

## 7<sup>th</sup> Annual Conference



The 7<sup>th</sup> TARC Annual conference was held at the University of Exeter on 11<sup>th</sup> and 12<sup>th</sup> April 2019. The disciplinary mix which has become a hallmark of the TARC conferences continued this year, as did the wide geographical representation.

### Keynote speakers:

**Rick Kreyer** discussed general anti avoidance rules (GAAR), reflecting in particular on the peculiarities of the UK rule, which is an anti-*abuse* rule and therefore arguably more restrictive than the anti-avoidance rules used elsewhere. He posed the question of whether GAARs should be used as a shield to protect the tax base against unexpected tax avoidance schemes, or as a sword to fix the tax base in cases where the legislation proves to be deficient in some respect. A discussion of the relationship between GAARs and specific anti avoidance rules (SAAR)s followed along with a discussion of judicial interpretations and the indeterminacy of law that makes application of GAARs difficult, if not ineffective. Kreyer concludes that to stop, or reduce, tax avoidance, legislative change is a more robust solution than reliance on a GAAR.

**Christian Traxler** presented varying research from field experiments of the effects of audit on compliance. The initial part of his session focused on payments for TV licences in Austria, describing spillovers whereby the visits of TV licence enforcement agents, correlated to a combination of snowfall in and the altitude of a district, determined the actions of the enforcement agents, lead to increases in registration by other non-compliant households. The second strand of research described how being issued with a speeding ticket affected the subsequent behaviour of drivers, detecting a strong specific deterrence effect from receiving a ticket that persists for several months.

**Sven Steimo** discussed his five-year study for which he conducted laboratory experiments in five countries (U.S., U.K., Italy, Sweden, and Romania). This study focused on tax compliance and evasion both because (he argued) this is an exceedingly important policy issue in the current time and because citizen's 'willingness to pay' to the collective and for specific public institutions provides a fascinating window through which we can study whether and how people in different societies are in fact different. His research team discovered that many of the assumptions and characterizations of Italian or Romanian public culture, for example, appear to be misplaced. It is certainly true that some societies do indeed evade their real taxes to a much greater extent than do others, say, Swedes, or Americans for that matter. But these differences seem to be more related to the character and efficiency of these institutions than some kind of "amoral" or "familialist" culture as many scholars and pundits have suggested.

Sven's study does not imply, however, that people's willingness to cooperate and share, or that their beliefs about others is consistent across countries. Or for that matter, that 'culture' doesn't vary or is unimportant. Quite the contrary, his study showed that there is significant variation in these dimensions across countries – and that sometimes what you expect is not what you actually find. To Sven, it seems obvious that this variation has significant consequences for social relations, trust in public institutions and politics more generally.

**Valerie Braithwaite** focused on moral obligation, discussing the Australian Black Economy Taskforce and financial crime before turning to recent criticisms of the Australian Taxation Office. In discussing recent theoretical developments in relation to tax compliance, Valerie reprised the work of the Centre for Tax System Integrity, which she headed up in Australia, and showcased the wheel of social alignments and motivational postures. In conclusion, Valerie called for a rebalancing of the wheel of social alignments so that deterrence, taxpayer service and the Taxpayer Charter are all operating in sync.

### Other presenters:

#### *On VAT Thresholds*

**Konstantinos Serfes** discussed a theory of differentiated thresholds for VAT registration under in the case of different business sectors; business and consumer facing, given the observation of bunching in terms of firm turnover below the VAT threshold. The theory suggests that there is interdependence in the decision to register for VAT between the sectors, such that a single threshold rule is likely to have significant welfare and/or revenue implications.

#### *A Microsimulation Analysis of Marginal Welfare-Improving Income Tax Reforms for New Zealand*

**Norman Gemmell** presented interesting results from microsimulations examining the potential welfare impacts of reforms to the income tax system in New Zealand. The results show that raising the highest income tax rate and lowering the bottom rate would form part of a welfare-improving reform package, in contrast to a similar analysis undertaken for the Australian tax system, potentially due to the lower MTR of the top band applied in New Zealand compared to Australia.

#### *Local tax administration: richer, broader, fairer*

**Matthew Gobey** evaluates changes to the taxation powers of local municipalities in the UK, discussing the different range of revenue generating methods used by other local authorities within the OECD. The analysis presented a number of different mechanisms by which authorities could raise revenue and reduce risk while at the same time strengthening local democracy.

#### *An experimental investigation of the use of nudges embedded in tax filing software to reduce error*

**Shaun Grimshaw** detailed the results from an online experiment using UK tax-payers examining the impact of nudges embedded within tax filing software designed to reduce the rate of errors. The results show that nudges cause a large proportion of people to re-check their tax return, and nudges are most effective in reducing errors when they give a clear indication of the corrective action. Furthermore, inappropriately displayed nudges may lead to an increase in errors.

#### *Determinants of tax collection ratio: an empirical study of OECD countries from 2006 - 2016*

**Binh Tran-Nam** reported on an empirical investigation of the determinants of the ratio of tax collected to GDP for various OECD countries using new indicator data relating to the tax rates, compliance burdens and administrative governance of the tax authority. The results shown that various factors such as HDI, tax rate, control of corruption and trade openness positively influence tax collection, whereas compliance burden exerts a negative influence on tax collection.

*Guilty pleasures: an investigation of taxpayers' motivations to blow the whistle*

**Jonathan Farrar** presented an experimental investigation of whistleblowing, examining the roles of two different types of guilt; an intrapsychic, personal, guilt experienced when disobeying one's own moral values and an interpersonal one felt in regard to harm caused to another alongside three different mechanisms for encouraging whistle-blowing; a financial reward, a prosocial reward or the use of moral value messaging. The results show that intrapsychic guilt is a positive influence on whistleblowing and that financial rewards or a prosocial reward with moral value message attenuate the negative effect of interpersonal guilt on whistleblowing.

*Tax administrations' capacity in preventing tax evasion*

**Moran Harari** presented a report on the capacity of tax administrations, particularly in relation to the ability to combat tax evasion and avoidance. The research focused on seven EU tax administrations who had responded to a detailed questionnaire addressing a number of key facets of capacity, in particular audit activities; penalties; treatment of whistle-blowers; staff turnover; particular taxpayer groups and international agreements. Among important initial conclusions from the analysis were that more research was required to examine low levels of penalty collection, declining audit rates, better protection for whistle-blowers and the effectiveness of automatic information exchange.

*There's a hole in my budget: the evolution of uncertainty in the UK tax system*

**Nick O'Donovan** discussed changes in the UK tax system over the past decade of austerity, noting that while trying not to raise tax rates, the government has implemented a variety of novel policies designed to increase the amount of tax collected. Many of the changes are atypical of conventional base-broadening reforms. His analysis reveals that the introduction of such measures add complexity and uncertainty to the tax system.

*Detect and deter or catch and release: are financial penalties an effective way to penalise deliberate tax evaders?*

**Chris Leech** presented work on the penalty regime of the Australian Tax Office. A review of the data relating to the tax penalties found low levels of payment, particularly for deliberate non-compliers. He suggests changes to the penalty scheme, in particular cancellation of passports and targeted naming and shaming, to ensure a continued perception of fairness of the Australian tax system.

*Cooperative compliance programmes: who participates and why?*

**Goslinga** discussed the determinants of the willingness of firms in the Netherlands to participate in a cooperative compliance programme, finding that larger organisations have a higher likelihood of participation. Participants display more transparency than non-participants, have a better tax control framework and working relationship with the tax administration. However, the duration of the participation in the programme seems to reduce this latter correlation. Finally, participants report a higher need for certainty and a higher perceived certainty about their tax position, but do not differ from non-participants in their reported compliance costs and tax compliance attitude.

*Does the tax administration play an unfair gamble with taxpayers? Evidence from survey data.*

**Luca Salvadori** presented a paper investigating the impact of the economic cycle on tax enforcement. The reduced-form model suggests that in absence of severe financial constraints, tax administration finds it optimal to set tax enforcement in a counter-cyclical way, while when taxpayers face a severe

financial downturn, pro-cyclicality cannot be ruled-out. Evidence for Spain confirms a prevailing counter-cyclical trend, but in presence of severe economic crisis tax enforcement turns out to be pro-cyclical.

### *Taxing the ghost: the public finance effects of a large anti-evasion programme*

**Enrico Rubolino** presented a study assessing the revenue effect of a large-scale nationwide anti-evasion program implemented in Italy. This program identified more than 2 million “ghost-buildings” not included in the land registry with implications for several taxes. The results show an increase in property and waste tax revenue just after the Ghost-Building program, while the overall effect on income tax revenue is null. The paper also suggests the existence of strategic complementarity between tax base and tax rates.

### *Towards a new business model of tax administration*

**Rex Arendsen** discussed how the change in the technological paradigm and in particular the digitalisation of management processes might change the current business model of tax administration. The authors of the paper suggest that tax administration should move from a case-by-case approach to a system approach and shift from focussing on the centralized organisation of tax administration processes towards a more decentralised implementation.

### *Who wins the tax lottery?*

**Panayiotis Nicolaidis** presented a paper examining the properties of a monetary rewards scheme (‘tax lottery’) implemented in Greece and designed to randomly reward taxpayers for making electronic transactions. The study analyses the characteristics of tax lottery winners pointing out that they have relatively high levels of electronic consumption and are more likely to belong to high-income clusters. In particular, since self-employed are substantially more likely to have high electronic consumption levels, they have a higher probability to win the tax lottery. The study examines the efficiency and equity implications of these findings and proposes alternative ticket-generating mechanisms and prize structures.

### *Exchange of information as a public policy instrument essential to protecting the tax base and Canada’s international tax cooperation*

**Marie-Therese Dugas** discussed the impact of the presence of exchange of information provisions in the international tax treaties concluded by Canada on the protection of Canada’s tax base. In Canada, three types of international tax treaties based on the OECD recommendations are mainly used: the Model Tax Convention on Income and on Capital, the Tax Information Exchange Agreement and the Convention on Mutual Administrative Assistance in Tax Matters. The paper provides evidence of a positive impact of these public policy instruments on the protection of Canada’s tax base.

### *Definitions matter!*

**Trifon Pavkov** presented a study exploiting findings regarding expatriate premium in Bulgaria to show that small changes in the applied definition of an expatriate can lead to significantly different results. In particular, the paper employs big tax-administration dataset to exemplify the consequences of the use of different expatriate definitions vis-à-vis the output of the statistical analysis. The paper demonstrates that the consequences can be severe as far as knowledge production is concerned.

### *On the effects of irregular economy on VAT revenues*

**Paolo Di Caro** discussed the impact of changes in irregular jobs on the growth of VAT revenues by using novel data on the Italian regions for the period 2003-2015. The study provides evidence of a negative impact. However, such effects tend to vary across sectors of activities and when considering the level of regional economic development. The paper also suggests that the Global Recession contributed to amplifying the negative effects of irregular jobs on VAT revenues in Italy.

### *Is it possible to make sense of value creation?*

**Daniele de Carolis** presented a paper aimed at shedding more light on the meaning of “value creation”, a now widely accepted principle for international corporate taxation that lacks of a consensual definition. The paper argues that such a consensus is hard to reach mainly because value creation is a term that was left deliberately vague in order to encompass the possibility of different meanings and different purposes. In this light, taxation according to value creation is likely to remain an empty statement unable to serve its deemed function as guiding principle on which to design an international corporate tax system.

### *An investigation into the drivers of tax noncompliance by small and medium sized enterprises in Cameroon*

**Fabien Sundjo** presented a study aimed at investigating the determinants of SMEs' tax non-compliance in the North West Region of Cameroon. By employing survey data, the paper suggests that SMEs with higher turnover, as well as higher tax educated managers tend to comply more. High penalty rates also tend to increase compliance, while corruption is reported to be positively related to non-compliance.

### *Diagnosing the VAT compliance burden: process, findings and implications*

**Richard Highfield** outlined the findings of a research designed to evaluate the merits of a prototype diagnostic tool for gauging the likely relative incidence of VAT compliance costs at the country level and its use in comparative cross-country assessments as a means of driving thinking about reform. By analysing 47 OECD countries the paper outlines that there are four major factors that significantly influence the incidence of tax compliance costs: tax complexity; the administrative practices; revenue body capabilities in meeting taxpayers' service and compliance needs; and monetary compliance costs.

### *Transformation challenges in migrating into digital space in tax administrations: the case of Botswana Unified Revenue Service*

**Opelo Mabua** presented a paper analysing the potential benefits and challenges of digitalising tax administration taking Botswana as a case study. The Botswana Unified Revenue Service “BURS” has embarked on a significant digitalisation process since 2013 but there seems to be still a low uptake. Among the reasons for this, the paper identifies in particular the usage of poor servers, scarce investment in advertising and promoting the new platforms as well as absence of specific training for BURS project team members and misidentification of the needs of the customers.

# 7<sup>th</sup> Annual Conference



## *Assessing the likely impact of the tax working group on tax administration in New Zealand*

**Adrian Sawyer** discussed the assessment activity of the Tax Working Group (TWG), an advisory body created by the New Zealand Government in late 2017 to investigate ways of reforming New Zealand's taxation system. The TWG made important recommendations directly affecting tax administration. The paper examines the TWG's deliberations and reports and argues that the establishment of an alternative independent permanent authority would be a superior method for undertaking tax reviews.

## *The role of trust in cooperative compliance*

**Lynne Oats** described the research into cooperative compliance funded by the European Union based on interviews with key actors in the UK and the Netherlands. In particular she discussed the role of trust and the complexities entailed in defining not only trust itself, but also in whom we trust - the tax administration or the tax system as a whole. Regulatory models based on trust are vulnerable, complex, fragile and not universally desirable.



TARC is an ESRC Research Centre

Tax Administration Research Centre (TARC)  
University of Exeter Business School  
Rennes Drive  
Exeter EX4 4PU

w [www.tarc.exeter.ac.uk](http://www.tarc.exeter.ac.uk)  
e [tarc@exeter.ac.uk](mailto:tarc@exeter.ac.uk)  
t +44 (1392) 723464