

## Tax Administration Research Centre

*"A partnership between the University of Exeter and the Institute for Fiscal Studies funded by the ESRC, HMRC, and HMT."*

The Tax Administration Research Centre will be holding a workshop at the University of Exeter on January 28/29<sup>th</sup>. Speakers from Australia, Belgium, the US, and the UK will address a range of topics in tax administration. Michael Keen of the International Monetary Fund who will give the keynote address observes:

"No one doubts the importance of good tax administration, but we know remarkably little about what exactly it is. Research in the area has been marked more by anecdotes, platitudes and management fashions than by the rigorous thinking and carefully marshalled evidence we take for granted in analyses of tax policy. But now things are changing, in terms of not only public and academic interest in tax administration but also the methodologies that can be brought to bear on the topic. In both timing and expertise, the Centre is ideally placed to spearhead real progress in what is for all countries a core aspect of public policy."

Key papers at the workshop will present the following findings:

- A survey of more than 3,000 donors shows that the effect of tax incentives for donations to charity are larger if offered as a "match" to the charity on the individual's donation, rather than as a rebate for the donor to reclaim. The explanation is that most donors don't adjust the size of donation when tax incentives change. Even so, the research rejects the view that tax incentives are irrelevant to giving. It suggests that donors rationally respond to incentives but changing behaviour is a costly activity so donors only make changes when the change in tax incentive is big.
- Tax planning has been highlighted by the UK decision to reduce the 50% rate of income tax, as well as by some high profile individual cases. Some argue that such planning can improve the work incentives of highly paid workers. The impact of tax planning on the tax rate that the government might wish to apply to high earners is analysed. It is shown that tax planning might well result in a higher chosen nominal tax rate but that the effective tax rate and the revenue raised will still fall.
- Methods of calculating direct tax gaps that rely on estimating 'hidden income' using macroeconomic indicators have large margins of error so do not provide useful estimates for tax policy or compliance assessment purposes. A reliable estimate of the direct tax gap must be computed using a 'bottom-up' approach e.g. from random taxpayer audits. Even when based on tax enforcement data measures of the direct tax gap should be used with caution in evaluating the performance of tax agencies and agency staff.
- Current tax systems are complex in terms of tax legislation and tax compliance despite tax simplification being an objective of most governments. The establishment in 2010 of the Office of Tax Simplification suggests that the UK Government is serious about addressing complexity in its tax system. There exist international rankings of tax system complexity but these are limited in terms of methodology and empirical measurement. A summary index is necessary to monitor the complexity and an new index is proposed index that is weights the various determinants of tax complexity based on stakeholder input.
- With taxation described as *complex* and the reporting of companies' tax positions as *obfuscatory* a pertinent question is whether investors in companies are able to assess the effects of taxation on their investments. Examining the introduction of Real Estate

Investment Trust Legislation in 2007, investors appear to be able to assess the impact of the legislation on the real estate sector in general terms, but are less able to evaluate its effect on individual companies within the sector. Companies should consider increasing the level of tax related disclosures to shareholders to bring about more accurate investor assessments.

The Tax Administration Research Centre (TARC) is funded by ESRC/HMRC/HMT. Its goals are to develop improved methods for tax administration and to build capacity in tax administration research. The centre, a partnership between the University of Exeter and the Institute for Fiscal Studies, pursues a multidisciplinary research programme with a research team that includes economists, accountants, experimentalists, and psychologists. It engages with tax administrations, the media, and researchers to disseminate this information throughout the policy and academic world. TARC also has exceptionally strong international connections and is developing links with experts at home and abroad, whose visits to the centre provide a forum for sharing knowledge and collaborating on new ideas.

"The new Centre will deliver an improved understanding of how to enhance tax policies and administrative practices. It will achieve this by undertaking research of the highest academic standards in partnership with the HMRC and HMT. The outcome will be improvements in customer experience, economic performance, and social cohesion."

Gareth Myles, Director

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## **Notes to Editors**

1. More information about the Tax Administration Research Centre and the workshop can be obtained from the Centre [website](#) or from [Dr Irma Pasukeviciute](#) (Research & Knowledge Transfer Office, University of Exeter).
2. The Centre will be launched at a reception on Tuesday 12<sup>th</sup> February in London. For more details, contact [esrc@vistaevents.co.uk](mailto:esrc@vistaevents.co.uk).
3. The Director of the Centre is [Gareth Myles](#), Professor of Economics at the University of Exeter, and the Deputy Directors are Professor [Lynne Oats](#) (University of Exeter) and [Jonathan Shaw](#) (Institute for Fiscal Studies).
4. The views expressed in the papers are those of the authors and are not necessarily shared by the HMRC and HMT.
5. The Economic and Social Research Council (ESRC) is the UK's largest organisation for funding research on economic and social issues. It supports independent, high quality research which has an impact on business, the public sector and the third sector. The ESRC's total budget for 2012/13 is £205 million. At any one time the ESRC supports over 4,000 researchers and postgraduate students in academic institutions and independent research institutes.