

Study into:

“Best Practice” in Tax Administration

Consultancy Report

for the

National Audit Office

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Executive Summary

1 Focus of Study

The focus of prior tax administration research has largely, but not exclusively, been on technical tax aspects of specific countries – and surveys of practice. This report represents an initial step on using available literature and contacts to identify best practice in operational areas as well as areas of organisation and management in tax administrations throughout the world.

2 Review of Literature

Most of the older (and some newer) literature focuses on lessons from specific tax reforms and whether they have been ‘successfully’ implemented. While these provide “lessons from history”, they do not represent current state of the art, nor do they necessarily correlate with those revenue organisations thought to be leading the field in a particular area.

In recent times, there is a trend of international survey work (e.g. the OECD reports mentioned later), and currently, benchmarking efforts and sharing of “best practices” are increasingly common.

The players operating at this level include the OECD, and importantly the International Tax Dialogue website – which allows searching through external tax sites (but not a full google search – thus limiting the quantity of useless information from a search operation).

This report also documents the progress of the IFS *Mirrlees Review*. In the opinion of the author, much of this review consists of various policy options for different tax regimes (income, consumption, capital, environment etc) together with some analysis on the UK status quo and problems with the UK system. There is relatively little discussion on strong international exemplars in terms of both policy and administration.

3 Method and Results

Method

The author individually emailed a list of over 125 tax officials from over 70 countries. Unfortunately, many emails were returned to sender, perhaps due to language problems and/or the age of the list (2.5 years). Thus a very low response rate ensued although the author supplemented this lack of response with a number of ad hoc contacts who were far more responsive.

Essentially the request asked for perceived best practice about two broad areas split into more detail, based on the work of Gill (2003) at the World Bank:

- (1) Operational areas; including:
 taxpayer registration; processing of customer information; monitoring of withholders / agents; information collection about taxable transactions - and audit / investigation work; risk analysis; recovery of tax arrears and debt management; legal and judicial matters; external relations and customer focus.

- (2) Organization and management tasks including:
 strategy; planning; monitoring; personnel management; IT systems; internal control and asset management.

Results

Several responses received from close contacts were especially helpful. These were from:

- (1) Lennart Wittberg (Skatteverket, Chair of the OECD Forum on Tax Administration Compliance Subgroup).
- (2) Victor Van Kommer (IBFD). Victor is writing a new book on tax administration and is involved with a new program at the University of Utrecht (detailed at Section 2.6).
- (3) Emer Mulligan (National University of Ireland Galway).
- (4) Richard Highfield and Matthijs Alink (OECD). Richard and Matthijs explicitly addressed each item requested, with country exemplars, as follows:

A) Operational Areas

Area of administration	References
Registration of taxpayers	Developing Internet search tools – Netherlands (and UK) , Germany, Hong Kong
	On the spot checks – Netherlands and others
	Business registration system – Australia
Processing of customer information	Pre-filled tax returns – Denmark, Norway, Sweden
	E-filing – Australia and Singapore
	Business activity statements – Australia
Monitoring of withholders / agents	Cumulative PAYE – Ireland
Information collection about taxable transactions - and audit / investigation work	Blue Return Taxpayers system and Bookkeeping Classification system – Japan
	Cash receipt system introduced by Korea

	Information returns program – USA
	Knowledge groups taxpayer segments – Netherlands
	Customer insight – New Zealand
	VAT: Automated invoice service – Chile
	Joint audits – Scandinavian countries / NL / UK
Risk analysis	ATO Compliance Risk model adopted by OECD
	Sweden: See 'Right from the Start'
	Netherlands similar approach
	Risk management in construction sector – Ireland
Recovery of tax arrears and debt management	Canadian reform of Debt Collection function
	Debt Collection Reforms in the Netherlands (Business driven IT solutions, process improvements)
	Risk based approach to debt collection in Norway
	Debt collection practices – Ireland
Legal and judicial matters	Simplified tax regimes for small business – France, Austria, Australia
	Tax rulings program – Australia
External relations and customer focus	Channel strategies – Norway
	Horizontal supervision – Netherlands
	Visiting starting business – Canada, Netherlands
	Tax Education programs – Sweden, Chile, Japan
	Enforcement communication – Australia, Sweden
	Taxpayer Assistance Blueprint (phase 1 & 2) – USA

B) Organisation and Management Tasks

Including: strategy planning monitoring personnel management IT systems internal control asset management	Growing importance of research on compliance and non-compliance of citizens and companies, that includes cultural and behavior aspects – Australia, Canada, Netherlands, academics
	Compliance costs – New Zealand
	XBRL/ Standard business reporting – Netherlands
	CIAT Integrity project led by Canada
	Compliance Measurement Framework – Canada
	Tax gap research by US
	IT systems – Estonia, Chile, Singapore, Australia
	Modern phone telephony system – New Zealand

4 Leading Examples

This report suggests that notwithstanding the multiple countries mentioned in the table above, that three general exemplars of best practice are Australia, the Scandinavian countries (collectively) and Ireland. However, there are many other countries with good tax administrations – and these are often leaders in specific areas.

Exemplar 1

Anecdotally, the Australian Tax Office is perceived as one of the leading tax agencies in the world. It has met challenges of tax administration through a close working partnership with the community and a focus on compliance. Carmody (2001, p. 8) notes “that a tax system is made up of interactions and that the quality of those interactions is an important benchmark for gauging the effectiveness of the tax system and its administration”.

Exemplar 2

The Nordic countries (particularly Denmark, Norway and Sweden) have embarked on their own internal surveys of best practice and benchmarking exercises. Sweden aims to be the best tax administration in the OECD by 2012. They have a focus on compliance, and cost efficiency and effectiveness, collection losses, e-filing, taxpayer perceptions of the tax agency, and tax gap measurement and management.

Exemplar 3

Ireland is another country that is focusing on compliance while maintaining a significant level of consultation and cooperation with stakeholders. The Irish Revenue have demonstrated skill in debt collection and pursuing technology applications in tax administration.

5 Conclusion

Clearly no single country is able to exhibit an all round excellence, but the message of this report is that there are certain fundamental characteristics that leading tax administrations demonstrate.

Ignoring tax policy design and complexity of the tax code, these characteristics can be summarised as follows:

- A professional approach to internal management issues (HR; strategic planning)
- Attention to cost efficiency and effectiveness
- Responsive engagement with all stakeholders
- Successful introduction of technology applications
- Understanding what drives taxpayer and tax agent behaviour
- Sophisticated risk profiling and informed responses to taxpayer behaviour, including the areas of enforcement and service provision
- Transparency of governance and detailed performance reporting

Contents

EXECUTIVE SUMMARY.....	2
CONTENTS.....	7
1 INTRODUCTION.....	8
1.1 Background.....	8
1.2 This Research.....	8
1.3 Structure of this Report.....	8
2 REVIEW OF LITERATURE.....	9
2.1 Overview of “best practice” concept.....	9
2.2 Older Literature.....	9
2.3 Trends on Sharing “best practice”.....	10
2.4 Who are the players?.....	11
2.5 The Mirrlees Review.....	12
2.6 Utrecht Program	13
2.7 ATAX tax administration conferences.....	14
3 METHOD AND RESULTS.....	15
3.1 Method.....	15
3.2 Results.....	16
3.3 Assessment.....	22
3.4 Monitoring Agencies.....	26
4 LEADING EXAMPLES	27
5 CONCLUSIONS.....	28
6 BIBLIOGRAPHY.....	29
Appendix – About the author.....	32

1 Introduction

1.1 Background

The National Audit Office commissioned the author of this report to conduct a study related to the HMRC Transformation Programme investigating the general question of “*What does a 21st century tax administration look like?*”.

The research project has been carried out by Professor John Hasseldine who is Co-Director of the University of Nottingham Tax Research Institute. The author previously worked for the New Zealand Inland Revenue Department and is an experienced and qualified university academic specialising in the area of tax research (for more details, see Appendix).

1.2 This Research

By agreement in the terms of reference, this research has involved contact with non-UK tax officials to obtain a “feel” on what aspects of “best practice” are evident and where. The method for this was through:

- (i) email contact
- (ii) an extensive literature search and review

Contacts made through (i) resulted in a number of suggestions. Several sources are thus acknowledged on the cover of this report.

The materials accessed are listed in the bibliography (with web links where available).

Conclusions and other limitations of the research are reported in Section 5 of this report.

1.3 Structure of this Report

This report is structured into six main sections. The overview of the study is set out in the Executive Summary beginning on page 2.

In Section 2, I report on prior literature which hitherto has revolved around the many and varied tax reforms that have taken place. More recently there have been several initiatives on sharing “best practice” and the key players are documented in this section. Section 2 also examines relevant aspects of the IFS *Mirrlees Review* pertinent to the NAO and the recent launch of the University of Utrecht’s program of tax governance. Section 3 outlines the method and results of the survey used. Section 4 identifies three exemplars of good tax administration. The main conclusions of the study are in section 5 on page ??.

2 Review of Literature

2.1 Overview of “best practice” concept

The concept of “best practice” is fairly recent to tax administration. As this section documents, it is only in the last few years that surveys of experience have been conducted. It is fair to say that the OECD’s CTPA and regional tax associations have acted as catalysts for this development.

This section explores literature, trends and recent developments through published sources and knowledge that is available from published volumes and the internet.

2.2 Older Literature

Generally, older literature on tax administration has revolved around the successful introduction of actual tax reforms, rather than examining “best practices” in tax administration per se. This literature tends to be split into two areas.

First, researchers have studied how to successfully manage tax reform in western economies. For example, Sandford (1993) discussed the worldwide programme of tax reform in the 1980’s with in depth study of the U.K., New Zealand, Australia, U.S., Canada and Ireland. Each country was analysed using a common framework including:

- the tax reform programme
- constitution, political institutions and practice
- macro-economic background
- tax reform background
- process of policy making
- external influences
- politicians, political will and personal relationships
- success of tax reform

While this book is now quite dated, it may offer some use today through the lessons from history in this arena. Subsequently, Bird (2004) has also outlined what factors are salient to the success of tax reform – though his article is more relevant to policy change in developing countries.

More recently, while Aaron and Slemrod’s (2003) edited conference volume on “The Crisis in Tax Administration” largely focuses on the U.S. tax system, there is one exception - Owens and Hamilton (2003). These authors note (p.348) that while there is significant diversity in the OECD, there are also many similarities. They suggest that it is not so much the behaviour of the tax administration, rather what they have to administer viz:

“In looking at the root causes of problems in tax administration, what needs to be considered is what is being administered: the tax

law and how it is interpreted. And problems caused by the law cannot be considered until one reflects on the efficacy and practicality of the tax policy that the law is meant to implement. The entire system, all of its players, their behaviours, and drivers of those behaviours need to be considered in an objective, holistic, and systemic manner if countries are going to tackle successfully their crises in tax administration”.

Owens and Hamilton (2003) discuss, provide support for, and make a number of observations:

- (i) that just simplifying the law does not work
- (ii) policy simplification needs a stronger voice
- (iii) the complexity of policy and law may need to be reduced
- (iv) small business needs special consideration
- (v) new compliance approaches are needed
- (vi) a new compact is needed
- (vii) tax administrations are underfunded

In the second broad area, researchers have studied tax administration in developing countries. Some of this work revolves around case studies, infrastructure (eg banking practices), and there is a large amount of “lesson-drawing” from other countries’ experiences. Much work has occurred through regional agencies and technical assistance provided by the IMF (www.imf.org/external/pubs/ft/exrp/techass/techass.htm).

The World Bank also had a project on revenue administration reform and Gill’s (2003) study was used to classify areas for the email survey described and reported on in Section 3.

Alink and Van Kommer (2000) have provided the author of this report with a CD (that will be provided to the NAO), on a collaboration between a number of countries in Latin and North America and the Netherlands. The project focused on an “exchange of experiences”, and examined:

- (i) general design considerations
- (ii) primary processes in tax administration
- (iii) staff and support processes
- (iv) planning and control
- (v) cultural aspects of management

2.3 Trends on sharing “best practice”

Until the Centre of Tax Policy & Administration of the OECD began serious work on the ‘administration’ side (as opposed to work on tax policy / statistics), there was very little sharing on best practice. The work of the OECD and that of several regional organisations (detailed in Section 2.4) has, hitherto, related to surveying administrative practices and placing documents on the website of www.itdweb.org.

The Forum on Tax Administration (FTA) is a sub-group of the OECD's Committee on Fiscal Affairs. The FTA allows tax administrators to share information and experience, and identify effective strategies/measures for various areas of tax administration. As a result of discussions, the FTA has released a number of documents which respondents consider useful when they consider best practice. For example, an OECD (2007a) report titled "Comparative Information Series" was released last February.

This report provides internationally comparative data on various aspects of tax systems and their administration in OECD and selected non-OECD countries and consists of the following:

- (i) international and organizational arrangements for tax administration
- (ii) aspects of management approaches and practices
- (iii) return filing, payment, and assessment regimes for the major taxes
- (iv) selected administrative powers of revenue bodies
- (v) tax revenue collections
- (vi) operational performance information
- (vii) administrative practice

It was used by Sweden in their analysis of best practice (discussed in Section 3). Other reports include topics such as:¹

- (i) Compliance risk management: managing and improving tax compliance, October 2004
- (ii) Strengthening tax audit capabilities: general principles and approaches, October 2006
- (iii) Survey of trends in taxpayer service delivery using new technologies, February 2005
- (iv) Using third party information reports to assist taxpayers meet their return filing obligations: country experiences with the use of pre-populated personal tax returns, March 2006
- (v) The (ongoing) tax intermediaries study.

2.4 Who are the players?

As mentioned, the major players are the international organisations. These include the World Bank, IMF, OECD's Centre of Tax Policy and Administration, and the collaborative on-line venture of these three agencies – the International Tax Dialogue referred to previously in Section 2.3.

The International Tax Dialogue is growing into a useful resource as it now distributes a free newsletter (www.itdweb.org/Newsletter/) and it has a search mechanism and a facility to pose questions to an online community of tax officials.

¹ These OECD reports have web links in the References section of this report.

At a regional level, there is the Inter-American Center of Tax Administrations (www.ciat.org) and the Commonwealth Association of Tax Administrators (www.catatax.org) who are active in training throughout the Commonwealth.

There is also the Study Group on Asian Tax Administration and Research (known as SGATAR), and the Intra-European Organisation of Tax Administration (www.iota-tax.org).

In addition to the international and regional organisations, some nongovernmental work is taking place. For example, www.revenueproject.com documents a 2005 project managed by Montgomery Research.

In addition, many of the large consultancy firms provide input into the area (for instance, KPMG's Tax Business School has a series of research papers on tax and corporate social responsibility).

2.5 The Mirrlees Review

As part of the Terms of Reference, this report was to include an assessment of any overlaps with the Mirrlees Review. The goals of the Mirrlees Review are to bring together a high profile group of international experts and younger researchers (> 50) to identify the characteristics of a good tax system for any open developed economy in the 21st century. The report will also assess the extent to which the UK tax system conforms to these ideals and recommend how it might realistically be reformed in that direction.

It seems likely that the report will focus heavily on tax policy issues, based on scholarly research in the 30 years since the Meade Committee reported in 1978. The areas covered in the report will be:²

- (i) The base of direct taxation
- (ii) Optimal household labor income tax and transfer programs
- (iii) Indirect tax design
- (iv) Taxing corporate income
- (v) International capital taxation
- (vi) Taxation of wealth and wealth transfers
- (vii) Environmental taxation
- (viii) Tax implementation in the UK
- (ix) The political economy of tax policy
- (x) Taxation in the UK
- (xi) Review of labor supply and taxes
- (xii) Review of the effects of taxes on consumption and saving
- (xiii) Review of small business taxation

² Note that following a conference in Cambridge in April 2007, draft chapters and commentators' presentations can be downloaded from www.ifs.org.uk/mirrleesreview/publications.php

While the report is still ongoing (i.e. publication is scheduled for 2008), it is clear that there are some difficulties facing the editorial team. They need to deal with overlap issues between chapters, and they face a challenge in making the content of the overall report accessible (or intelligible?) to stakeholders in the UK tax environment.

In terms of the current report, the chapter on “tax implementation” by Slemrod, Whiting and Shaw is of most direct relevance in terms of tax administration. The authors write in detail (approx. 90 pages) on tax system design, determinants of evasion, avoidance and administrative and compliance costs, enforcement systems, and the various taxes in the UK tax system.

Clearly, Slemrod et al. (2007) is a rigorous and comprehensive chapter that outlines current administrative systems. However the three chapter commentators (Richard Highfield, Anne Redston, and the author of this report) suggested at a conference in April 2007 that the chapter should address the following:

- (i) there needs to be greater understanding on the role of professional advisors [Hasseldine]
- (ii) there should be further work on the management and oversight of tax agencies i.e. HRM, monitoring performance, etc. [Hasseldine]
- (iii) why does the UK have one of the most lenient tax payment and filing regimes of any OECD country? [Highfield]
- (iv) Internally, government should respect administration, taxpayers, should there be a tax czar? [Redston]
- (v) more work needs to be done in the compliance area, including collection of arrears, recognition of a more behavioural approach to compliance, areas of risk [all 3].

While there are some comparatives in the Slemrod et al. (2007) chapter, there is no real overlap with this consultancy report. Rather the Mirrlees chapter focuses almost exclusively on a description of the UK system and an outline of what the rules are, and what are the inherent problems and challenges in the U.K. from a policy perspective.

The IFS project could do with more of an emphasis on “best practice”, the public sector management implications in terms of running a tax agency, and a consideration of psychology-based research that deals with how taxpayers think about taxes and can be influenced by heuristics and biases (for an example see the work of McCaffery and Baron, 2006).

2.6 Utrecht Program

There are few dedicated university programmes with awards specifically in tax/revenue administration – as opposed to technical tax aspects. Recently, the University of Utrecht launched a Tax Governance Programme where up to 20 tax officials will cover topics such as tax policy (including European aspects), indirect tax, corporate income tax, tax

administration, legal drafting, tax audit techniques, and enforcement and alternative dispute resolution.

Practical management training is interspersed throughout the more technical elements of the course. While I expect most of the students will originate from developing countries, this type of programme should help with tax governance principles – i.e. fiscal sustainability, equitable and efficient tax systems/administration – but also capacity building in HR and institutional infrastructure.

2.7 ATAX Tax Administration Conferences

On a biennial basis, the Australian School of Taxation (ATAX) has run a tax administration conference in Sydney (the 8th conference is scheduled for late March 2008). The success in attracting international attendees and high profile speakers (e.g. tax agency commissioners) has led to administration issues being treated more seriously – both by academics and policymakers. Usefully, the proceedings of each conference, tend to be published after the event (e.g. Fisher and Walpole, 2005)

3 Method and Results

This section first discusses the method of obtaining input from tax agencies for this project (3.1). It then outlines the results of the email survey (3.2), provides an assessment of the information obtained (3.3), and finally, some consideration is explicitly given to the role of oversight agencies that monitor performance of tax/revenue agencies (3.4).

3.1 Method

As tax administration is somewhat nebulous, the project required a focusing effort. Prior work by Gill (2003) at the World Bank provides a useful initial framework which was adapted to suit this project (see Table 1 below).

Table 1: Main Tasks of Revenue Administration Requiring Analysis

ORGANIZATION AND MANAGEMENT TASKS	OPERATIONAL TASKS
Strategy and policy formulation	Registration of Taxpayers
Planning, budgeting, resource allocation	Taxpayer Services
	• Taxpayer education:
	• Taxpayer assistance:
	• Facilitation of voluntary compliance:
Monitoring and evaluation	Processing of Declarations and Payments
Coordination	Monitoring of tax withholders and collection agents
Financial management	Collection of information about taxable transactions:
	• Collection of information from third parties.
	• Intelligence operations.
	• Search and seizure and survey operations to obtain incriminating evidence.
Personnel management	Risk analysis and selection of cases for audit and investigation.
Information Technology Management	Audit and Investigation
Asset management	Recovery of Tax Arrears
Internal control	Legal and Judicial Matters:
	• Legislation
	• Appeals
	• Prosecution
Anti-corruption	Fiscal studies
External relations	

Source: Adapted from Gill (2003).

In order to identify a sample, the author used the list of participants at the International Tax Dialogue's 1st Global Tax Conference. This was held in March 2005 and jointly organised by the IMF, OECD and World Bank.

Over 125 officials from 70 countries were emailed asking for examples of best practice from the list below:

- Registration of taxpayers
- Processing of customer information
- Monitoring of withholders / agents
- Information collection about taxable transactions - and audit / investigation work
- Risk analysis
- Recovery of tax arrears and debt management
- Legal and judicial matters
- External relations and customer focus

Organization and management tasks including:

- strategy
- planning
- monitoring
- personnel management
- IT systems
- internal control
- asset management

3.2 Results

A disappointing response ensued from the initial emails through to those listed on the ITD listing of conference attendees. Reasons are possibly because the listing is two years old (it would have been desirable to use the list for the October 2007 conference in Buenos Aires on SME's but regrettably this was not available), problems with the English language, the recipient might not have been the most appropriate contact, and time pressure.

However, a number of positive responses from these tax officials, academic researchers and international agencies were received. Helpful responses particularly came from OECD, Sweden, Denmark, Japan, Ireland, Canada, Australia, and the Netherlands. Based on the response from OECD, several further emails were sent to tax administrations asking for more detail on some of the specific entries in Table 2 (e.g. New Zealand's Customer Insight programme).

A synopsis of the most interesting results now follows.

3.2.1 OECD

The response from the OECD (Alink and Highfield) was particularly helpful as it focused on what I asked in my initial email and it is tabled below.

Table 2: OECD Response to Request for Best Practice in Tax Administration

1) Operational Areas

Area of administration	References
Registration of taxpayers	Developing Internet search tools – Netherlands (and UK) , Germany, Hong Kong
	On the spot checks – Netherlands and others
	Business registration system – Australia
Processing of customer information	Pre-filled tax returns – Denmark, Norway, Sweden
	E-filing – Australia and Singapore
	Business activity statements – Australia
Monitoring of withholders / agents	Cumulative PAYE – Ireland
Information collection about taxable transactions - and audit / investigation work	Blue Return Taxpayers system and Bookkeeping Classification system – Japan ³
	Cash receipt system introduced by Korea
	Information returns program – USA
	Knowledge groups taxpayer segments – Netherlands
	Customer insight – New Zealand
	VAT: Automated invoice service – Chile
	Joint audits – Scandinavian countries / NL / UK
Risk analysis	ATO Compliance Risk model adopted by OECD
	Sweden: See 'Right from the Start'
	Netherlands similar approach
	Risk management in construction sector – Ireland
Recovery of tax arrears and debt management	Canadian reform of Debt Collection function www.cra-arc.gc.ca/agency/collections/menu-e.html
	Debt Collection Reforms in the Netherlands

³ In August 2007, a copy of the Japan National Tax Agency's 2007 report was published in the English language on their website at www.nta.go.jp/foreign_language/2007e.pdf.

	(Business driven IT solutions, process improvements)
	Risk based approach to debt collection in Norway
	Debt collection practices – Ireland
Legal and judicial matters	Simplified tax regimes for small business – France, Austria, Australia
	Tax rulings program – Australia
External relations and customer focus	Channel strategies – Norway Horizontal supervision – Netherlands
	Visiting starting business – Netherlands, Canada www.cra-arc.gc.ca/tax/business/sme/resources-e.html
	Tax Education programs – Sweden, Chile, Japan
	Enforcement communication – Sweden, Australia [See References: ATO (2007)]
	Taxpayer Assistance Blueprint (phase 1 and 2) - USA

2) Organisation and Management Tasks

Organization and management tasks including: strategy planning monitoring personnel management IT systems internal control asset management	Growing importance of research on compliance and non-compliance of citizens and companies, that includes cultural and behavior aspects – Australia, Canada, Netherlands, academics
	Compliance costs – New Zealand
	XBRL/ Standard business reporting – Netherlands
	CIAT Integrity project led by Canada
	Compliance Measurement Framework – Canada
	Tax gap research by US www.abanet.org/tax/nosearch/taxgap/agenda.html
	IT systems – Estonia, Chile, Singapore, Australia
	Modern phone telephony system – New Zealand ⁴

⁴ Details of New Zealand’s recent Telecommunications Review project are held by the author.

3.2.2 Sweden

The response from Sweden (Lennart Wittberg) was that they have a long-term objective for their organisation (Skatteverket) that by 2012 they should be "the best tax administration within the OECD Countries". He notes that this is of course difficult to measure and the main purpose of the objective is that they should learn from others, not to make an exact rating.

Skatteverket have started to work with this by looking at different areas and make comparisons with other countries. They chose areas where there are other long-term objectives or where there is information that is available. Thus it may be more benchmarking best performance as opposed to a best practice exercise. Skatteverket have used different sources of information, especially OECD data (OECD, 2007a) and have also studied annual reports from different tax administrations and other sources. Their results (provided by Lennart Wittberg) are now detailed below (and tables provided in Section 3.3):

Cost effectiveness

Sweden has a very cost effective tax administration and is amongst the top countries.

Collection losses (tax arrears and debt management)

Sweden has very low collection losses (0.34 %) but Norway has even lower.

E-filing

The share of returns that are filed electronically. Sweden has a very poor record here (the reason is that it is extremely simple to file on paper). Successful countries are Norway, Australia, and Korea.

Service level in call centres

Waiting time before the calling customer gets an answer. Sweden is performing very badly. We have set low standards for our selves compared to others and we fail to meet these low set targets. Successful countries are Canada, New Zealand and Australia.

Taxpayers perception of the tax administration

Data from different kinds of surveys about the taxpayers perception of the overall performance of the tax administration. Sweden is not amongst the best. Successful countries are New Zealand, Australia and Canada.

The size of the tax gap

Very little data exists. The general impression is that Sweden has a very low tax gap (as all Nordic countries).

Taxpayers attitudes towards tax evasion

Data from World Value Survey. This doesn't show a very good result for Sweden, with better countries being Japan, Korea, Denmark and Canada.

Summary

The Swedish Tax Agency is not the best tax administration in OECD. They consider themselves amongst the top 10 (based on the few areas they have looked into) with other good countries being Norway, New Zealand, Australia, Canada and Korea.

Lennart writes “My personal opinion is that Australia has the best tax administration in the world. If you want a concrete example I would like mention their work with large companies. They have a very thought through strategy. But in some areas they have the same problem as we have in Sweden, very advanced when it comes to theory and thinking but more problems when it comes to implementation ...

... I would also like to comment on your list of areas, which I think is interesting. We have chosen areas that reflect actual performance (even though it is difficult to get precise data of the performance). You have a lot of areas connected to the way the work is done (planning, risk analysis, IT etc). That is useful if we want to improve in these areas (and we want to do that). But at the same time, excellent planning and risk analysis does not guarantee excellent performance when it comes to real outcome (like tax gap and collection losses). I think it would be interesting to combine best practice regarding methods with best performance regarding outcome. “

3.2.3 Ireland

Areas of best practice worth noting in Ireland include the following:

Electronic filing of tax returns

This is known as ROS (Revenue on-line service).The Irish Revenue has been extremely successful in this area.

Technology

Generally the Irish Revenue have embraced technology and are recognised as an an e-government leader in this regard – for a range of electronic services they offer:

www.revenue.ie/index.htm?/press/pr_241105ros.htm

www.revenue.ie/index.htm?/wnew/netvisawds04.htm (prize details)

Debt Collections

Without question the Irish Revenue are successful in this area. Over the last number of years they strategically pursued (one at a time) a number of ‘holes’ in the system in which a lot of taxes have gone unpaid. These were labeled ‘special investigations’. While there may well have been a cultural context to much of this historically, the Revenue have pursued these monies relentlessly, and very publicly. Generally they give ‘offenders’ plenty of time to own up, and a deadline by which, if they own up they will be freed of interest and penalties, or some such leniency. Very successful investigations include: bogus non-resident accounts, offshore

accounts, one-off single premium insurance policy and offshore assets etc.

The Revenue are now targeting certain sectors strategically taking a sectoral approach to audit. Recent targeted sectors include construction (this yielded €125m alone in tax, interest and penalties in 2006 - see Table 2 www.revenue.ie/index.htm?/press/pr_290507_ann_rep.htm).

The Revenue publish information on yields on special investigations and details of the focus on the construction sector, for example, are at: www.revenue.ie/index.htm?/revguide/const_ind_plan0506.htm. Relatedly, the Revenue have also taken to publishing lists of defaulters - see www.revenue.ie/press/pr_250907def.htm for the latest. This typically appears in a newspaper one day and also gets carried on television news broadcasts.

Strategy Statements

The Irish starting publicly launching strategy statements some time ago and they are now on their 5th/6th). There is very much a focus on managing risk within the Revenue www.revenue.ie/index.htm?/sos05-07/english/goal1.htm. This approach appears very open and seems to be successful – as it both informs people and gets them “on board”. However, as in other countries, the focus on ‘customer’ service has been met with some skepticism by taxpayers and practitioner representative groups.

Data Capturing

The Irish Revenue have been considering outsourcing ‘data capturing’. Clearly, this is very contentious due to the sensitivity of the data involved. It is possible that this could be an area of best practice in the future? www.revenue.ie/doc/dcop_eri.doc

Consultancy Processes

As with the UK, Irish Revenue now engage in consultancy processes - presumably reflecting a strategy towards getting ‘buy-in’ from relevant parties. There is a move towards making electronic filing obligatory - see press release dated 13 September 2007 in ‘what’s new’ section on www.revenue.ie.

Taxpayer Audits

The Risk Evaluation Analysis and Profiling (REAP) system is where taxpayers are profiled (and allocated risk scores/ratings). It is understood that this will be a very powerful tool in the context of selecting cases for audit. There is also a move towards ‘computer auditing’ - the Revenue audit staff visit the businesses and run certain data (e.g. VAT) through their own computer systems.

Summary

Clearly, technology is big business with the Irish Revenue. Visit www.revenue.ie/publications/txbrefng/tb26.doc for the ‘sell’ on this. In

addition, the Self Assessment System (sometimes referred to as 'pay and file') has been rolled out into all the major taxes.

As with other countries, the Irish are now emphasizing cooperative compliance (e.g. through the use of a compliance model). This can be seen to be a "best practice". Of course, it works better with a system of consultation and responsive regulation (Braithwaite, 2007).

3.2.4 Canada

There are several interesting features with Canada. First, like Ireland, they have taken a pro-active role in debt recovery (see the web link in Table 2).

Second, the Canadians have become very transparent in public reporting on the internet. This includes the results of internal audits – there is a March 2007 example where they publicise an internal staffing report where inadequacies are highlighted and suggested improvements noted (www.cra-arc.gc.ca/agency/internal/menu-e.html). A further example is in the area of public opinion research where executive summaries are published on the website (www.cra-arc.gc.ca/agency/por/menu-e.html) and full reports are available on request. CRA use the public opinion research to:

- (i) assess public response to proposals or initiatives;
- (ii) examine the effectiveness of policies, programs, and services;
- (iii) measure progress in service improvement; and
- (iv) evaluate the effectiveness of communications activities.

Third, the CRA appears to be making useful strides in public performance reporting (www.cra-arc.gc.ca/agency/annual/menu-e.html) and in the publication of Agency business plans (www.cra-arc.gc.ca/agency/business_plans/menu-e.html).

3.3 Assessment

Based on the Swedish benchmarking exercise detailed in Wittberg (2006), three broad areas are summarised below:

(i) Benchmarking on key performance measures

- Uppbordsefel: This is a summary rank order of compliance based on OECD data
- Kostnads-effektivitet: This is a summary rank order of cost effectiveness.
- e-deklaration: This is a summary rank order of e-declarations.
- Servicestandard Telefon: Telephone services helpline rank order

(See the next four tables on the following pages).

Uppbördsfel	
Norway	100%
Sweden	96%
Netherlands	92%
Ireland	88%
Korea	83%
Japan	79%
Germany	75%
France	71%
N. Zealand	67%
USA	63%
Finland	58%
Spain	54%
Australia	50%
Canada	46%
Italy	42%
Denmark	38%
Austria	33%
Hungary	29%
Czech Rep.	25%
Slovak Rep.	21%
Belgium	17%
Greece	13%
Portugal	8%
Mexico	4%

Kostnads-effektivitet	
Italy	100%
Norway	95%
Sweden	90%
Switzerland	86%
Austria	81%
Finland	76%
N. Zealand	71%
Spain	67%
Denmark	62%
Korea	57%
Ireland	52%
Mexico	48%
Iceland	43%
Canada	33%
Slovak Rep.	29%
Netherlands	24%
France	19%
Portugal	14%
Luxembourg	10%
Greece	5%

e-deklaration	
Italy	100%
Australia	95%
Iceland	91%
Korea	86%
Norway	77%
Austria	73%
Ireland	68%
N. Zealand	64%
Canada	59%
Spain	55%
Belgium	50%
Greece	45%
France	41%
Finland	36%
Netherlands	32%
Hungary	27%
USA	23%
UK	14%
Sweden	9%
Mexico	5%

Servicestandard Telefon	
Ireland	100%
UK	90%
N. Zealand	80%
Norway	70%
Canada	60%
Australia	50%
Sweden	40%
Korea	10%
Mexico	10%
Slovak Rep.	10%
Polen	10%

(ii) World Value Survey

The World Value Survey asked whether cheating on taxes is acceptable and summary rankings are below (Table 7). It should be noted that caution must be exercised in terms of interpreting surveys, as cultural aspects and social desirability issues (in terms of questionnaire administration) are likely to play a part in responses.

Table 7: World Values Survey

1981-1982	Summa	1990	Summa	1995-1996	Summa	1999-2000	Summa
Japan	92,7	Japan	92,9	Japan	92,7	Japan	93,7
Republic of Korea	92,9	Republic of Korea	89,9	United States	88,8	Republic of Korea	92,4
Italy	87,3	United States	86,4	Republic of Korea	88,4	Denmark	84,5
Sweden	89	Canada	79,1	Australia	82,4	Canada	84,1
Denmark	77,1	Sweden	77,5	Finland	77,7	New Zealand	81,1
United States	82,8	Denmark	77,4	Sweden	76,4	United States	80,5
Canada	80,4	Italy	75,9	Canada		Finland	78,7
Great Britain	72	Great Britain	74,9	Denmark		Ireland	78,6
Australia	65,9	Ireland	71	Great Britain		Italy	78,4
Ireland	59,7	Netherlands	67,7	Ireland		Sweden	77,8
Netherlands	62,8	Finland	67,3	Italy		Great Britain	76,3
Finland	0	New Zealand	0	Netherlands		Netherlands	70,9
New Zealand	0	Australia		New Zealand		Australia	

(iii) Cost Benchmarking amongst Nordic Countries

The tables below provide a comparison between the Nordic countries in terms of costs, split by taxpayers and VAT registered businesses, and also split by collection, control and enforcement functions.

Table 8: Costs spent on the task per taxpayer and VAT-registered business

	Sweden	Norway	Finland	Iceland	Denmark
<i>Unit</i>	<i>EUR</i>				
<i>Costs¹⁾ per taxpayer</i>	30.85	40.72	43.50	53.80	97.38
<i>Costs per VAT-registered business</i>	118.39	231.41	92.07	309.10	244.43

¹⁾ Costs for personal tax, social security contribution and payroll taxes.

Table 9: Costs per taxpayer and VAT-registered business, breakdown by each of the 3 key processes (collection, control and enforcement)

		Sweden		Norway		Finland		Iceland		Denmark	
		incl. supp.	excl. supp.	incl. supp.	excl. supp.	incl. supp.	excl. supp.	incl. supp.	excl. supp.	incl. supp.	excl. supp.
Per taxpayer	Collection	16.88	9.94	19.50	14.84	20.13	12.93	27.83	18.27	45.50	33.58
	Control	10.73	6.32	6.39	4.86	10.71	6.88	7.95	5.22	37.78	27.88
	Enforcement	3.24	1.91	7.60	5.78	12.65	8.13	18.13	11.90	14.11	10.41
per VAT-registered business	Collection	64.76	36.21	96.86	57.64	25.34	16.77	159.13	104.44	87.63	59.09
	Control	41.17	23.02	58.83	35.01	42.48	28.12	45.44	29.82	120.09	80.98
	Enforcement	12.47	6.97	36.23	21.56	24.25	16.05	103.66	68.03	36.72	24.76

Note: The costs per taxpayer are calculated as the sum of costs for personal tax, social security contributions and payroll taxes per taxpayer.

Future

More in-depth benchmarking and best practice measures seem highly likely. For instance, the OECD is about to start working on evaluation of outcome and new forms of treatment (for reducing the tax gap – see Gemmell and Hasseldine, 2007). The work will include collecting best practice but it will also have focus on actually creating new and better practices. OECD has always done a lot of work describing what different countries are doing. Lennart Wittberg advises they want to go one step further and invent or develop best practice as they believe all can benefit from working together on further developments.

3.4 Monitoring Agencies

Like the NAO, in UK, some other external audit bodies are involved in assessing tax administration. Examples include those in an auditor-general function in Australia, Canada, Ireland, U.S. and New Zealand. However, additionally, Australia has an Inspector-General of Taxation (see Section 4),

The U.S. has both a taxpayer advocate function within the IRS, as well as the Treasury Inspector General of Tax Administration – both of which were consulted for this report. In addition The IRS Oversight Board was created as part of the 1998 IRS reforms designed to allow IRS to better serve the public and meet the needs of taxpayers. The IRSOB is a nine-member independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws and to provide experience, independence, and stability to the IRS so that it may move forward in a cogent, focused direction (www.treas.gov/irsob/).

4 Leading Examples

This report suggests that notwithstanding the multiple countries mentioned in the table above, exemplars of best practice are Australia, the Scandinavian countries and Ireland.

Exemplar 1: Australia (Australian Tax Office)

McKerchar's (2007a) paper presented at the 2007 IRS Research Conference usefully outlines the tax context in Australia. In 2000 a Board of Taxation was established to advise the government on the formulation and development of tax policy. Several reviews have been undertaken and its work program currently includes a scoping study on small business compliance costs and a review of the application of consistent self-assessment principles (www.taxboard.gov.au).

In 2003, an Office of the Inspector General of Taxation was established as an independent statutory office to review systematic tax administration issues and to report to government, in the interests of taxpayers, on recommendations that would improve the fairness, efficiency and integrity of the tax system. McKerchar notes that at the time of establishing the Office of the Inspector General of Taxation, some 60 potential review topics were identified based on taxpayers concerns (www.igt.gov.au).

Exemplar 2: Nordic Countries (e.g. Denmark, Sweden)

The responses from Denmark and Sweden suggest the Nordic countries treat tax administration seriously.⁵ The Danish Tax and Customs Administration (SKAT) was established in November 2005 following a merger. SKAT's goals (set by Parliament) include to keep the tax gap constant or reduced (3.1% GDP); to keep an index of taxpayer attitudes constant or improved, and to reduce staff by 25% by 2010.

One of the key strategies to meeting these targets is for third party reporting, and in addition, SKAT is currently engaged in a large compliance project involving random audits to 27,000 taxpayers covering VAT, CT and income taxes.

Exemplar 3: Ireland

Ireland is another country grappling with similar issues to the U.K. The strategy adopted is similar with a focus on compliance while maintaining a significant level of consultation and cooperation with stakeholders. The Irish Revenue have demonstrated skill in debt collection and pursuing technology applications in tax administration.

⁵ While Section 3.2.2 of this report focused on Sweden, a communication with supporting documentation from Ronnie Nielsen (SKAT, Denmark) focused on automatic solutions, communication (to a growing immigrant community), use of campaigns (e.g. on voluntary compliance), and a strategic approach to compliance - also evidence of best practice.

5 Conclusions

Review of literature and practice

There is a relative small evidence base on best practice in tax administration. As outlined, however, improvements can be expected due to an improved culture of knowledge sharing between tax agencies – facilitated by international and regional organisations.

Knowledge gaps and emerging areas for further research

There are many knowledge gaps that tax agencies must seek to understand. To name but a couple:

- Why do simplified tax regimes often suffer from poor take-up rates?
- How can tax agencies work effectively with intermediaries (see OECD, 2007b)?

The Forum on Tax Administration (OECD, 2005b) has pursued a strategy of collating experiences and sharing this in the areas of:

- (i) revenue administration in general
- (ii) compliance
- (iii) taxpayer services (with a technology emphasis)
- (iv) electronic commerce

More recently, the FTA is also running an ongoing tax intermediaries study that recognises the crucial role that intermediaries play in the tax system:

www.oecd.org/document/27/0,3343,en_2649_37427_39006683_1_1_1_3_7427,00.html

It is acknowledged that the email survey suffered from a poor response rate. However, additional contacts were made with experts in the field and tax agencies invited to liaise with the author regarding aspects of best practice.

The report provides specific country references of best practice in both operational areas and organisation/management tasks and three exemplars of best practice. In addition there are a number of fundamental characteristics that can be associated with leading tax administrations. These are:

- A professional approach to internal management issues (HR; strategic planning)
- Attention to cost efficiency and effectiveness
- Responsive engagement with all stakeholders
- Successful introduction of technology applications
- Understanding what drives taxpayer and tax agent behaviour
- Sophisticated risk profiling and informed responses to taxpayer behaviour, including the areas of enforcement and service provision
- Transparency of governance and detailed performance reporting

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Appendix – About the Author

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