

Name of Respondent	PricewaterhouseCoopers European Private Client Network
Contact details	Lothar Siemers, PwC Düsseldorf (Chairman)
Country of Respondent	various in Europe (partly mentioned in the answers)

Question 1: What are the important features of tax administration that may facilitate the cooperative compliance approach? Please build on positive and negative experiences in dealing with your tax administration.

Within the network some countries are more experienced with a cooperative approach between the taxpayer and the tax administration than others. It is agreed that there must be a climate of trust and respect between the tax administration and the taxpayers and/or the tax consultants, the relationship between the units should be based on partnership. For example, in Switzerland the relationship between the tax administration and the taxpayer or the tax consultant is cooperative and rather informal which led to very good experiences in the past. In other countries the level of cooperation and experience in dealing with HNWI's depends on the region the taxpayer lives in. In regions, where many HNWI's live, the tax administrations are more experienced.

The main features of a cooperative approach are as follows:

- *Climate of trust and confidence, which is based on finding solutions which can be accepted by all involved parties within the framework of the law.*
- *Client orientation: taxpayers should be regarded as 'clients' and not as potential 'tax avoiders'.*
- *Early certainty:*
 - *Switzerland for example has an extensive and well-working ruling practise, which gives certainty to both parties. It also leads to more exchange of information (from both sides) at an early stage and lowers transaction costs.*
 - *Informal exchange of information/discussions in cases where a formal ruling is not (yet) necessary.*

Question 2: Do you think that having a dedicated unit (or units) as part of your tax administration (either at national or at regional level) with particular responsibilities for HNWI's is a good idea? If you are generally supportive of such an idea, what roles and responsibilities do you think such a unit should assume? In particular do you have any views on the following points?

- a. *How should a tax administration best gain insights into the behavioral drivers and the general context within which HNWI and their advisors operate? For instance, by employing staff with relevant private sector experience perhaps on secondment, on short term contracts, at the end of successful careers, or on permanent contracts. Should there be some form of "advisory board" involving advisors and other relevant market participants (e.g. private banks) or some other structured form of providing relevant background and context to the tax administration.*
- b. *What role and responsibility should the unit assume with respect to the affairs of the taxpayer (e.g. research and risk assessment or full responsibility for the file including potential audit)?*

- c. *What taxes relating to the HNWI and their affairs should such a unit deal with and why? For instance, should it be limited to income taxes or also cover inheritance and estate taxes, VAT/GST etc.?*
- d. *Should the unit be responsible also for the affairs of all/certain entities controlled by a HNWI (e.g. only the personal affairs of the taxpayer, all operating entities and non-trading entities or only non-trading entities)?*
- e. *Should HNWIs and their advisors be assigned a designated contact point within the unit?*
- f. *Should the unit be tasked with preparing an annual or periodic report about the overall environment and key developments, including the most pressing issues identified by HNWI and their advisors for use by the heads of tax administrations and finance ministries?*
- g. *Should additional safeguards and security procedures apply to the information held by the unit?*

In the context of this question we received diverse answers from the network countries. Whereas some countries favour the implementation of a national specialized unit dealing with HNWI's others do not consider this to be a good idea.

Proponents say that the responsibility of such a specialized unit should not only cover income tax issues but also capital gains tax, inheritance and gift tax as well as VAT or corporate tax issues if there are transactions between the HNWI and his/her companies. In addition, the respective unit should also be responsible for tax audits.

Opponents mention on the one hand that a specialized unit does not fit into the existing tax system in their countries. On the other hand it may lead to a separation of the HNWI's from the "normal" taxpayers which may end in a "two-class-society" which is not considered as being advantageous for the HNWI's.

A solution could be the implementation of a kind of Tax Center of Competence with centralized contact persons, which could support the local tax administration in more complex questions.

Question 3: If you are from a country that currently has a dedicated unit dealing with HNWIs what advantages or disadvantages have you seen in having such a unit and do you have any comments on the way it was set-up and is operated? What are the features that you find the most useful?

n/a

Question 4: If the tax administration offered this or a similar approach, what would encourage HNWIs and their advisors to opt into it? In your answer please consider the points discussed below and indicate which points may be more important and which may be less important. Please also describe any other elements or concerns that you think would be relevant for HNWIs and their advisors (e.g. privacy concerns), and how these may be addressed.

The networks considers a ruling regime under which individuals can have pre-clearance on upcoming transactions etc. as well as the possibility to have informal discussions with the tax administration as more promising than pre-filing meetings.

Many HNWI's fear the disclosure of too much unnecessary information to the tax administration. In a system that is built on trust, cooperation and respect of privacy this might change. In addition, it is doubtful whether the tax administrations have the necessary resources and the budget to hold these meetings and that the benefits of such meetings would exceed the additional costs resulting thereof.

Question 5: The Focus Group seeks input from HNWIs and their advisors about the framework for voluntary disclosures and what particular elements would encourage taxpayers to come forward, e.g. solutions to issues such as lack of back-year records, inability to calculate final tax liability, concerns regarding privacy.

A fair and confidential treatment is essential here. A possibility to voluntarily disclose to and dialogue with the tax administrations with low or no penalties at all may bring benefits to both sides. However, with regard to tax amnesties, these should be, if at all, an absolute extraordinary measure and should not be granted by the state on a regular basis as they otherwise might set the wrong incentives to dishonest vs. honest taxpayers.

Question 6: Please express your views on the merits of a product ruling regime in connection with HNWIs. In addressing this question please take a broad view of the term "product ruling" to include any form of advance certainty (whether formal ruling or not) and also consider which segment of HNWIs you think would be the users of the types of products for which product rulings could be made available (i.e., certain HNWIs might be more likely to enter into tailor made arrangements that do not lend themselves to product rulings).

Switzerland and The Netherlands already have product ruling regimes in place, which they consider recommendable. It gives certainty to both sides regarding the tax treatment of a product, guarantees a consistent treatment of the product by the tax administration and also lowers costs as not every taxpayer has to file a separate ruling. In countries that do not have such a ruling regime in practice it will be useful to implement a ruling regime to give early certainty to the taxpayer. With regard to HNWIs, a climate of mutual trust becomes inevitable to make the instrument successful since a ruling procedure requires a full disclosure of the personal tax position. Indeed, the HNWI may fear that any disclosure given may also impact on its past tax behaviour (as far as Fiscal years open to assessment are concerned) and safeguards should be considered in this respect.

Question 7: Do you have any other comments which you wish to make?

Lately in The Netherlands the Revenue Service is very active in promoting a new approach for taxpayers. It is based on mutual transparency, trust and respect. A Pilot-project of the new approach, especially for HNWIs is in planning and will be supported by the Dutch company.