector predominantly affects developing countries because of the huge amount of informal business that takes place in these territories.

Rao (2014) noted that:

the informal sector consists of firms and individuals who are not fully registered and regulated, and therefore not in the standard tax net. Taxing the informal sector can be through registration and formalisation to push these firms and individuals into the tax net, or it can be through taxing them indirectly. In most countries there are several types of business registration and varying degrees of formalization (p. 19).

According to Auwal Ibrahim Musa (Rafsanjani), the executive director of Nigeria's Civil Society Legislative Advocacy Centre, meanwhile:

The informal economy is described as the sum total of economic activity that happens outside state regulation, which is neither taxed nor represented in a country's GDP. Other descriptions depict it as economic activities lacking conventional accounting procedures, characterized by high incidences of non-reporting or under-reporting and is excluded from social measurement apparatus such as the Gross Domestic Product, GDP (Oduwale & Sanni, 2014, p. 3).

According to Medina and Schneider (2018), the existence of an informal economy is a larger problem for less developed countries. Countries with advanced economies have the lowest informal economy to GDP ratios, while emerging market, low-income countries and sub-Saharan African countries have the largest shadow economies (Medina & Schneider, 2018).

Mramba et al. (2017) state that "in Sub-Saharan Africa (SSA), the informal sector constituted from roughly 50% to 75% of non-agricultural employment, and 30% to 60% of gross national products (GNP) in 2000s" (p. 486). They note that the birth of the informal sector in sub-Saharan Africa is associated with economic adversity, a low standard of living, and a weak State. SMEs support and seek low-cost goods and services (Mramba et al., 2017). They add that "in many cases the informal sector is the only opportunity available for poor people to make them survive" (Mramba et al., 2017, p. 489).

There is an extensive informal sector in Somalia, even though there is no country statistical data in respect of this issue. The informal sectors in neighboring and other regional countries are also large. According to Schneider (2005), the size of the shadow economies of Ethiopia, Kenya, and Uganda as percentages of official GDP were 42.1%, 36.0% and 45.4% respectively. Comparison with the sub-Saharan average, which includes Somalia, implies that, for Somalia, this number is above 36%. This means that Somalia's case could be worsening due to its severe fragility (Kalyundu & Norregaard, 2020).

According to Kimani (2018):

Somalia's economy is largely dominated by the informal sector and the majority of the population lives at subsistence level and is involved in micro and small-scale businesses. Despite being ranked last of 190 countries on the World Bank's Doing Business Index in 2016 and 2017, Somalia's private sector has demonstrated impressive resilience in areas such as telecommunications, financial services, construction, livestock, and fisheries. It has been estimated that Somali women make up over 60% of business owners, consisting of microenterprises as well as medium to large enterprises and businesses connected to the diaspora (p. 4).

According to Cantens and Raballand (2021), “taxing the informal sector...is usually an explicit objective for policymakers and tax authorities when the taxation of other areas, such as real estate, is poorly developed or enforced” (p. 14). They argue that the informal sectors in fragile countries, especially sub-Saharan Africa (including Somalia), should be taxed because “they represent numerous people with low bargaining power” (Cantens & Raballand, 2021, p. 14). They go on to state that:

Taxation of this sector could bring more revenue than focusing on wealthy taxpayers, who have more bargaining power. It may however lead to limited increased revenue at the end of the process, especially when tax administrators face widespread corruption, and the informal sector is tolerated with limited taxation (Cantens & Raballand, 2021, p. 14).

The informal business sector is not completely without taxation. In many jurisdictions businesses in the informal sector pay VAT on purchases of inputs, presumptive taxes, and various local license fees (Action Aid, 2018). Taxes from informal businesses remain low in Somalia even though they have been rapidly increasing from a low base since 2012 when the FGS re-established the taxation system in Mogadishu. Raballand and Knebelmann (2020) carried out an experiment in rural villages in South Somalia and their results revealed that “the bulk of taxation is informal (for instance, clan or clergy contributions)” (p. 19). They also note that informal taxpayers may be liable for both national and sub-national taxes, and that:

multiple taxation at the sub-national level (that is, at the FMS, district and/or community levels) is often a major constraint for micro and small enterprises. It is these enterprises that provide income generation and growth. Multiple taxes, fees, charges, licenses, and so on make it difficult to establish new businesses and enter new markets (Raballand & Knebelmann, 2020, p. 19).

Raballand and Knebelmann (2020) state that taxpayers in Somalia “may also contribute to local governments, communities and even militias” (p. 19), something which is also noted by van den Boogaard and Santoro (2021).

Abshir et al. (2020) state that the challenges faced when taxing the informal sector are not unique to Somalia. Other countries have faced the same difficulties and have applied measures to ensure that their informal sectors are taxed appropriately. As noted by Phiri and Nakamba-Kabaso (2012), for example, in 2004, Zambia introduced “the Presumptive Tax on taxis and minibuses and the Turnover Tax on small-scale enterprises” (p. 6). They add that, following this, “a Base Tax on marketeers (2005) and an Advance Income Tax (AIT) (2007) for cross-border traders were introduced” (Phiri & Nakamba-Kabaso, 2012, p. 6). In addition, the United Nations (2019) indicates that “presumptive tax regimes have become an increasingly common method of taxing the informal economy in developing countries” (p. 9). Kenya is a good example, since it implemented a three percent business turnover tax (TOT) in 2008 on SMEs with turnovers under five million Kenyan shillings, whereas businesses with turnovers between 500,000 and five million Kenyan shillings must pay income tax and VAT (Ndaka, 2017).

According to Fjeldstad and Heggstad (2011), Tanzania has developed turnover and presumptive taxes that are more progressive and have lower thresholds than those applied in Zambia. Tanzania collects presumptive tax through a Block Management System, in which units of tax collectors move from building to building in the regions to identify SMEs, and

informal enterprises pay presumptive taxes based their sales magnitude and accessible records. In Ghana, small businesses pay a flat rate turnover tax of 3% rather than ordinary VAT, while microbusinesses are subject to a stamp tax regime, under which a set tax is paid on a quarterly basis (Ehun, 2016; Prichard, 2009). In Ethiopia, small businesses with turnovers under the VAT threshold are required to pay a presumptive turnover tax (Bongwa, 2009).

Although Somalia has experienced decades of civil war and political unrest, its economy survived, largely in the form of an informal business sector, which predominantly consisted of small businesses in sectors including livestock and agriculture. In 2012, the FGS focused its attention on domestic revenue collection. It established a tax framework and began to collect presumptive tax from accessible businesses, road tax, and property tax (the municipality currently collects this) (World Bank, 2017b). According to Webersik (2006):

The informalisation of the economy started in the late 1970s with urbanisation and the growth of demand for wage labour. The development of a formal private sector was impossible during the socialist regime, but even after the change of political orientation in the late 1970s most companies remained state-owned. This forced many small traders and business people into the informal sector (p. 1468).

Webersik (2006) also noted that the informal sector grew dramatically after the end of military rule in 1991.

Both the national government and subnational authorities are facing their own challenges in raising revenue from businesses that are not in the fiscal net. Mirito (2017), for example, discussed the challenges faced by the government when attempting to raise revenue in Somaliland. Van den Boogaard and Santoro (2021) found that informal revenue generation is prevalent in the Gedo region. According to their results, 71 percent of households “paid at least one informal tax or fee in the previous year” (van den Boogaard & Santoro, 2021, p. 26). They note that communities “are heavily reliant on voluntary contributions to maintain public goods” (van den Boogaard & Santoro, 2021, p. 6). They also show that informal revenue generation is regressive. They add that informal revenue generation can benefit local state institutions and cause more challenges for informal business sectors and governments (van den Boogaard & Santoro, 2021).

Haas (2017) notes that in Hargeisa, Somaliland, “property related taxes already make up the highest proportion of local taxes collected” (p. 3). However, she adds, “total overall local revenue collection remains low”. As a result:

the Hargeisa city government is now exploring further ways to enhance its own-source revenues by reforming the municipal finance system and registering the informal sector to formalize and tax them more generally and potentially, more specifically, its property taxes... (Haas, 2017, p. 3).

Mackie et al. (2017) quoted an unnamed senior government official from Somaliland, who stated that “the government is not helping but it’s not hindering. It gives the informal sector space to develop and grow” (p. 376). The official added that this meant “minimum government taxes” were applied (Mackie et al., 2017, p. 376). Therefore:

the civil war and peace negotiations created a political and economic context in which informal economy workers could survive, but it remains unclear whether

political pluralism and a more supportive policy context will continue, enabling an increase in both productivity and tax revenue from informal economy operations. Thus, workers themselves remain in an uncertain and in-between state of benign tolerance (Mackie et al., 2017, p. 376).

As revealed by Jordan (2016), and Boogaard and Santoro (2021), the Jubaland Revenue Authority manages informal sector revenue collection within Kismayo, and utilizes indirect taxes, such as turnover tax with segmentation and customs duties. However, other cities in Jubaland, like Gedo, use community-based taxation or informal payments to non-state actors, such as clan elders, religious leaders, civil society organizations, and private service companies.

Generally, most of the FMS in Somalia apply indirect taxes, such as turnover taxes with segmentation, to the informal sector. Public Resource Management in Somalia (PREMIS) “supports the establishment of core Public Financial Management laws, processes, systems and institutions, so that Federal Member States can assure transparency and accountability in public expenditure” (Adam Smith Institute, 2021). This involves registering and taxing informal businesses. According to the Adam Smith Institute (2021), PREMIS has “helped increase revenue across the four states”.

The taxation of the informal economy can be an important revenue source for a government, as informal sectors can be large, as in Somalia. However, informal businesses are often taxed. This is done through numerous types of indirect taxation such as fees, local taxation, market taxes, charges, and licensing costs, which may be levied locally, nationally, or both. Many informal businesses in Mogadishu are not registered and do not have licenses. More medium-sized and large businesses, however, do have business licenses as they can afford to be registered (Abshir et al, 2020).

According to the International Labour Organization (ILO):

The root causes of informality include elements related to the economic context, the legal, regulatory and policy frameworks and to some micro level determinants such as low level of education, discrimination, poverty, and...lack of access to economic resources, to property, to financial and other business services and to markets (ILO, 2016-2021).

Ali (2018a), investigating factors affecting tax evasion in respect of automobile tax in Banadir, found that there was a negative significant relationship between the tax system and tax evasion. However, there were positive significant relationships between the following factors and tax evasion: tax rate, corruption, income level, and education level. He states that “essential measures ought to be taken by the tax authorities to enhance income collection and decrease tax evasion. In addition, he recommends that a crusade against corruption, public enlightenment on tax issues and correction of tax procedures should be embraced” (Ali, 2018, p. 1). As indicated by Samantar and Abdulhai (2020), in “the past few years, the country’s fiscal performance improved due to increased mobilization of domestic revenue and reforms in tax administration” (p. 7). However, they conclude that “Somalia’s fiscal space is still extremely limited, and the COVID-19 pandemic has put extraordinary pressure on the FGS and FMS budget” (Samantar & Abdulhai, 2020, p. 23).

The informal sector in Somalia has faced many challenges, particularly in 2020, when it was affected by COVID-19. As noted by Abdullahi and Sharif (2020), many of the country's "businesses have closed while others, mainly in the informal economy, have been hugely impacted by the restrictions and efforts to fight COVID-19" (p. 1). This has resulted in less revenue being received by the government from a sector that already pays less tax than others. The FGS's Ministry of Finance implemented a short-term fiscal response to mitigate the impact of COVID-19, introducing 100% import tax relief on rice and dates⁵, and reducing import tax on wheat flour and cooking oil by 50% (Barrow, 2020). By doing this, the government aimed to prevent a price hike for necessary commodities, as other relevant costs, such as shipping costs, had increased at that time.

In conclusion, the literature includes a number of recommendations for taxing the informal sector. First, the government should ensure that booming businesses in the informal sector are registered and taxed by increasing the incentives available for firms to become formalized and imposing penalties on those who fail to do so. Second, the simplest way to tax the informal sector is indirectly, by taxing the goods and services that it buys and sells, most obviously through broad-based consumption tax, and import and export duties. Finally, most of the literature notes that presumptive and turnover taxes are the most successful fiscal instruments and are targeted at the informal sector. Somalia plans to introduce turnover tax in 2022 and fiscal economists should keep an eye on this to see whether it succeeds or fails. The FGS has succeeded in taxing the informal sector indirectly, has previously tested presumptive taxes, and is planning to impose turnover taxes in 2022. However, current practices do not indicate that formalization of businesses will be incentivized or strongly enforced in the short to medium term, despite the daily taxes levied by local government on certain informal businesses. There is still a great need to improve the infrastructure and operating space for the informal economy.

3. RE-ESTABLISHING BUSINESS TAXATION IN MOGADISHU

Somalia's tax system became operational again in 2012, following the establishment of a new government on the basis of the Provisional Constitution which was adopted in the same year. Tax payment culture and other fiscal framework practices have been absent in the country since 1991. The absence of an active government during the period of conflict caused most business and economic transactions to take place informally. However, after the 2012 government was established, the Ministry of Finance began to build a fiscal framework, which included the collection of revenues from business communities and the general public. Taxes managed by the federal government include income tax—both corporate and individual—sales tax, stamp duty, registration, and road tax, while import and export duties are collected at the customs points, including airports and seaports. Regional jurisdiction taxes, which are administered by the Mogadishu Municipality, include property taxes, local market levies, and other charges, as it receives a certain amount from customs revenue (Isak & Ali, 2019). These are transfers from the federal government to help the capital city administration to deliver public goods to the locations of the taxpayers who contribute to the respective tax base. While the government has continued to implement reform measures, the lack of a properly managed tax system proves that the current framework has gaps relating to legal, policy, organizational, and personnel capacity matters. These gaps have limited the newly established government's ability to mobilize enough domestic resources to fund the delivery of public services.

⁵ The full relief on import duty for dates reflects their massive consumption during Ramadan, when communities around the globe fast.

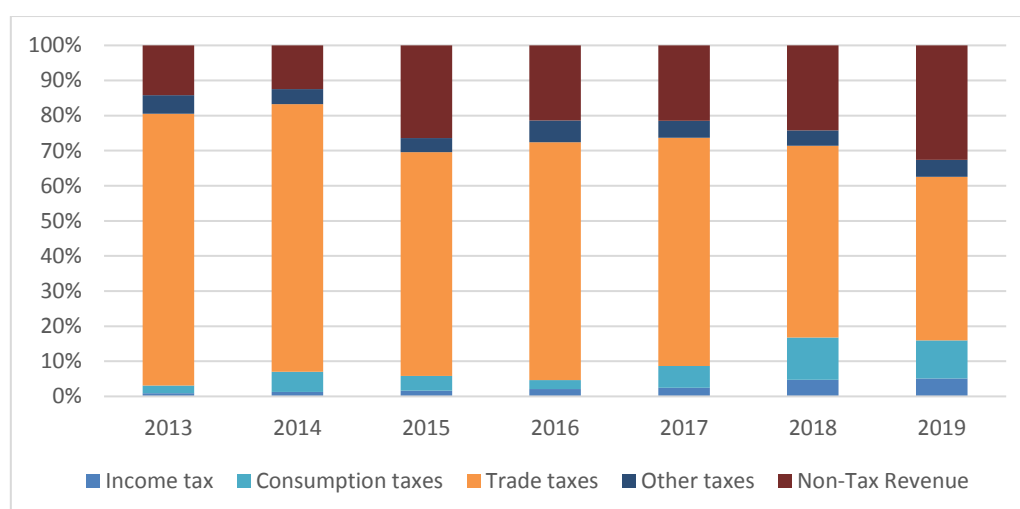
In order to establish a business taxation framework, the Ministry of Finance gradually implemented its short to medium-term tax strategy, as follows. First, the government started ad hoc tax collections, showing its disorganization, and coercive tax collection was safeguarded by its fiscal police unit. Building a rapid fiscal muscle was necessary in order to execute a newly enacted mini-budget for the last four months of 2012. Income tax collection from public servants started with deductions at source. Very little revenue was generated via sales tax and income tax collected from businesses by force. Collections were characterized by improper assessments, a dependence on cashiers, a large number of loopholes, a large amount of collusion between officers and taxpayers, and a coercive style of enforcement due to the use of the fiscal police (Isak, 2018). Despite the above conditions, the government grasped revenue from businesses, with the largest portion coming from customs, where import duty is collected from all incoming business commodities. Property taxes and some other regional charges were given to the municipality administration by regional administration law (Isak & Ali, 2019), adding surcharges to khat imports. Core revenue functions were not established and taxpayers' complaints went unheard. Work on key responsibilities, including taxpayer registration, segmentation, tax education, verification, and arrears management, has been almost non-existent. In addition, the administration of the informal sector and SMEs was part of the Ministry of Finance's short to medium-term revenue strategy, but it can be counted as one of Somalia's federal tax administration's failures.

Subsequently, the tax administration began to fix payments or negotiate them with businesses. In 2014, the tax administration began to tax formal and informal businesses by fixing the amount of tax due from each business based on the amount of capital it had. Kiosks paid small amounts of tax and corporations large amounts, and so on. These fixed amounts are paid as lump sums and are not calculated as measurements of the tax base (consumption, income, or wealth). This amount is presumed to include all types of tax for which the taxpayer is liable, regardless of the statutory amounts and rates (Mohamud & Isak, 2019). Lump-sum taxes, like poll tax or sin tax, have frequently been shown to have regressive effects, but could have a progressive impact if applied to luxury goods and services. The government accepted lump sum amounts from businesses—for example, \$20 per month from small businesses and a higher amount from medium and large businesses. Furthermore, the FGS reintroduced road tax on vehicles and trucks using public roads, stamp tax on documents, invoices, and contracts, and property transfer tax on the transfer of property ownership from one individual or entity to another. The FGS collected these taxes in order to generate more revenue and provide social services to the Somali population, as the Ministry of Finance was still struggling to fulfill its obligations as the sole funding source for such a needy society due to the fact that it had limited funds. An immediate response to the resistance coming from business communities, and to the state's limited administrative capacity to manage taxation and access business's financial information, was to collect negotiated payments (Raballand & Knebelmann, 2020; World Bank, 2017b). One person interviewed for this paper stressed that “due to the fiscal pressure and growing public responsibilities, associated with weak administrative capacity, there was no way but to accept”.

In 2017, the Ministry of Finance finally set a schedule for the application of the existing tax laws as there had been few improvements in tax administration, and developed several very basic tax reform measures which covered both tax administration and policy (World Bank, 2017b). The Inland Revenue Department started to enforce the existing tax laws by ending discussions with businesses about paying negotiated amounts although some, including Raballand and Knebelmann (2020) and Abshir et al. (2020), believe these negotiations still take place. These tax reforms had political support from the country's top policy officials.

Businesses started to pay core taxes, such as sales taxes, as well as personal and corporate income taxes, and did not have the opportunity to engage in non-compliance at customs. Correspondingly, the cabinet of ministers issued ministerial instructions and regulations to cover some of the legal gaps relating to tax collection, as the tax laws were not up to date. Regulations were issued with the purpose of legalizing some taxable areas and amending a few of the tax rates being applied to particular goods and services. Somalia still needs complete and up-to-date tax laws which address current and potential tax issues. However, the principles of taxation, including equity, fairness and justice, were completely absent from the existing legislation. SMEs were outside of the framework as they were neither licensed nor asked to pay taxes. The pressing challenges were weak administrative capacity, instability, insecurity, and noncompliance from formal and informal businesses. These produced the following tax structure, which shows a high reliance on trade taxes rather than the establishment of sustainable income and consumption taxes.

Figure 1: Composition of FGS Revenue (Only from Mogadishu)



Data sources: IMF, 2020; World Bank, 2017b

This graph shows the percentage composition of different types of government revenue in Somalia. The main revenue sources are customs taxes and non-tax revenue, while consumption and income taxes, although growing incrementally, still lag behind.

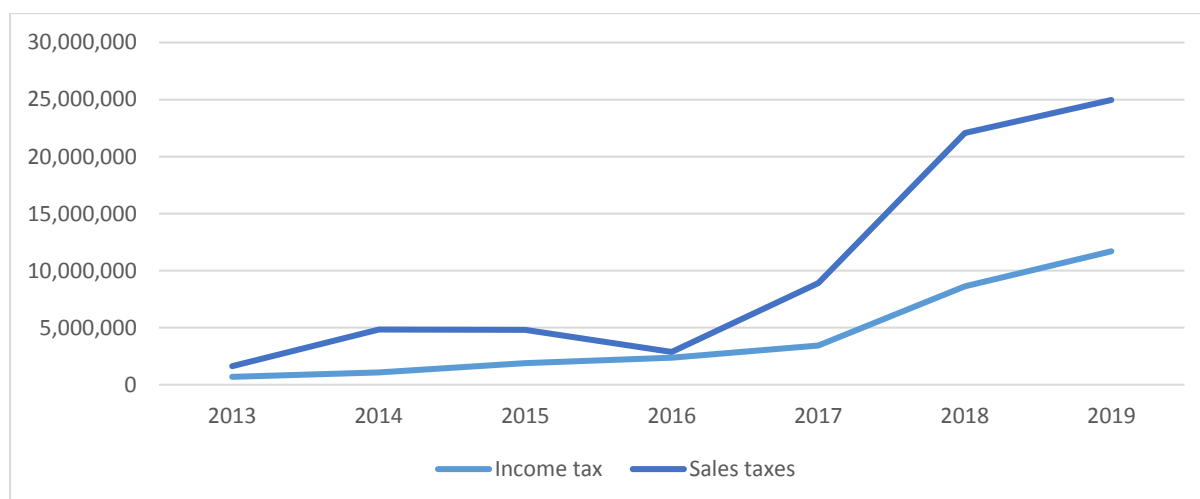
4. TAXING THE INFORMAL SECTOR IN MOGADISHU AND ASSOCIATED CHALLENGES

The first steps taken to formalize informal businesses were to register taxpayers, issue tax identification numbers, and issue compliance certificates. This was part of the implementation of important economic and tax reforms in mid-2018. Furthermore, the segmentation of the businesses by scale and the establishment of Large and Medium Taxpayer Office (LMTO) in order to formalize the largest taxpayers have positively impacted the government's efforts to enhance the tax system after the civil war. The LMTO succeeded in registering Mogadishu's largest contributing entities in the hotel, telecommunications, financial, transportation, and light industry sectors. In addition to this, non-profit organizations have been registered so that income tax can be collected from their employees. The issuance of a tax identification number and tax compliance certificate together contributed to the improvement of the compliance level

of informal businesses and brought them into the tax net, as it could be made compulsory for them to have both certificates in order to renew their commercial license and to bid for tenders put out by the government, the United Nations, and non-for-profit organizations in Mogadishu. At this point, taxpayer registration had a positive impact through the formalization of more SMEs and informal operators, and even several large companies (Mohamud & Isak, 2019).

Having extended the tax base and developed a policy of taxing the informal sector indirectly, the next step for the Ministry of Finance was to reintroduce sales tax and income tax. Tax administration officials began to collect sales tax at the Port of Mogadishu (Isak, 2018). Businesses protested, citing that sales tax, by statute, has to be paid by the end consumer, while the Ministry of Finance was insisting on collecting it at customs. The Ministry of Finance did this, in part, to reduce administrative costs and to increase enforceability, bearing in mind the security challenges that the country faced (Mohamud & Isak, 2019). It was also the simplest and best way by which to tax the informal sector indirectly, since they only trade with these commodities coming through the customs (Mohamud & Isak, 2019). The personal income tax base was broadened to include both the private sector (personal and corporate) and non-profit organizations. This is a good example of broadening the tax base throughout a country. In addition, the Inland Revenue Department implemented policies that improved the application of existing tax laws, reduced informality by requiring businesses to register with the tax departments, and rebuilt the district tax office in order to capture informal businesses in each of Mogadishu's districts. At this point, business communities appear to have complied with the government's reform packages, so the government experienced a continued upward trend of domestic revenues, as shown in the following graph.

Figure 2: FGS Income and Sales Taxes



Data sources: IMF, 2020; World Bank, 2017b

The graph shows the incremental changes in income and sales tax income after formalization measures began to be taken in Mogadishu. However, due to poor administrative capacity, the revenues from these two tax sources remain very low.

The FGS has also taken measures to simplify and modernize tax collection. In this way, the Inland Revenue Department began to use technology-driven tax systems, accept mobile money—i.e., money other than cash—and make preliminary improvements to taxpayer services programs (Mohamud & Isak, 2019). These short to medium-term revenue strategy

elements helped to engage the business communities and convince them to cooperate with the tax administration. In addition, a World Bank project has provided Somalia with the opportunity to implement a technological strategy which aims to achieve widespread use of automation—an Integrated Tax Administration System (KPMG Advisory Services Limited and KasmDev Consulting, 2021). These measures, taken in addition to some transparency measures, are believed to be capable of forming the basis of a solid tax administration system which can develop a modernized registration system and taxpayer service, and simplify the tax system for potential taxpayers, including those in the informal sector.

The government is also tentatively planning to collect turnover tax in Mogadishu, with the aim of bringing informal operators, including small-scale businesses, into the taxation framework. In recent years, the federal government has struggled to bring a number of activities into the tax net, including those of hospitality, telecommunications, and airline companies as consumption tax on imported goods is paid in advance by the traders (IMF, 2018; 2019). Furthermore, the tax regime is expected to accommodate new business entities and help the government to formalize activities that are happening in the shadow economy. The introduction of turnover taxes has had a positive impact in several developing countries, including Tanzania (Fjeldstad & Heggstad, 2011). The aim of this is also to generate more tax revenue for the government. However, there is a lot to do, as noted by ActionAid (2018) while discussing how this tax policy instrument could, if well-managed, bring more business entities into the government's fiscal net.

First, the current nature of the country's economy indicates the existence of a huge informal sector, as informality exists throughout the region. Although there is no country-level statistical data on the shadow economy, neighboring countries have large informal economies as, on average, a sub-Saharan country's shadow economy is more than one-third of its GDP. Given Somalia's fragile situation, the situation there is likely to be worse than in other countries in the region.

Second, the activities of most dominant (specialized) sectors of the economy are informal and are legal tax havens. Tax laws fully exempt the application of taxes on transactions arising from the agriculture, livestock, and fishery sectors. This has led the tax authorities to ignore the informalization of operators in these markets, as other related administrative fees are managed by the relevant ministries. Most tax laws were enacted during the evolution of the agriculture industry in Somalia, as this sector was also dominated by state companies. The bias in favor of state-owned enterprises (SOEs) has persisted in the long-term tax policies.

Third, the weakness of the government's administrative and enforcement capacities allowed for the existence of an extensive informal sector. Although the government formalized several activities in sectors in Mogadishu, most retail business activities are neither formalized nor taxed. The informal sector is not well managed due to the fact that the tax system is still fragile. The government's tax administration capacity is very limited. Weaknesses include a lack of sufficient equipment and limited use of information technology. Although company law has been passed, commercial licensing capacity is still limited. Other studies, including Isak (2018), have also noted this. According to Raballand and Knebelmann (2020), "these administrative weaknesses result in a situation in which some essential functions of an effective tax administration are simply not undertaken" (p. 22).

Fourth, most SMEs in the city of Mogadishu stay in the informal sector because the costs involved in accessing the regulations and staying formalized are too high. Studies by Loayza

(1997) and de Soto (1988) also discuss this phenomenon. If incentives are not provided, SMEs that are mostly informal can't be brought into the formal economy. Somalia is one of the worst countries in which to run a business, as the environment does not help SMEs to grow quickly. In fact, in 2020, the World Bank ranked Somalia last of 190 economies for ease of doing business (World Bank, 2020).

Finally, the tax administration has engaged very little with the business community historically. Interviews conducted with long-serving and retired tax officials for this research revealed that there has always been a lack of engagement with the public in general and with business communities in particular. In the pre-independence period, the ruling colonial administration did not engage with taxpayers and took a coercive approach, enforcing their fiscal demands. Post-independence governments have not paid the necessary attention to the private sector. Furthermore, the case became extreme in 1969, when the socialist military regime came in and established SOEs to supply almost all goods and services, while nationalizing most existing private companies. In 1991, the outbreak of civil war marked the beginning of a period of anarchy during which non-state actors demanded numerous payments from the public and, in particular, from the business community. In addition, the current government should provide multiple taxpayer services, including tax education, transparency services, solutions for the multiple payments currently required, and the responsive implementation of the fiscal side of the social-state contract. Fjeldstad et al. (2018) address the importance of improving taxpayer-tax administration relations.

5. CONCLUSION AND RECOMMENDATIONS

The tax system has been recovering rapidly in Mogadishu and, to a lesser extent, in other sub-national Somalian states. The existence of large numbers of informal businesses had placed a heavy burden on the nation's tax collection system. The informal sector, which comprises a wide range of small-scale and agricultural businesses, was not properly taxed in Somalia and, in particular, in Mogadishu. This paper has examined how the informal sector is treated by the fiscal offices in Somalia, utilizing a set of business data from the Ministry of Finance. It investigated data on the informal sectors and business taxation in other fragile and neighboring countries, as well as interviews with economists, tax officials, and SME owners in Mogadishu about their experiences. Observed challenges included the country's economic structure, the presence of specialized tax-relieved agriculture sectors (agriculture, livestock, and fishery), the government's limited administrative and enforcement capacity, the high costs involved in formalizing businesses, and the tax administration's historical failure to engage with the business community. The authors' recommendations for revenue authorities at both national and regional levels (including municipality level) follow:

1. Joint tax policies should be developed in order to improve administration and enforcement strategies, so that the number of informal activities happening outside of tax net can be reduced. This is also suggested by Kalyundu and Norregaard (2020).
2. Reforms should set out, prioritized, and sequenced. Recent tax reforms have only been at a basic level, so the tax administration needs to be integrated if it is to sequence tougher reforms effectively. The IMF (2017) also highlighted the importance of this.
3. The tax system should be simple and cost-effective. Stakeholders should be able to understand it and it should not damage businesses. Simplifying tax procedures for the public would also eliminate the need to carry out unnecessary practices in respect of tax return

completion and submission, and the payment of tax (Bird, 2015). When discussing how Norway can support taxation in fragile states, Fjeldstad et al. (2018) state that the “first-priority ambition must be ‘do no harm’” (2018, p. 34) while Bird’s recommendation for an effective tax system is to “keep it simple” (2015, p. 31). The use of these strategies together could enable governments in fragile countries to build proper tax administrations.

4. The provision of better taxpayer services could improve the necessary engagement with the business community, as it could reduce the gap that has existed, long term, between the authorities and the taxpayers. The establishment of a taxpayer education scheme and continued business registration are highly recommended.

5. The government should incentivize SME owners in Mogadishu to formalize their businesses. They should simplify the process by lowering the burden of payments and the complex procedures that result in high costs for small-scale entities and, hence, discourage them from shifting to the legal framework. This process requires participation from an array of public institutions, including revenue offices, the municipality, and the Ministry of Commerce and Industries.

6. Booming informal businesses, including large and medium-sized enterprises, which are making good incomes should be captured and taxed. This could be achieved by increasing formalization incentives and imposing penalties on businesses that fail to become formalized.

7. Finally, the newly established statistical bureau should collect data about the informal sector and quantify its magnitude in order to make it simpler to calculate the informal economy as a percentage of the GDP. As a result of this, it would be possible to conduct further quantitative research.

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AN ASSESSMENT OF THE EFFECTIVENESS OF TAX REVENUE COLLECTION: A CASE STUDY OF ZIMBABWE

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Abstract

The effectiveness of tax collection has been a persistent issue of great concern in both developed and developing countries. Taxes are now an increasingly important revenue source for national budgets. It is, therefore, crucial for tax revenue authorities to carry out their mandate of raising much-needed government revenue effectively. This descriptive study aims to identify the key determinants of tax revenue collection in Zimbabwe. It assesses these in order to reveal the importance of the role that tax authorities play in increasing government revenue and to identify factors affecting tax revenue collection. Standard data-gathering procedures, such as questionnaires and in-depth interviews, were used. The results of the study reveal that tax revenue collection effectiveness is yet to be attained, and that the revenue authority faces challenges as a result of low levels of tax education amongst taxpayers, ineffective taxpayer identification methods, and poor monitoring and assessment procedures. The findings also show that the tax authority in Zimbabwe is yet to enforce a solid revenue collection methodology that will curb corruption activities and raise the morale of the workforce. The results from this study highlight the need for intensive taxpayer education, and show that the revenue authority should partner with the telecommunications industry, discover ways of motivating taxpayers, and privatize some of its departments. These recommendations could help to improve the effectiveness of tax revenue collection in Zimbabwe.

Keywords: Tax Administration, Revenue Collection Effectiveness, Taxpayer Survey.

1. INTRODUCTION

Every government around the world needs revenue to fund its country's essential services and budgets. Such revenue is generated through donations, tax, loans, and other sources. The 2007/2008 credit crisis caused the breakdown of many countries' financial systems, including the philanthropic nations that were providing most developing countries in Africa with funds to finance their national budgets. As a developing nation, Zimbabwe was forced to raise its own funds, primarily through taxes. Tax revenue can be increased by enhancing the collection procedures used. However, taxpayers often have a misconception about paying tax: they perceive that it does not necessarily benefit them. They tend to view the payment of taxes as something that is imposed on them, rather than their responsibility. Such unwillingness to pay tax on the part of the majority of the people, including educated individuals, is a manifestation of ineffective tax revenue collection. The Zimbabwe Revenue Authority (ZIMRA) is the sole collector of tax revenue in Zimbabwe. In recent years, ZIMRA has faced some challenges in relation to tax revenue collection, as is evidenced by the fact that tax revenues have plunged since 2009 and it failed to meet its revenue target in 2015 (ZIMRA, 2016). During the 2016 revenue year, ZIMRA registered net collections amounting to US\$3.248 billion against a target of US\$3.607 billion, resulting in a negative variance of 4% (ZIMRA, 2017). In 2017, ZIMRA registered net collections of US\$3.71 billion against a target of US\$3.4 billion (ZIMRA, 2018).

¹ Revenue Officer, Zimbabwe Revenue Authority, Harare, Zimbabwe.

A tax revenue authority is a component of public administration designed to control the processes and operations of public revenues in accordance with new public management approaches, which focus on efficiency, effectiveness, performance measurement, and the requirements of good governance (Jacobs et al., 2013). Governments require tax authorities to collect revenue from private entities effectively so that they can provide public goods and services. Tax authorities need to perform a number of basic functions efficiently in order to collect tax revenues effectively. These functions include taxpayer identification and education, tax assessment, and monitoring. These activities determine the performance of a tax authority in respect of collecting revenue (Bird, 1992; Surrey, 1974). Tax revenue collection effectiveness largely depends on the effectiveness of the tax revenue collectors. A number of writers (such as Bird, 2010, and Jacobs et al., 2013) have argued that the main objective of any tax revenue authority is to raise sufficient revenue for local development.

In order to be effective, a tax authority's operations must be simple, and its taxpayers should be identified and educated (Aaron & Slemrod, 1999). Ineffective tax revenue collection is often seen as one of the main constraints on the ability of states to collect revenues in general, and direct taxes in particular (Fjeldstad & Semboja, 2001). In many countries, the effective administration of existing tax legislation could increase revenue by 30 percent or more in many countries (Hadler, 2000). Tax revenue collector ineffectiveness, according to Tanzi (1991), reduces tax revenue, creates distortions or non-neutralities in tax systems, and introduces different kinds of inequities (for example, between honest citizens and tax evaders) in the tax system. In other words, tax revenue authorities can change the ways in which taxation affects the objectives of government policy, namely the collection of revenue, fair allocation of resources, and economic stabilization. ZIMRA (2014) suggests that its failure to meet its target in 2013 might be attributable to the ineffectiveness of the tax authority and its revenue collectors. ZIMRA (2017) states that its failure to meet its tax revenue targets was, in part, because it had not fully implemented its compliance and collection measures. Tax revenue collections in Zimbabwe have been decreasing since 2012. In 2016, ZIMRA failed to meet the target again (by 4%) and this might indicate the existence of ineffective tax administration (ZIMRA, 2017).

Tax authorities should ensure that the objectives of tax collection and hitting revenue targets are met, but this was not the case in Zimbabwe during full dollarization due to revenue collection ineffectiveness (ZIMRA, 2014). From 2010, the actual amount of revenue collected each year has been decreasing gradually, and between the years 2013 and 2016, year-on-year changes in tax revenues as a proportion of GDP were negative. In 2017, ZIMRA surpassed its revenue target by 10.29%, but this might have been caused by the cash crisis, prices increases, and continuous inflation increases that occurred that year (ZIMRA, 2018).

2. TAX ADMINISTRATION IN ZIMBABWE

In Zimbabwe, taxation was introduced towards the end of the 19th century by British colonialists. It was in the form of hut tax which, in 1894, was charged at the rate of ten shillings per hut. The tax was imposed on a per hut or household basis. It was variously payable in money, labor, grain, or stock, and benefited the colonial authorities. Direct taxes in present day Zimbabwe consist of corporate tax, Pay as You Earn (PAYE) tax, Capital Gains Tax (CGT), withholding taxes, and presumptive taxes. Indirect taxes consist of customs duties, excise duties, and Value Added Tax (VAT).

ZIMRA is the sole collector of government revenue in Zimbabwe. It was established in 2021 as a result of the Revenue Authority Act of February 2000 and succeeded the Department of Taxes and the Department of Customs and Excise. The government sets annual revenue collection targets for ZIMRA through the Ministry of Finance. ZIMRA then mobilizes revenue from various domestic taxes and levies on imports and excisable goods.

Zimbabwe's business community has been extremely critical of the country's tax system, particularly with regard to its administration. There have been low compliance levels among this community due to differences in the interpretation of law between businesses and the revenue authority, and the absence of a fully integrated, working electronic system. These issues have had the effect of limiting revenue mobilization, as taxpayers have become reluctant to settle their tax dues. Other causes of tax evasion in Zimbabwe include the inequitable distribution of amenities, the misuse or mismanagement of tax revenue, the remoteness of taxpayers from the government, and the absence of a spirit of civic responsibility.

Over the years, businesses have had to spend numerous hours and large amounts of money in order to comply with tax requirements. This situation was heightened during the hyperinflation of 2007-2008 and the subsequent introduction of multicurrency systems in 2009. The Zimbabwean government changes currencies time and time again, and one of the greatest challenges faced by taxpayers in the country is the basic inability of their accounting systems to handle this. When businesses are trading in both local and foreign currencies, it is also more difficult for them to perform accountancy tasks accurately, as they need to use several exchange rates. This usually results in companies underpaying or overpaying taxes.

Currently, the business community is facing serious challenges as a result of the tax system and its administration. Businesses argue that the current tax system is very time-consuming and costly to use. For instance, many businesses have been experiencing payment delays in respect of VAT refunds. In a country like Zimbabwe, where businesses are greatly constrained by cash flow problems, such delays mean that companies' much needed working capital is tied up with the revenue authority. There is also a cost to business when services are not decentralized. This means that it costs businesses operating in areas without certain services more in terms of additional transport costs and time in order to access them.

Businesses are also concerned that the revenue authority interprets the law in a different way from them. These differing tax law interpretations have resulted in companies paying varying amounts of tax, as well as incurring easily avoidable penalties for failure to comply. The latter often forces businesses to spend time and resources on disputes with revenue officers.

The other problem that arises from this lack of legal clarity is that businesses end up lobbying for the wrong policies. A simple example, common within Zimbabwe, is that certain businesses or sectors of the economy apply to the government to have their products made VAT-exempt instead of zero-rated. The problem of interpretation of the law is two-fold. First, business people tend to be reluctant to look for the information and, at times, the resources available are limited, so they cannot seek consultation. Second, the law is not available as a consolidated document and amendments to it cannot be found in one place. The problem can be explained by the lack of clear communication channels within the revenue administration and lack of clarity in the law/decision-making processes, which result in revenue officers needing to use their own discretion. For example, a client who has defaulted by six days may be charged a 100% penalty whereas a client who has defaulted by 90 days may enjoy a full waiver, depending on revenue officers dealing with the case.

ZIMRA is regarded as one of the most corrupt organizations in Zimbabwe and, therefore, the highest level of corruption affects the effective administration of tax and revenue collection.

3. RESEARCH METHODOLOGY

The study employs a descriptive survey to collect data for the purpose of answering research questions and uses interviews to ascertain the current status of the subjects under study. The purpose of this descriptive study is to assess the effectiveness of tax revenue collection by tax revenue authorities in Zimbabwe. Strategies and procedures are used to describe, clarify, and interpret existing variables that constitute a phenomenon. The descriptive design was adopted because it could produce a high numbers of responses from a wide range of managers, supervisors, officers, and assessors, as well as the taxpayers in the Harare tax district to questions related to the effectiveness of tax revenue collection.

4. DATA PRESENTATION, ANALYSIS, AND DISCUSSION OF RESULTS

Basic Elements of Tax Revenue Collection

The basic elements of revenue collection were analyzed, including client care services, taxpayer education, the identification and registration of clients, the appeals process, and the ability to access and use the ZIMRA eServices portal.

The majority of the respondents noted that the client care service was poor and a number stated that it was fair. The taxpayers attributed poor services to the increase in corruption and low standard of living in the country. Some small business owners argued that it was expensive to submit tax returns because they needed to have a working Internet connection and a proper computer, which might not be affordable for those running start-up companies. Other clients argued that they didn't have the expertise or know-how to use e-services and this added another labor cost as they needed to hire someone with appropriate knowledge.

The results from the interviews and questionnaires revealed that the majority of taxpayers do not receive information about tax awareness issues, as most small business owners said that they were not being educated about the importance of paying tax. This means that the forms that the revenue authority uses in respect of tax awareness issues are not reaching everyone. The few educated taxpayers who are receiving this information are doing so through a number of means: ZIMRA's Taxpayer Appreciation Day, the Zimbabwe International Trade Fair (ZITF), seminars, workshops, "Did You Know" articles in newspapers, and social media platforms, such as Twitter and Facebook. This indicates that ZIMRA's tax awareness messages are delivered to the same prominent business owners at different events, meetings, and seminars, which leaves a number of small business owners unaware of tax issues.

The data obtained reveals that poor taxpayer education results in a number of business owners lacking knowledge about penalties and procedures for late filing and non-filing. Most of the taxpayers surveyed responded that their knowledge is poor. Only a few, including tax accountants and public accountants, possessed good and excellent knowledge respectively. These are the same clients who are always invited to meetings and seminars.

The taxpayers stated that tax issues awareness about appeal procedures seems to be non-existent. During the interviews, it was discovered that some taxpayers were not even aware of how to appeal or that the tribunal exists. Business owners noted that corruption is causing

ZIMRA officials to fail to inform them about tax tribunals and appeal procedures. This supports Campos and Pradhan's (2007) view that corruption in the tax revenue collection agency has caused the appeals process to be unknown to, and useless for, clients. The interviews revealed that the appeals process is accessible but respondents felt that it would be a waste of time to use it as the tax authority always tries to maximize revenue collection. It also takes a long time for appeal documents to be processed due to bureaucracy within the tax authority and the fiscal court.

The majority of business owners noted that they were unaware of the consequences of understating tax as they have a poor understanding of the penalties associated with the failure to keep proper records, the late submission of returns, and late payments.

Zimbabwe currently has the second largest informal sector in the world and there are a number of unregistered companies operating there. During the interviews, a number of taxpayers complained that the tax authority is not identifying and registering every business operator effectively, as there are a number of people operating within the shadow economy.

Simple and Standardized Tax Assessment Methods

The revenue authority's assessment methods are not standardized and do not make it simple for taxpayers to pay tax. Most clients prefer to receive information about tax assessments in their native language and some of the technical language used makes it difficult for clients to understand the details provided. The taxpayers lack knowledge about the prescribed procedure for declaring their income. The interviews revealed that this is because most of them believe that revenue authority officials aren't particularly worried about the procedures as they are interested in corruption activities. The main reasons behind this are that tax awareness does not, effectively, seem to exist and the quality of advice being received from the tax administrators seems to be inadequate. During the interviews, the business owners noted that tax revenue collectors don't give proper advice to the taxpayers for their own benefit. The collectors want to receive bribes and direct the taxpayers to friends who are tax accountants and tax practitioners for advice. This is in line with Dye and Staphenurst's (1998) definition of corruption as "the abuse of public power for private gain or for the benefit of a group to which one owes allegiance" (p. 2).

Tax Collection Methods and Payment of Tax

The interviews revealed that the tax administration forces clients to pay tax without proper tax awareness or collection methods, and charges them penalties and interest. This indicates that the way in which the tax authority collects tax revenue from taxpayers is ineffective. The interviewees also mentioned that there was a need to embrace more advanced technology when collecting tax. However, they also noted that the collection methods currently in use were not effective at all as tax collection officers would encourage corruption during door-to-door collections, audits, and roadblocks. Clients would often prefer to bribe the tax administrators as this might be cheaper than paying taxes. In addition, garnishing clients without giving them proper notice would result in non-payment in the long run as most clients would open new bank accounts or use their business partners' bank accounts.

The data indicated that tax officials carry out field audits in the taxpayers' premises. Despite this, most of the taxpayers interviewed noted that audits always lead to demands for additional tax, which means that there is the potential for significantly more tax revenue to be collected.

It also means that most business owners' accounts are not up to date. This clearly replicates the ineffectiveness within the tax authority, since the interviews show that this is due to lack of tax awareness among taxpayers and poor tax collection methods. The field audits are not resulting in higher rates of tax collection since, according to the interviewees, sometimes they are not completed if it is discovered that business owners need to pay extra tax. In such cases, the business owners and officers will agree to participate in corruption. Some prominent business individuals who are politically connected also take advantage of their position so as not to pay tax.

Improved audits and door-to-door operations seem to be effective ways by which to boost revenue collection and tax awareness. During the interviews, business owners noted that they were made aware of some of their tax liabilities, including penalties and interest due, after the monitoring process, which is carried out through door-to-door operations and spot check audits. To evaluate what would happen if taxpayers were to learn their correct tax liabilities through monitoring, the interviewees were asked if the monitoring process could enhance corruption. They stated that interactions with revenue authority officials would lead to corruption as both taxpayers and administrators always induce corrupt activities so as to reduce tax bills. The interviews show that the monitoring process can help taxpayers to understand their tax liabilities but that it should be improved to make sure that every dollar due has been collected.

Taxpayers located outside the vicinity of central business districts argued that they also need to be able to pay tax from their comfort of their homes or to the nearest government institutes, such as post offices, so that they do not have to visit banks. Most taxpayers in growth points, such as Mudzi and Uzumba Maramba Pfungwe, argued that post offices were nearer to their businesses than the banks.

Factors Affecting Tax Revenue Collection

The study notes that there are corrupt tax administrators in Zimbabwe and that abuse of public office is being carried out at all levels. This supports Campos and Pradhan's (2007) view that corruption is a pervasive problem in many developing countries and that revenue authorities are often perceived to be among the most corrupt of government agencies. Corruption can exist at any level of public office and leads to heavy revenue losses. Bejakovic (2009) describes how corruption was also prevalent in the collection of tax revenues in Croatia in the 1980s, with business owners preferring to bribe officials rather than pay taxes.

The tax officials interviewed during this Zimbabwe-focused study stated that they did not have sufficient resources to effectively collect tax as some graduate trainees and attachés have to share computers with their mentors. They also noted that the training they had received was not sufficient for them to be able to deal with the changes in the dynamics of taxation, including matters relating to international taxation, transfer pricing, and BEPS. The interviews showed that the benefits received by tax officials are very limited when compared to those working in the private sector, as private sector employees receive benefits, such as cars, houses, loans, and scholarships to study locally and internationally. The only existing incentive which could improve tax revenue collection is the cash bonuses that officials can receive after meeting their quarterly revenue targets. However, these are not effective enough as some officers said that they can earn more, at the expense of the target, by engaging in corruption.

5. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The results of the study show that tax revenue collection in Zimbabwe is still ineffective. The most common types of business in Harare are wholesalers and retailers, because these are easy to start, operate, and exit. Most of these businesses are still at grass-roots level and, at times, they spontaneously relocate and/or switch from their original business line to another trade. Therefore, their inconsistencies can prove to be a lethal weapon that may destabilize tax revenue collection performance.

The findings also show that, generally, the current level of taxpayer education and awareness of tax issues in Zimbabwe is quite low. Some business owners have not been visited by tax officials providing information about the payment of taxes, as the tax authority's focus appears to be on educating the same set of clients. The revenue authority occasionally hosts "breakfast meetings" with the same clients to educate them about tax issues they taught them about in previous meetings. The same scenario occurs on Taxpayer Appreciation Day and at the national events, such as the ZITF. This repeated education about tax issues to the chosen few comes at the expense of many other potential taxpayers who lack awareness, so potential revenue sources remain untapped. The study also establishes that the majority of taxpayers went to high school and only possess a little knowledge about tax issues. Therefore, taxpayer education plays a vital role in the effectiveness of tax revenue collection. The collection methods (door-to-door operations, audits, and spot checks) are effective to a certain extent, since they enable tax officials to raise more tax revenue and promote corruption at the same time. Therefore, interaction between taxpayers and tax revenue collectors should be restricted in order to rectify the problem of corruption.

The assessment procedures are written in technical language which make them ineffective. This has an impact on revenue collection, as taxpayers lack knowledge about what an assessment is all about. The appeals process, which is basically a course of action a taxpayer takes when s/he feels that their assessment has been unfair, is an appealing concept on paper. However, it does not exist as far as the ordinary taxpayer is concerned, because few have attempted to participate in it. The assessments are not standardized or in simple language so that the taxpayer can comprehend and fulfil their tax obligations. The study's findings reveal that the revenue authority is not effective in identifying all potential taxpayers because a large number of taxpayers operate in the shadow economy without tax clearance certificates. This is resulting in the loss of a lot of revenue that could be contributing to the government of Zimbabwe. The revenue authority's monitoring process only helps clients to know the amount of tax they owe to the government. However, clients and tax administrators connive in bribery activities so that the amounts the clients pay are less than their tax obligations. In most cases, corruption is preferred over paying the full amount of tax. Therefore, there is a need to carefully reduce the number of tax evaders in all of sectors of the economy.

The findings have exposed the lack of necessary resources, such as laptops, among staff within the revenue authority. It can therefore be concluded that insufficient resources and lack of staff accommodation are causes of ineffective tax revenue collection. The research findings also show that corruption is at its peak because some employees are unsatisfied. This dissatisfaction occurs when they compare the benefits that they are entitled to with those they could receive in the private sector. This, in turn, leads to inefficient tax revenue collection, as the revenue collectors are reluctant to collect revenue effectively.

Based on the results of this study, we can conclude that efficient tax collection forms the basis of an effective tax revenue authority. Corruption and lack of resources are the major factors that hinder the success of any tax revenue authority. The tax revenue authority could benefit the whole country by increasing revenue collections, ultimately improving socio-economic growth.

Recommendations

Use of telecommunications technology

Given that interaction between taxpayers and tax revenue collectors stimulates corruption and weak communication between them, the revenue authority should consider adopting new technologies and, in particular, partnering with the telecommunications industry. The use of the latest telecommunications technology could allow citizens to fulfill their tax liabilities with greater ease, for example, by making use of e-commerce payment systems, such as PayPal and Paynow. Disruptive technology includes the use of mobile money to pay tax through platforms such as EcoCash, TeleCash, and One-Wallet, and this should be linked to the taxpayer's Business Partner Number. This could help business owners who are based in the rural areas of Zimbabwe to comply with their tax obligations and accommodate some of the skeptical taxpayers who do not keep their money in the bank because they are risk averse. The revenue authority could access and use its telecoms database to educate the public via text messages or voice calls. They could also use social media platforms, such as YouTube, WhatsApp, Facebook, Twitter, and LinkedIn, more effectively in order to educate the public. They should run informative advertising campaigns on the national broadcasting network and utilize other media, such as the press and billboards, to educate taxpayers about their obligations and remind them to pay their tax. Such efforts could effectively increase awareness, ultimately improving tax revenue collection. For example, engaging with Econet, the largest mobile network provider in Zimbabwe, so that it can send tax awareness messages to its estimated user base of more than 8 million would effectively improve awareness and revenue collection.

Privatization of certain areas of tax revenue collection

As a long-term plan, tax revenue collection policymakers should start thinking about the possibility of privatizing certain activities that could be performed better by the private sector. The private sector could, for example, provide computer services, issue tax forms and reports on paid taxes, or gather, send and complete documents and correspondence with taxpayers. Banks and post offices in small cities should perform basic tasks, such as providing taxpayers with forms, and accepting tax payments and tax returns, while mobile tax offices could periodically carry out audits and enforcement activities.

Educating taxpayers

Tax education effort needs to be tackled as a matter of urgency. The current poor performance can largely be attributed to insufficient tax education campaigns, for example, in the newspapers, on local radio stations, at the ZITF, and via billboards, websites and other forms of electronic media. The revenue authority should make use of local radio stations, the Zimbabwe Broadcasting Corporation (ZBC), Zimpapers, billboards, and school events in order to reach everyone. It should also invite everyone to participate in its Taxpayer Appreciation Day in order to provide them with tax education. By making such efforts, the revenue authority

could inform more members of the public about their tax obligations and the reasons why it is important to meet them.

Monitoring

There should be tighter controls and more efficient monitoring in place in respect of how tax revenue is used in order to boost taxpayer morale in relation to the payment of tax.

Training of tax administrators

The only existing training for tax officials at ZIMRA in the form of basic courses is woefully inadequate. Tax officials should be able to attend additional short courses, seminars, and conferences in order to expose them to current trends in taxation, such as international tax issues and transfer pricing.

Motivation of employees

To maximize revenue collection, ZIMRA employees should be motivated to perform their duty of identifying and monitoring those who are eligible to pay tax but have not done so.

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ROUNDTABLE DISCUSSION ON COVID-19, TAX AND THEIR RELATED IMPACTS ON GENDER AND, IN PARTICULAR, ON WOMEN

Lotta Björklund Larsen

We know that tax systems that are gender blind on paper can, in practice, exhibit a hidden, implicit bias. Wrongly stipulated, they may even exacerbate existing gender inequalities, particularly in times of crisis. With the COVID-19 pandemic, gender inequalities have surged. Healthwise, men are affected by the sickness more severely, whereas women seem to be more heavily hit socio-economically. In the heat of the pandemic, on 15 December 2020, I had the pleasure of organizing a virtual roundtable at the annual TARC conference¹ and discussed the gender and tax dimensions of COVID-19 with participants representing an array of disciplines from countries across the world. The following is a slightly edited transcription of the roundtable, where we learnt from experiences in the U.K., Chile, Ireland, India, Denmark, and the U.S. The participants (in order of speaking) were:

Judith Freedman - Emeritus Professor of Taxation Law and Policy, formerly Pinsent Masons Professor of Tax Law and Policy, at the University of Oxford.

Jorge Andrés Atria Curi - Assistant Professor at the Department of Sociology, Universidad Diego Portales, and Associate Researcher at the Centre for Social Conflict and Cohesion Studies (COES) in Santiago de Chile.

Emer Mulligan - Personal Professor in Taxation and Finance at the J. E. Cairnes School of Business and Economics at the National University of Ireland, Galway, Ireland.

Mukulika Banerjee - Associate Professor of Anthropology at the London School of Economics, specialising in India.

Birthe Larsen - Associate Professor of Economics and the Academic Director of Inequality Platform at Copenhagen Business School in Copenhagen, Denmark.

Neil H. Buchanan is a legal scholar, an economist, and the James J. Freeland Eminent Scholar Chair in Taxation, Professor of Law, and Director of Global Scholarly Initiatives at the University of Florida.

Lotta Björklund Larsen is a Research Fellow at TARC. She organised and led this roundtable. She also recorded and edited this article. The transcription was conducted by **Justine Davis**.

Lotta Björklund Larsen: Good afternoon, everybody. I speak to you from Stockholm. Our discussion today circles around the relation between COVID-19, tax, and gender. We will explore evidence, and discuss and reflect on the impact of these, and also on tax administrations' responses, across nations, taken to mitigate these effects—or not, as the case might be. The aim with this discussion is thus to highlight both differences and similarities between nations around the globe, but also to learn from public initiatives responding to these issues. What seems to work and what does not seem to work, what mitigates gender issues and what does not. As we are in the midst of the second wave, at least here in Europe, of the pandemic, it might be difficult to know the impact in the long run. This might in itself be an interesting point: what the impact of public initiatives in the short versus the long run might be.

¹ The video version of this roundtable discussion, which was presented at the 8th annual conference of the Tax Administration Research Centre (TARC) that took place on 15-17 December 2020, is available via the TARC website. <https://tarc.exeter.ac.uk/events/researchconferences/videos/>

It is a deliberately multi-disciplinary roundtable. I have asked each of the participants to speak about experiences from their country where they either work or do research in. We will thus hear about these issues in United Kingdom, Chile, Ireland, Denmark, India, and finally the United States. The national representation is by no means exemplary, as we have an over-representation from Western Europe—as usual—and Africa is completely absent. However, the African countries have their own exclusive roundtable session tomorrow. So, the emphasis of this roundtable is on sharing issues and experiences, what administrations do and don't do, in order to ease the impact of this horrible pandemic.

Each of the participants will speak for about five minutes. Following, we will discuss and address issues collectively. Finally, we open up for all you listeners to ask questions, so please put your questions in the chat. So, please Judith, start.

Judith Freedman: Well, thank you very much, and thank you for inviting me to discuss this important topic. I'm going to say a few things which might surprise people, because I do want to set this into the context, a wider context beyond gender.

There is no group that has not been hit by COVID, and actually, if we just look at the health problems, purely the health problems, women are doing better than men. Men are more likely to die and women seem to be luckier in this respect. There are also indications that some ethnic groups are doing a lot worse than others, so if you're a white woman, you are already quite lucky and privileged in this environment, and I think we need to be aware of that, because my timeline is full of complaints from women, from fellow academics, about the difficulties that they've had over childcare and so on. I think it's very important for us to remember that we are really lucky. We have, as academics, jobs that pay—some of us have fixed term contracts and that's not so good—but many of us have long-term contracts, and so I think we should not be too vocal about the problems of women when we think about this in the wider context. And I'm talking about women rather than gender, because I think most of the research that has been done has been looking at women rather than any other wider question.

So, women are suffering and the women who are suffering most are the women who were already suffering, because they had pre-existing inequalities. Obviously, those on short-term contracts in the retail and hospitality industries are more likely to lose their jobs, are more likely to have reduced income. But, as Alison Wolf has shown in her book, *The XX Factor*, some women have become far more equal to men than other women, and so what the pandemic is doing is exacerbating existing inequalities, and those include inequalities between women of different classes and different educational backgrounds. So, all inequalities that existed before are being exacerbated.

Having said that, there is evidence that women have borne the brunt of additional childcare whatever their jobs, and that more women have lost their jobs than men, even allowing for all the other preconditions. In the U.K, we have a system of independent taxation and, in theory, therefore, there is little penalty on the second earner. We have a reasonably equal system of taxation as between men and women, although there are some small differences and, particularly, there is a small transferable allowance from the spouse who does not work to their other spouse, which might be a disincentive to work for a second earner, often a woman, but this is very small. So, the system is designed to be independent and to encourage everybody to work, and our benefit system is also designed to encourage everybody to work (although, again, there can be a small disincentive to a second earner in some cases). Our benefit system is a very minimal system and that has become very evident during COVID as well, so our safety

net is not a strong safety net, and we have people who have been excluded from our various schemes, who are not really being caught by that net. I'm not sure that there is a particular gender difference there but again, because women are the ones having to look after the children, very often they're the ones who are being caught by this.

Other than that, I've really relied heavily on the work of Abi Adams-Prassl, who is a colleague of mine at Oxford, and has written a really interesting article in the *Journal of Public Economics* in September 2020 where she and her colleagues looked at data from the U.K, the USA, and Germany. And they found that women and less educated workers are more likely to be affected by the crisis, that women have taken on more childcare than men, even when working from home, and that women in the U.K. are five percent more likely to have lost their jobs than men.²

That is not fully accounted for by the differences in types of jobs which men and women have and therefore must, it seems logically, be accounted for by the childcare burden. So, the government has taken away the lesson that it's very important to keep the schools open and to keep childcare facilities open in order to get the economy going again. They have perhaps taken us a little bit too far, as they're now taking schools to court for trying to close because they have so much COVID in them, and that perhaps is just taking it too far. But, certainly, parents want the schools to be kept open, and women in particular.

One of the problems we had in terms of design of our COVID support schemes was that our furlough scheme, which was designed to help those who were in employment but who could not work due to COVID, was initially paying people on furlough only if they did no work at all. And so that was a real problem in the design of the scheme and it was a problem that hurt women a lot, because they couldn't decide to do half their job and be paid half. It was all or nothing, and if they had to do childcare, they had to stop working altogether in order to be part of the furlough scheme. That has now been remedied. There are others who are excluded from all our schemes, but I think it was mainly around furlough that women suffered in terms of the design of the schemes.

I'm being told I should end, so I'm going to end there. That, I think, is a brief thumbnail sketch of the U.K. system and how it has affected women.

Lotta: Thank you so much, Judith. And now, quickly, over to Chile and Jorge Atria, please.

Jorge Atria: Well, thank you very much for inviting me to this roundtable. I will give a few comments on the current situation in Chile.

Chile, like most Latin American countries, has very high levels of income and wealth inequality. In recent years, new studies have examined in depth how these inequalities affect the social life of Chileans, and gender issues take centre stage in these debates. For instance, a recent study shows that in Santiago, the capital of Chile, the life expectancy of women in La Pintana, one of the poorest districts of the city, is 77 years while in Vitacura, one of the richest districts, it is 88 years. That is, there is not only a huge income gap 20 kilometres away within

² Interestingly, more recent research found no evidence of divergence in employment outcomes by gender in the U.K. for the period April 2020 to March 2021 due to the sectors in which women are employed and the results of the furlough scheme. However, it may still be too early to assess the overall effect long term and this differs from the findings of U.S. research (Crossley et al., 2021).

the same city, but also such a different quality of life and access to health, that there is an 11-year difference in the life expectancy of women.

What is being discussed in Chile right now is that the pandemic intensified this difference. The pandemic has affected many people in Chile, particularly through loss of employment. This has led to a sharp increase in informality and vulnerability. According to some international studies, Chile is a country with a large middle class. However, these data hide the fact that it's a very precarious middle class, with low incomes that are not so different from those of the lower class. By eliminating many formal jobs, the pandemic has reduced the difference between the lower and middle classes. Moreover, the pandemic has once again challenged the image of a developed and successful country, which sometimes appeared to be the exception in Latin America. This image had already been challenged very strongly in October 2019 with the so-called social upheaval or social uprising, the *Estallido Social*, in Chile. The protests throughout Chile changed the agenda of this government and led to a referendum to change the constitution.

Official data shows that to face the pandemic, Chile has spent large amounts of money in international comparison. However, the government's response has been criticised because it came too late. Social policies in Chile follow a neoliberal orientation based on a targeted social spending rather than a social rights logic. As a result, valuable time was lost in finding people who needed help most urgently and debating the percentage of people that should receive public resources. The consequences have been so harsh that they are exemplified in two cases. First, the return of the "Common pots" community organisations led mostly by women, who collect income from each other to provide free food to people in their neighbourhoods. This type of organisation became well-known during the military dictatorship in the '70s and '80s. Second, two emergency laws have been passed in Chile to withdraw part of the pension savings in the last six months. Pensions in Chile are almost entirely individual savings and are very low for a large part of Chileans, especially women. Although most of the political class agrees that the withdrawal of pensions is a very bad policy, there is a consensus that these withdrawals had to be approved because of the critical situation that thousands of people are experiencing.

Chile has a regressive tax system, where indirect taxes collect more than direct taxes, and it's very hard to tax the rich due to tax expenditures that mostly benefit wealthy taxpayers and enforcement problems. In addition, unlike many countries, there are implicit tax biases that affect the women negatively. During this pandemic, tax relief measures have been created which are basically VAT reductions or tax deferrals. Second, there has been a debate about introducing a wealth tax which, however, will hardly be approved in Congress, and the tax administration has also claimed that it's very complex to enforce. Third, there has been criticism that economic and tax policy systematically harms women, but this is an emerging debate in a country that has a weak tax consciousness, where many people do not even know that they are paying VAT on every purchase. Although Chile is considered a strong state in Latin America, it has a relatively low tax burden and a slightly regressive tax policy that leaves many challenges to tackle inequalities in general and the systematic disadvantage of women in particular. Thank you very much.

Lotta: Thank you, Jorge. We can already now see how the inequalities really exacerbate around the world here for women. So please, Emer.

Emer Mulligan: Thanks, Lotta, and thanks to TARC for inviting me to, I suppose, call in with the Irish jury results, if you like, in terms of COVID to date. State of play—just starting with a

couple of facts, I guess—state of play, as in Ireland we're on our way out, slowly, of a second lockdown, which has proved to be very, very different to the first. Relevant to this conversation, one key difference is that schools were closed in the first lockdown but they remained opened in the second lockdown. Obviously, therefore, significant issues around the caring roles that seem to fall, at least anecdotally maybe, more on women, was lessened somewhat in the second lockdown period. For what it's worth, we have apparently at the moment the lowest incidence of COVID across Europe, but we are very much being prepared by our public health people for a third lockdown post-Christmas. In the first lockdown period, about 71,000 women were laid off from their work, which obviously has, again, significance in the context of this discussion.

However, I would say, in preparation for this, it did become very clear to me that this intersectionality, which I think Judith referred very briefly to as well, is a real issue and very, very important. It's not just if you're a woman, it's, for example, if you're a woman from an ethnic minority group. You know, these people are significantly worse off than, as you said, the white female. The other big thing is I think, what COVID has done in Ireland, is it's just—I don't mean "just" in any belittling sense—but it has simply amplified and heightened all the existing inequalities. And I think, from a policy point of view, the question is which of these many issues are now lining up for the post-COVID era. However, in terms of current public debate in Ireland, it's almost distasteful to get into any of these kinds of issues in the middle of a pandemic. So, I think the timing of debate and the need for policy change and recommendations arising from our experiences—that seems to be for later.

In terms of the kind of issues that have arisen in Ireland, they are very similar, particularly, I guess, to the U.K., so no need to reemphasise them as such, but certainly the caring roles issue, whether that's for children or indeed for elderly is an important one. And the big issue around the elderly in Ireland has been that quite a few nursing homes got badly hit with COVID and that meant that people who were considering going into a nursing home held back—that decision has been postponed. And the reality is, in Ireland, this has resulted in daughters more than sons of those who might have been going into nursing homes taking up the caring role. And other, if you like, categories of women that have suffered quite significantly would be lone parents, who tend to have a lot more responsibilities around caring, as well as women in abusive relationships. The latter has been talked about quite a lot in Ireland and that's very scary in terms of how those figures are working out. In terms of public debate more generally, I would say it hasn't reached a gender dimension. The main two group categories we hear about a lot here in public reporting and discourse are the 'at risk groups' and the incidence of COVID/COVID-related deaths on an age basis. They're the kind of categories around which discussion happens more often than not and, quite concerning I suppose, this is notwithstanding the International Labour Organization has already warned that COVID-19 could wipe out what they referred to as the modest progress already made around some of the gender inequality type of issues. Indeed, I know some experts in this area are calling for a revisiting of the whole, what they're calling a 'care infrastructure', that needs to be developed. It would be a cross-policy development, and taxation would be very central to that. Maybe that's something that we could come back to later in the discussion?

Ireland has been very active in many, I guess, initiatives, we could call them, being rolled out substantially by the Revenue in response to COVID-19. It has become very clear that the Revenue is one of the strongest public sector and well-organised administrations in Ireland to roll out things that even sometimes aren't directly tax-related. But they've got the systems in place, and in a pandemic, they've been asked to step in. But some of the initiatives are very

tax-oriented and maybe in the detailed conversation, Lotta, I might get a chance to come back to some of them, like pandemic unemployment schemes and tax wage subsidy schemes. Some of these were extremely generous and rolled out very, very quickly and, indeed, did end up being abused, and *knowingly* being abused very early on. Yet, policymakers said, “Look, we don’t have time to deal with it. Let’s just make sure people have money in their pockets”. If some people got money they didn’t necessarily deserve, or weren’t as worthy, that was also pushed down the line for consideration on another day.

I think a lot of that has been sorted at this stage, but I would say they’ve struggled in Ireland, very much initially, with communications around these initiatives. As we know, communication around tax issues is very difficult once it gets into the public arena. And so that has been a challenge. We’ve never heard tax being talked about so much in Ireland, other than obviously in the multinational context. This was something different again and probably not what tax people would like. A couple of things that the Revenue did was extended tax filing deadlines which wasn’t particularly welcomed by some of the advisory companies because it just pushed the pressure points down the line, so unless other subsequent deadlines get changed, that was of little use (to the advisors). Also, there were a significant range of business loan arrangements put in place. Government worked very closely with banks, for example, to ensure a deferral of payments etc., so during the first lockdown period, there were just a plethora of initiatives, some of which were tax-related, but mostly economic and finance-related.

I have some other points, but I can leave it at that for now, because I do believe my five minutes are probably up.

Lotta: Thank you, Emer. Fascinating. We move on to India then, so Mukulika, please.

Mukulika Banerjee: Thank you very much. Thanks for the invitation.

India is a completely different story in many ways, something we need to know about and I'm glad we are considering it. It's a large and emerging economy. As we know, it's the fifth largest economy in the world and it's got a third of the world's population living in it. There is a huge potential for growth, but the last four or five years have been particularly bad in its economic performance. Inequality is rising, and there are very significant caste and gender gaps. It also has a very large tax gap, so the tax to GDP ratio in India is 10.7 percent, which is about a third of the average OECD country.

Now, we don't know the reason for this tax gap, but it's worth just paying an attention for a minute on the nature of the economy itself. The total workforce is considered to be about 500 million, three-quarters of whom are self-employed or casual laborers, with no security of income or employment, and no benefits, such as paid leave, health care, social security. This even goes for those who are in proper jobs. Migrant workers, who make up quite an important part of the story I'm about to tell, constitute about a fifth of the total workforce, roughly about a hundred million people. In urban areas, casual workers are about 30 percent of the total population, which is about 15 to 20 percent of the urban workforce.

Now, COVID, as the economists observed, made India's economy suffer even more than most as a result of the government's measures. What were the measures on the 25th of March this year? The government, the central government—it's a politically federated system of 29 states but the central government is very strong and doesn't really pay much attention to political federalism—announced a lockdown at four hours' notice. Now, this vast migrant population

that we're talking about, completely devoid of safety nets—and surveys showed they had an average of two days of food rations—basically just started this huge exodus of reverse migration, back to the villages, to the rural areas from where they came. No infrastructure was provided. It was as if it did not exist, so literally people were walking home. Trains were not put on by the government until May, so you can imagine there were about five or six weeks when the highways in India were full of this working population walking home. This estimate of people of this first wave of reverse migration is about 15 to 30 million people.

This strictness of the lockdown, where you cut down on transport and so on, was according to the Blavatnik School's index, basically a hundred percent on that index value. So, there's a near complete shutdown of economic activity. And the impact of this on women has been disproportionately high. Here I'm drawing on the work of Ashwini Deshpande and Radhika Kapoor. They've been working on women's female labour participation ratios even before COVID, so they could actually say something sensible about it. Eight months after COVID-19 lockdown was imposed, 13 percent fewer women than a year ago were employed or looking for jobs compared to two percent fewer men. Data shows urban women had the deepest losses. Women entrepreneurs and self-employed women have been hardest hurt. Now, it's worth remembering that between 2004 - 2005, say, and 2017 - 2018, there were huge gaps in female labour participation ratios anyway, and this has been persistent and precipitously low. It's been falling steadily. The research from Deshpande and others explains on why this is the case.

So, because of the pandemic, the women have been affected the most and this is not just because of increased care work, it's also because of entitlement. Where the unemployment rate is high, men get prioritised for jobs because they are seen as breadwinners, women as homemakers.

In times of economic prosperity, women are hired last, and during a crisis they are fired first, and they're the last to be hired. So really, to wrap up my story, it's not been gender-neutral, as is emerging from other contexts as well. And part of the reason draws from what was pre-existing conditions, but also because of the circumstances in which the pandemic was handled. Thank you.

Lotta: Thank you so much, Mukulika. Then we move on to the next place, we'll go to Denmark and, as Emer says, this sounds like a European music contest, but it's not. It's much more serious and it's, like you said, Mukulika, it's unimaginable to just recognise or think about the amount of people that had to so drastically change their lives. And the way that we are complaining a little bit in the western countries is, like, yeah, nothing. But please, Birthe.

Birthe Larsen: Yes, I agree with that. That was a very nice starting point. I'm now going to say something about some places where I think it's been difficult for women during the last, almost a year, but compared to other countries, I think we, in Denmark, are definitely much better off. And, as one of you stated, in terms of migration, it's really the immigrants in Denmark who are suffering the most, because those are the ones who are, in general, in temporary positions. And these furloughing schemes, which we have had in Denmark, like in many other countries, they are generally mainly used for those who are in more permanent jobs, of course, because those who are in temporary jobs, you can just easily fire those people. So, in general, it's the immigrants who have suffered here. And for the last couple of years, we have seen an improved integration process for immigrants, which has actually stopped recently, and that is a pity.

In general, if you look at men and women, then before the crisis, the unemployment rate for men and women was almost the same, almost identical. Denmark is a country with very low unemployment. The unemployment rates, and also the labour force participation rates, are very similar for men and women. The increase in unemployment has also been very similar for men and women during the pandemic. A little bit higher for women than men, but they are still very, very close. There's one negative thing—or a couple of them, I'm going to get to those—but this was just to choose to state one place where there's not a big difference between men and women. I'll get to back to why I think that's the case.

Domestic violence. That's one of the places where we can see there have been an increase. Domestic violence is mainly something which happens to women, even though we also have cases with men. But there's been an increase in domestic violence. There's also another case I just want to mention. The government has given out some bonuses to people who have really made an effort during the corona crisis, and there's one case, whether you paid these bonuses to hospitals, because you wanted really to show who helps people here, the people working with healthcare, that you appreciate what they've done. Yet, those bonuses have mainly been given to people in the leading positions, which are mainly men. And the nurses which are mainly women, and the doctors which are half men, half women, they have not received anything. And these are the ones who have really been working hard, it has been super stressful, being exposed to the virus, and many has actually become sick. This is quite interesting to think about.

One of the reasons why it has not been so harmful for women compared to for men relative to some other countries is that you actually kept the schools open almost all the time during 2020. There was one month, half March and rest of April, where there was a very strict lockdown, and schools were closed, day-care centres were closed, kindergartens were closed in the whole country. But they opened up for the small kids—the day-care centres, the kindergartens and the schools for the small kids—after about a month or a month and a half. This has been very important, because if it is the case that it's mainly the women taking care of the kids when you have to stay at home, then it's super stressful for a lot of women. They have to do both their primary job which they're paid for, and then also to take care of the kids and home-school them and so forth. You also might experience some people getting more stressed if they have to do both. So, I think that's one place where you can argue that it has been beneficial.

Another issue is that you have spent a lot of money on government aid. So, there's both been the furloughing schemes, where I actually have a research project where we can see that these aid packages, they have saved 81,000 jobs during the pandemic, and that we had to compare with the 100,000 unemployed people before the crisis. So, it's a huge amount of workers, of jobs, you have saved due to these government aid programmes. And that is important in terms of the income in the family and in terms of risk, avoiding risk. And, therefore, it might have been helpful in terms of keeping the balance in families, so that risk of domestic violence and so forth has been much lower.

What you can see in Denmark is also—and that's what we ask in the survey we're doing, we're sending it out to firms in the middle of the pandemic—is that it is the firms in most need of the programmes who really are taking up this government aid. And that, of course, is quite nice to know. If you want to think about whether it makes sense that you spend so much money on these government aid programmes, then that it's actually the firm's most in need which have used these programmes, and also that they have actually saved jobs which, I guess, is also super, super important.

So, one of the other options for government aid—I talked about the furloughing schemes—but there’s also been a postponement of VAT and there’s been some aid for whatever fixed costs you need to pay from the firm’s point of view. There we can’t see that that has really helped a lot of workers from being fired or avoided some firings, but it might be that you have actually prevented some bankruptcies. OK, I spent my five minutes, it seems.

Lotta: Thank you, Birthe. And then finally, to Neil Buchanan.

Neil Buchanan: Thank you, Lotta. Thanks also to TARC for inviting me to join this panel. It’s been very interesting. I should say that several months ago, for very good reasons related to my country’s incompetent and even counterproductive response to COVID, the rest of the world decided that Americans are not welcome to enter their countries; and I was thinking, as I was having trouble logging in just now, that maybe that ban had been extended to Zoom meetings as well. But thankfully I got in!

If this meeting had been held six months ago, I would have been somewhat embarrassed about being in Florida as opposed to other parts of the United States, because this state was an especially severe and poorly governed coronavirus hotspot. Now, unfortunately, our misery has spread, and the whole country is a horribly misgoverned hotspot, which is getting worse rather than better. And lately, I’ve been thinking about how this has affected women in particular. The themes here are the same as they are in other countries but, as is the habit in the United States, we do everything more intensely, and usually worse, than everybody else. The problem is that our starting point in terms of the legal structures protecting women are so minimal that everything that was going to hit, was going to hit extra hard for women—especially poorer women, but not only poorer women, as I’ll discuss in a minute.

We don’t have a universal health care system, as most of you know. Something like 15 or 20 percent of the population has no access to health care—well, the only access they have to health care is either by paying out of pocket for radically overpriced services or by essentially showing up as a “can’t pay” patient at an emergency room. And that’s in normal times. We do not have legally guaranteed paid sick leave for anyone and any sick leave at all is provided at will by the employer. The closest thing we have to family leave is a now decades-old law that was controversial at the time called the Family and Medical Leave Act, which merely guaranteed that women could take maternity or family leave—unpaid—for a certain number of months, I think no more than six. The protections against retaliation or career slowdown for women who actually dared to take family or medical leave were essentially minimal, so that even once that law was enacted, the culture still essentially forced new mothers to say: “I just have to get back into the workforce as quickly as possible”.

Now, of course, for a while the big issue was—and by “a while” I mean the first couple of months of the pandemic—the big issue was that we had a huge spike in unemployment, because we were putting the economy into a coma on purpose. We didn’t do what we were supposed to do while it was in the coma (which was to put in place a comprehensive system of testing and tracing), so the economy has been stumbling along ever since, but the people who are lucky enough to have jobs are still in the position where they don’t have any of the protections that I think most other, certainly European, countries take for granted. And all of the retrograde sexist attitudes that permeate a large part of society—even some people who consider themselves to be more enlightened—continue to harm women. We’ve been seeing article after article about how lower-middle-class and middle-class working women, whether or not there’s a man in the house, are suffering enormously because they have to work if they have a job, they probably

don't have adequate protection against the disease, and in a lot of cases, the schools are closed so the children are home, and there's just no help from any level of government. There's some question as to whether unemployment benefits for those who haven't been able to get back to work will even be renewed at the end of this year.

The last thing I'll point out is that, even among the professional class, there's been some research showing that women who are college professors, university professors, and in that category, and therefore have more flexible schedules and potentially more flexible deans, are not making the progress on their research that they did before the pandemic began. In other words, the impact of sexism is being felt in different ways at all levels of the working world, from the upper middle class all the way down the line. This is hitting women hard, which is entirely predictable, because of all of the other economic gender-based disadvantages that we've refused to deal with.

Lotta: Thank you all so much for your very interesting input. Does any of you have any comments to what has been said on this really interesting array of issues around the world where inequality, as Judith started saying, seems to proliferate.

Judith: Well, I thought it was fascinating to hear and it was exactly as I expected, so whatever the inequalities were before have been exacerbated. But there are also massive inequalities widening up between countries and depending on the wealth of those countries, the global inequality is being exacerbated, as well as domestic inequality. All that will have an impact on women, but the impact is far greater than just an impact on women. It is seriously worrying when we hear about the state in which people are going to be left once the pandemic is over. The question then comes to what's going to be done going forward to try to reduce these inequalities, beyond small things about childcare and so on. There are really, really big problems brewing up for us all even once we're all vaccinated and we're feeling a little less concerned about the pandemic.

Lotta: Jorge, you raised your hand.

Jorge: I found very interesting and complicated the problem of this situation of urban rural migration, so maybe could you perhaps elaborate a bit more on this situation? Is there some gender pattern or are equally men and women affected? Are there differences between regions in terms of economic policy or available care infrastructure or are there similar situations in the context of the pandemic that has led to people walking home all over the country. Related to this question, are there difference in terms of how the regions have reacted to this situation?

Mukulika: It's a very—this is the question really, you know, that there is a huge amount of rural to urban migration. The construction boom, the sort of shining India, India's growth rates etc. has been built literally on the blood and sweat of these internal migrants, so when we talk about migrants in India, they are entirely internal migrants, and they're all Indian citizens with equal rights, which has been completely forgotten, so slightly different to the issue of immigration say, in the U.S. or indeed in Europe. There has been a discernible pattern. There are some states of the 29 states that are the largest exporters of migrant labour because they've had the fewest opportunities. We saw, in tracking these journeys, that there were three or four states in the East of India, for instance, Bihar, Chhattisgarh, Jharkhand, where the migrants were mostly drawn from. Yet they were very far away from the urban centres of Delhi and Bombay, for instance, where they were working, so these are vast distances that had to be traversed across the country with numerous people dying on the way. The receiving states

attitude to migrants—Kerala, which is one of the most prosperous states in the south of India, has a huge migrant population to the Gulf countries in the Middle East—the manner in which they managed the pandemic in receiving their return migrants as well as in their domestic population was exemplary. It has by the way, since this is a panel on gender, a Health Minister who is a woman and who's become the poster girl for public policy in many ways. People need her, have been asking her for advice, and they (Kerala) were exemplary in how they managed it. They showed that there was a use of technology which was done without violation of democratic rights, which is what we've seen elsewhere in the world. The pandemic has allowed authorities an opportunity to quite systematically infringe on people's democratic freedoms, but the fact that it can be done differently was shown by Kerala.

Just one final point on the gender implication of this. Just looking at the visuals, and I'm using this data bank of about 200 interviews done by the *only* journalist in India—the *only* journalist, who happens to be a woman. She was the only one on the highways talking to these migrants, so we have these 200 interviews. I'm sort of working with that material now, analysing it. There were lots of women walking back, so the migrant labourers as female, but of course there are more men who out-migrate, which has led to greater feminisation of agriculture in many places, where the populations have originally come from. This is one of those hidden stories of Indian farming which rarely gets told and farming is important in India. It's 60 percent of the economy.

Lotta: Thank you, Mukulika. Before we go to the digitalisation question, I want to ask all of you. We talked a lot about the COVID consequences on gender and gave different examples, but as we are in a Tax Administration Research Centre conference, have the tax administrations in the country *you* know about actually addressed issues of gender and tried to ease the pain, the economic hardships and so forth? Emer, please?

Emer: So, I would say no, is a simple answer, answering for Ireland, and that relates directly to one of the points I was going to jump in and make anyway, which is it's relatively recent that we have a very small—and I mean three to five people (mostly academics)—talking about the need for more gender-proofing of tax policies pre-COVID. This has nothing to do with COVID, and the last time I raised it at a particular public forum, somebody just said “Oh, that sounds like a great idea”, and that was just kind of almost the glib response to it. So, I think what's very clear, particularly in this crisis situation, because it's a crisis, to some extent these policies are just—well, it's very fast moving. You don't get time for these kinds of debates and gender-proofing, if you like, but if we don't learn from the crisis and do the gender-proofing at least after it, we won't be ready for the next one. Whatever that crisis is going to be that will have such economic implications.

And something that has got some attention here is this issue around migration and COVID. Again at a recent conference I attended on migration issues, one of the speakers who was covering India, highlighted that, in Ireland, we don't have any representative at the decision-making table from any of the cohorts of people we're talking about today (e.g. women, migrants). In fact, it's rather embarrassing at times, if you look when the Chief Medical Officer and his team come out to do a press conference. It is very much white male-driven, the whole thing, in terms of who is at the table. Now, I'm not saying it's a panacea to have others at that table. I'm not suggesting that, but it is hard sometimes, I suppose, to accept that the empathy and understanding is at the required level with such a homogeneous group at the decision-making table. So, I think we should try to grab this COVID experience as a time for lessons to

be learned about how we should approach policymaking afterwards. We're not going to win 'mini-wars' right now, but afterwards, we absolutely should.

Lotta: But perhaps to learn a little bit from this lady in Kerala that Mukulika spoke about? Judith?

Judith: Yes, so I think in the U.K., we had a lot of senior women in the Treasury who were trying to design our policies and sitting at home doing their childcare, and some men also that I know who were designing the policies who are engaged with childcare, and so we saw a tweaking. It was always a little bit too late, but we did see constant tweaking of the furlough system to allow for the fact that some women were having to do childcare, and we did see improvements and we have an improved system now, which does allow people to work part-time, where originally we didn't, so there has already been learning.

I agree that we need to learn from this experience and design everything better, but the other thing I've learned from this experience is that everything is unpredictable and you don't know what the next crisis will be. But if what we're doing is exacerbating existing inequalities, then the best thing we can do is remove those inequalities and then that will be more proof for a future crisis and not on—yeah, I won't say any more. I had a point on digitisation, but let Birthe talk.

Birthe: As I already mentioned, I think it has been super important in Denmark that the day-care centres and kindergartens and schools for the small kids, they have been open almost all the time, because that is really what is essential if you want to be able to continue to work. So, in that sense, I think it has been something which the government have been aware about, and tried to do something about, and try to address.

Neil: The closest thing we have to hope on the gender front is that maybe we're going to have a new president soon. Every day, the news suggests that Biden really has won, but then it just—it's sort of like a bad horror movie. The monster keeps rising, needing to be killed all over again. But assuming that we do get a new president, as now looks all but certain, the economic team that President-Elect Biden is putting together is all women. Echoing Emer's point, that doesn't guarantee anything—I'm not arguing essentialism—but it's way better than having a bunch of old white men making decisions. And I say that as an old white man! But there has been no concrete statement from Biden's team about attempts to address any of the gender-specific underlying problems that COVID has raised, at least not yet.

Mukulika: Can I just add one thing to this ongoing discussion? I don't disagree, of course, women at the policy table must be a good thing, but there is a disciplinary issue as well. I mean, when we are saying that it's not about essentialism, what do we mean by that? If men or women, how they're thinking about work, and labour, and care, if they are trained to think about these in a gender-neutral way, in a non-political way, without understanding that individuals are actually not atomised agents but part of networks of relationships between others, that public policy, as we saw with the pandemic and self-isolation issues coming up, that networks and communities are important, unless your epistemology forces you to think like that, it almost doesn't matter if you're men or women, I would say, just to be provocative, because otherwise you get a lot of lip service. You can get a lot of group-think, regardless of whether it's men or women, depending on what perspective they're coming from. I don't know how other people feel about it, but...

Neil: All I can say is I think that that's a great point. Even so, speaking for myself, I've considered myself a feminist since I was about 14 years old, I've taught in women's studies departments, and anybody who cared to look at my résumé would see a lot of gender awareness and concern. But it's still amazing, if I'm sitting around in a room full of men, how easy it is to just not think about issues that would come up if there were women in the room. I wish I could think of a specific example, but I guess I'll just have to ask you to take my word for it that there are times when I'm in the middle of a conversation, and it's been going on and I've been sort of nodding, and then, all of a sudden, I think: "Wait a minute, how has nobody talked about issue x, which is very, very gendered?"

So, that's not to disagree with Mukulika but to say that there is, in addition to what she describes, a sort of danger of homogeneity, especially homogeneity of people who think of themselves as the norm. It's still unfortunately true that we are sometimes surprised to look around and say: "Oh, isn't that interesting. There's a bunch of women in the room," which is still rare in a lot of power centres. By contrast, when there's just a bunch of men in the room, we don't think: "Oh, hey, finally, guys!" That's just the way the world still very often is, and we have to fight, in the way that Mukulika is describing, the presumptions that are built in from years of male-centred group-think. If we want to affirmatively think about intersectionality issues, we should do so, and we often do try, and I certainly try. But it is amazing how easy it is to lapse into just not thinking about these issues.

Lotta: And I would like to add to that, also a little bit picking up on what I think you try to make a point on, Mukulika, is not only gender, but also where you come in, from which discipline you approach taxation, in this case, which issues we raise. If we do it as a gender issue, or if we do it from an economic point of view, or from a legal perspective or, as Mukulika and I are, as anthropologists, or Jorge, as a sociologist. We raise different points and we might also be excluded or included due to that, and that is, of course, a much, much broader question, but it highlights what this horrible pandemic has done to us. Does anyone want to comment on that one?

Birthe: I would like to comment on that, because I'm the economist here, and I'm used to being accused of, we economists, we look at the world in a different way, and so I think, actually, the last 10 years, I think a lot of things have changed a lot. Now, we tend to learn a lot from one another. Economists tend to listen a lot to psychologists, sociologists, anthropologists, lawyers, whatever. I don't think the difference between the disciplines which we would have seen only a few years back, we see that to such a great extent, and I truly believe it's super important to listen to one another. It's not the same as that you should completely forget your own theoretical and analytical background and just disregard whatever you've done, but just to listen.

Lotta: Thank you. Emer, please.

Emer: Can I just jump in there, Birthe? I would agree in academia, but in public discourse, certainly on our TV screens here, when it comes to questions of tax, social welfare, what you have is that really substantially the domain experts are called upon for their perspectives. So, it's like, well if you don't know how the tax rules work or whatever, what are you doing on this panel? In fact, they wouldn't even go to a university and ask, in Ireland, an anthropologist to come on a panel with a perspective on tax. It just actually wouldn't happen, so in the public discourse, I would say we still, in Ireland, certainly, have a way to go in terms of getting non-domain experts, if you like, involved in the discussion.

Birthe: But I also think it's more important that we, in our field, listen to one another. I think that's actually probably the most important thing, in our research, to take into account what you have also done in other countries.

Emer: I agree totally.

Judith: Can I come in and say something about the digitalisation question? One topic that's come up a lot anyway in the U.K. is whether homeworking is here to stay as a result of digitalisation. And it has been put to me sometimes, with my hat on as head of running Women in Law in Oxford, this is a wonderful move for women because they will all be able to work at home and they won't have to go to—and this is terrible, actually. I mean, I think that this is clearly something that's being discussed by men and not women, because most women I know want to go back to the workplace, because if they're at home, they're going to end up having to do their work and look after the children, and they'll be expected to bake cakes for the school fair, and everything else on top, and become Superwoman. So, I'm not sure that working from home is going to be everything that people are saying it is to help women into the workplace. I think, in fact, it might make them second-class citizens, and I'm quite worried about that.

Birthe: I completely agree with Judith. I'm also super concerned, a little bit like going back to—I grew up in a countryside on a farm, and my parents, they would like work and take care of the kids—but mostly my mum, so it's just a completely different world and it definitely is going to move us back to some gender issues where we all started many years back. I agree.

Lotta: Neil?

Neil: Yes, it's interesting. I think what Judith says is right, and if there are any sort of positive things, you know, little silver linings that can come out of this crisis, I think that a lot of people are rethinking what at first sounded cool—"Oh, I don't have to commute anymore, and I don't have to go to Christmas parties with co-workers I dislike", all of those things that sounded so good. As time has gone on, people are suddenly realizing, even beyond the gendered issues (which is the most important part), that this is not all turning out to be as good as we thought they'd be.

For example, there's long been a group of people in U.S. higher education trying to convince us that the old model of lecturing in a lecture hall with students in person will be soon going away because of technological advances. This story has been going on for decades. As soon as there were televisions, for example, some people said, "Oh, you could teach classes on television", but that never happened, except around the fringes. What I found here at the University of Florida is that the students, both female and male students, hate remote learning. They're desperate to get back into the classroom, and I think the professors feel that way as well. And so, whereas we could have seen a sort of slow slide into a less effective teaching method, this experience gave us this acid bath, and everybody went in and said, "Oh, this isn't so bad... Oh, wait, this is bad... Oh, this is terrible!" And so, I think that the snapback from this might end up pushing us in a better direction. At least, I'm trying to be more optimistic these days, so that's my optimism.

Lotta: Is there someone who disagrees here?

Mukulika: I think it must depend on if you have to commute in a big city or not, and to have some choice over whether you can have more creative work arrangements. I teach at LSE and

this year we were still teaching on campus. We were doing small group teaching on campus in large lecture theatres for social distancing and did the lectures online, which could be recorded at leisure, and the students could watch them at leisure, more importantly. It wasn't a bad compromise solution, because you got the buzz of the classroom, and I have to say, I did conserve a lot of energy in a very challenging year by not commuting in every day and commuting in only for the days when I was seeing students in person. So, I'm pushing back, Lotta, because you asked somebody to push back, so I'm pushing back.

Lotta: Thank you. I welcome that! There is a group in the U.K., Women's Budget Group, that proposes something they call "a caring economy", which is basically—I'm not saying pushing back, or going back to what Birthe and Neil and Judith referred to, of less equality—but a different way of thinking about who does what in the economy, and also how much time we spend at work and all that, which I think COVID—in an interesting way, if one would say something positive about this horrible pandemic—has questioned. Are there different ways we can work, and different ways we can also spend more time with our kids, or do things differently in some way? And I found that the proposal of "caring economy" that puts the people and the planet first, also resonate with the climate change, which might even create much, much, much, bigger and worse problem than the pandemic has given us. Emer?

Emer: I think that's an interesting idea and certainly it's a way of looking at it, but I think we shouldn't—and I'm not suggesting anyone is suggesting—that we forget all the people who were in work that cannot be done from home. So, there's whole sections of our workers who, and in this instance, particularly relating to COVID, I think there is a real gendered issue around nurses. For example, in Ireland, 90 percent of nurses are female, 90 percent. 84 percent of Medicare workers are female. So, apart from the medical risk they are under due to COVID, it's also the fact they obviously can't move home with that work. But, I wouldn't forget either, in Ireland, we've had significant negative experiences by males, particularly working in meat factories, for example. So, I think, in the gender debate there are groups of particularly, again it is lower socioeconomic groups, unfortunately, and this had a particularly negative impact. You talked about intersectionality, or a couple of us did earlier. This particularly affected migrant workers a lot as well. So, you had migrant workers, male, working in meat factories, then being laid off on mass and then sent back to their accommodations, which were overcrowded. It was just this circle of madness for a while here, particularly, and so that's something that particularly impacted males as opposed to females.

Lotta: Thanks for making that point, because what we talk about is largely also a privileged problem in some way, of staying at home. The point of the proposal for the caring economy was that they said that even after the devastating Second World War, it was a seed to really transform the society of, or societal economy if you like, into the British Welfare Society. Thus the pandemic could make us race to this opportunity, to really address things right and learn from what has happened, as next time around it might be even worse.

Judith: The crisis has certainly shown that the welfare state that we thought we had created in 1945 is not a good welfare state anymore, if it ever was. It provides only the most minimal safety net in the U.K. and I think it's quite valuable, to the extent anything's valuable arising from this experience, that people who never encountered the welfare state are now having to rely on it and are seeing that it is not enabling people to live in the lap of luxury on benefits, because their benefits are simply not high enough to allow for anything other than the most basic necessities and so I think it is going to lead to a reappraisal of our benefit system and the

way in which it works. I hope it will, but I do worry that all these things are very quickly forgotten.

You know, we are all saying this is a terrible crisis and now we're going to learn lessons from it, but we even saw over the summer people forgetting, and now we're back in the second wave and people are remembering again. And I just wonder how long people are really going to remember this or whether they're all going to want to get back and say "the economy's got to get going" and "we don't want to put more money into welfare" and "we don't want to have a more caring society, because we've all got to get the economy boosted", and this could easily be forgotten. So, I agree with Emer that we've got to make sure it isn't forgotten, but I don't think it's going to be as easy as perhaps we would hope.

Lotta: Thank you, Judith. I think this is a really good ending point for our discussion that I hope everybody will take with them and do what they can to change things going forward, of learning from this pandemic. I want to thank you so very much, all of you, for participating.

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BOOK REVIEW: TAX JUSTICE AND TAX LAW: UNDERSTANDING UNFAIRNESS IN TAX SYSTEMS

Nigar Hashimzade¹

de Cogan, D., & Harris, P. (Eds.). (2020). *Tax justice and tax law: Understanding unfairness in tax systems*. Oxford, England: Hart Publishing, Bloomsbury.

This book is a selection of papers presented at the Fourth Tax Policy Conference at the University of Cambridge Centre for Tax Law in July 2019. The editors of the volume, Dominic de Cogan and Peter Harris, have undertaken a formidable task in bringing together different approaches to the idea of tax justice. The purpose, however, is not to reconcile or, as described in the foreword, “to iron out” the differences in the approaches and ideas, but to understand “how to agree and disagree about tax justice” (p. i). The contributions are collected in five parts, “Conceptions of Justice”, “Social Provision”, “Citizenship”, “International”, and “Justice and Procedures”, preceded by “Mapping Tax Justice Arguments,” an introductory chapter by Dominic de Cogan. An insightful and detailed review of the book’s contribution to the debate in tax law by Peter Hongler (2021) was published in *Intertax*. This review will focus on the relevance of the discussion for the research and practice in tax administration. Thus, it contains more details about the contributions where actions of tax authorities are considered explicitly and only a brief summary of other parts of the book.

There are several features of this book that make it useful for tax administration scholars and practitioners who are interested in tax justice and how tax administration, as an integral part of tax systems, can contribute to its fairness.

First, the book covers the tax justice concept at several levels, from the distribution of the tax burden between taxpayers to the relationship between taxpayers and the state, and further to the allocation of taxing rights between states. At each level, the primary role of the tax authority is to ensure that all tax due is collected. In many jurisdictions, a tax authority is also responsible for administering certain benefits. It is natural for a society to expect that, when the tax authority is performing these functions, its actions will not lead to unfair outcomes. The four chapters in Part V, “Justice and Procedures”, address various aspects of this issue.

Christiana HJI Panayi and Katerina Perrou investigate how the Base Erosion and Profit Shifting (BEPS) project increased the power of tax administrations in the international tax system, aiming to “tackle tax abuse and ensure fairer taxation” (p. 205) through co-ordinated efforts and information exchange among national tax authorities, while simultaneously failing to ensure the global co-ordination of protection of taxpayer rights in this new environment, thus undermining tax justice. Benjamin Walker demonstrates that the recent shift from paperwork towards the use of digital technologies in tax administration brings about “several benefits that could promote tax justice” (p. 261) but also creates risks in respect of its deterioration. In a similar vein, Jane Frecknall-Hughes, Nashid Monir, Barbara Summers, and Simon James argue that digital tools, such as the computer-based self-assessment and online personal tax accounts provided by HM Revenue and Customs (HMRC) in the U.K., effectively result in discrimination against older people because they are less likely to have access to a computer or know how to use it. Richard Thomas analyses the changes in the procedure of tax dispute

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resolution involving litigants in person after the introduction of tax tribunals, especially when the litigant is a vulnerable or disadvantaged individual.

Second, as stated in the introductory chapter, the volume presents a diverse set of opinions that overlap in respect of some aspects of tax justice and disagree on others. Although it may seem natural to start a meaningful discussion of a concept with the definition of that concept, there is no uniformly accepted definition of tax justice. The contributors to the volume offer different views on its usage, scope, and importance. The definitions of tax justice vary from highly abstract theoretical concepts—which may or may not be achievable in practice—to the contextualised ones, which can be operationalised in a relevant situation. Yet, there is an argument that, for pragmatic purposes, it is a relative justice that matters if society wants to ensure that changes in the economic environment or tax system, or indeed in the ways in which the tax authorities operate, do not lead to less justice.

Finally, all chapters contain descriptions and analyses of real cases that help to illustrate the points made by the authors. These case studies also provide an opportunity for our readership to look at these situations from the tax administration angle, interrogate the place of a tax authority in the tax system in concrete examples, and consider the role that the tax authority plays or could play in perceived, or experienced, justice.

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OBITUARIES

Nigar Hashimzade & Gareth Myles

Professor Richard M. Bird (written by Nigar Hashimzade, Managing Editor)

We were saddened by the news that Professor Richard Bird passed away on June 9, 2021. Professor Bird, an eminent academic, and expert in public finance and taxation, whose advice was sought by governments and international institutions, was among the most enthusiastic supporters of JOTA and had served on our Editorial Board since the journal was established.

Dr. Kim Bloomquist (written by Gareth Myles, Editorial Advisory Panel member)

It is with immense sadness that we share with you the passing of Dr. Kim Bloomquist on 27th October last year. Kim was born in Muskegon, Michigan in 1954. He completed his undergraduate degree in economics at the University of Michigan, then proceeded to complete two Master's degrees at the University of Illinois, and, ultimately, a PhD at George Mason University which he completed later in his career. After graduating from Illinois, Kim worked as an economist in several roles in the U.S. Federal Government, including 23 years at the Inland Revenue Service.

I first met Kim in 2007 when we both visiting fellows at the Australian School of Taxation at the University of New South Wales. We had adjacent offices and were both working on the economics of tax evasion so engaged in frequent discussions. He was at an early stage of his programme of work on agent-based models of tax compliance. This was an entirely new methodology to me, and one I was very interested in learning. At that time he was working with NetLogo and I still have images of little people dashing backward and forward across the computer screen as they dropped in and out of evasion. Kim kindly shared his code with me, which allowed me to modify his model and begin to explore the value of agent-based modelling.

Kim continued to develop his agent-based simulations to ever-increasing levels of sophistication. He raised the number of agents to 85,000 in his 2015 *Journal of Artificial Societies and Social Simulation* paper with agent behaviour calibrated to match IRS data.

When I met Kim during a visit to the IRS he was very excited about his plan to increase the number of agents to match the U.S. taxpayer population of 140 million and the IRS data—a long-term project for which he was at that time investigating the required computing resources.

Kim was a committed supporter of *Journal of Tax Administration* from the inception of the journal since its mission matched exactly the field of his own academic research. As a Senior Economist at the IRS and an active researcher, he appreciated the contribution that the journal could make to improved tax administration. We are all very sad that we have lost such an innovative scholar who combined academic expertise with practical experience.