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General Administrative Principles – GAP001 Principles of Good Tax Administration

Principles of Good Tax Administration – Practice Note

Prepared by the OECD Committee of Fiscal Affairs Forum on Strategic Management

Caveat
Each Revenue authority faces a varied environment within which they administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance.

The documents forming the OECD Tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a Country's practices to fully appreciate the complex factors that have shaped a particular approach.

Principles of Good Tax Administration – Practice Note

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Introduction

1. This paper consolidates the views of the OECD CFA Forum on Strategic Management on the principles of good tax administration. These views do not necessarily reflect the current policy or direction of individual countries and are not binding on any country. Rather they represent what may be considered as good characteristics that can be promoted by international organisations and used as guidance when providing assistance to other countries.

Goals and Challenges of Revenue authorities

2. The main role of revenue authorities is to ensure compliance with tax laws. Their effectiveness is dependent on a variety of external factors such as the state of the economy, public support for the priorities of the government and the willingness of taxpayers to comply with tax rules. In an ever-changing environment, revenue authorities must have a clear focus on what their goals are and continually review their operating approaches and procedures to ensure they are making the most effective and efficient use of the resources available to them. By adapting and adopting appropriate technologies as well as by being open to the benchmarking and testing of their operations to achieve "best practice", good revenue authorities improve both their public image and the organisation of work processes.

3. The promotion of voluntary compliance should be a primary concern of revenue authorities. The ways by which revenue authorities interact with taxpayers and employees impact on the public perception of the tax system and the degree of voluntary compliance. Taxpayers who are aware of their rights[1] and expect, and in fact receive, a fair and efficient treatment are more willing to comply. Skilled and committed employees who are valued and treated equitably will be more likely to act fairly and professionally in all their dealings with taxpayers.

4. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment but also by clear, simple and "user-friendly" administrative systems and procedures. Voluntary compliance is enhanced when it is easier for taxpayers to do so.

5. When compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risks associated with non-compliance by developing strategies targeted at those risks[2]. Voluntary compliance is maximised when revenue authorities are aware of major developments and trends in the business and legislative environment, and are responsive to their implications on tax administration and compliance. Good revenue authorities identify and assess compliance risks and develop strategies targeted at addressing those risks. These strategies include education, service, marketing, profiling risk, auditing, general anti-avoidance efforts, prosecution and proposals for legislative change.

6. Revenue authorities have to address the opportunities and challenges associated with the globalisation of the world's economies. The administration of tax systems in an open global economy is more complex. Taxpayers are more sensitive to differences in inflation, tax treatment, exchange rates, tax rates and the ability of revenue authorities to monitor trade and income flows. By increasing significantly the amount and type of income earned abroad, globalisation also reduces the ability of revenue authorities to verify the accuracy of taxpayers' returns.

7. Good revenue authorities are strategically focussed and responsive to changes in their environment and that of their taxpayers. In a globalising context they assess risks to compliance, not only domestically but also internationally, with resources allocated on the basis of priorities identified under a sound risk management process.

8. Good revenue authorities make good tax treaty partners, as there cannot be significant differences in how taxation issues are addressed for domestic and international taxation purposes. For example, the availability of redress mechanisms and the confidentiality of taxpayer information are both domestic and international issues. In their dealings with other countries, good revenue authorities co-operate in a spirit of trust and ensure that non-tax disputes do not impact on the administration of tax laws.

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[1] See GAP002 Taxpayer rights and Obligations

[2] See GAP003 Risk Management and GAP004 Compliance Measurement

9. Good revenue authorities can be characterised by how they relate to taxpayers, their employees and other revenue authorities as well as by how they adapt to changes in their business and legislative environment.

Relations with Taxpayers[3]

10. A major challenge of revenue authorities is to be responsive to the individual circumstances of taxpayers while at the same time being consistent.

11. Responsiveness translates into accessible, dependable and timely information service as well as the accurate and timely treatment of requests and appeals. This can be achieved by constructing systems and procedures that are aimed more towards the needs of the taxpayers than those of the tax administration. Examples of this would be to facilitate links with taxpayers through single points of contact to ensure that services are available when and where needed. Efforts to develop enhanced electronic means of communication between taxpayers and the revenue authority which could include enabling the electronic submission of returns, introducing facilities for electronic payments and on-line access to account balances.

12. A good revenue authority consults with taxpayers and other stakeholders on changes to, and the development of, significant policies and procedures. It ensures that compliance costs are kept at the minimum level necessary to achieve good compliance with tax laws. Revenue authorities should also co-operate with other regulatory bodies in designing appropriate "whole of government approaches" to lessen compliance costs with due regard to the interests of all levels of government.

13. Consistency is improved by having policies and procedures that are transparent and that conform to domestic tax laws and international tax treaties and norms. Consistency also implies ensuring that the rights and obligations of taxpayers, complaint procedures, and redress mechanisms are outlined and communicated through guides, forms, public information and education programs.

14. Taxpayers' information should be used only to the extent permitted by law. Laws permitting the use of information in the possession of the tax administration (other than that obtained through a treaty exchange) for purposes other than administrative should be limited, and the reasons for such exceptions compelling.

1. Guidance - Relations with Taxpayers

15. **Revenue authorities *are encouraged to*:**

1.1 apply tax laws in a fair, reliable and transparent manner;

1.2 outline and communicate to taxpayers their rights and obligations as well as the available complaint procedures and redress mechanisms;

1.3 consistently deliver quality information and treat inquiries, requests and appeals from taxpayers in an accurate and timely fashion;

1.4 provide an accessible and dependable information service on taxpayers rights and obligations with respect to the law;

1.5 ensure that compliance costs are kept at the minimum level necessary to achieve compliance with the tax laws;

1.6 where appropriate, give taxpayers opportunities to comment on changes to administrative policies and procedures;

1.7 use taxpayer information only to the extent permitted by law;

1.8 develop and maintain good working relationships with client groups and the wider community.

[3] See GAP002 Taxpayer rights and Obligations

Relations with Employees[4]

16. Skilled and committed employees who are valued and treated equitably are more likely to act fairly and professionally in all their dealings with taxpayers. Although salary and benefits paid to employees are not typically under the direct control of revenue authorities, along with opportunities for the development and advancement of careers, they can be instrumental in creating an attractive work environment. Employees' skills should be matched to their tasks. There should be a high standard of support and development programs for employees. Effective training programs should address the impact of globalisation and related complex taxation issues.

17. Transparent and appropriate controls over the recruitment, promotion and dismissal of public officials contribute to the integrity of the administration. The community trust in the administration of the tax system is further enhanced by administrative standards such as codes of conduct and rules on conflict of interest. Codes of conduct define the behaviour and performance expected from public officials while rules on conflicts of interest minimise the possibility of personal interest competing with public duties.

2. Guidance - Relations with Employees

18. **Revenue authorities *are encouraged to*:**

- **2.1 communicate and upholds high ethical standards in employees;**
- **2.2 identify and resolve conflicts of interest between the public duties and private affairs of employees;**
- **2.3 recruit and promote its employees on the basis of merit and equal opportunity and protect them against arbitrary dismissal;**
- **2.4 communicate and uphold high professional standards by providing effective training opportunities to employees to enable them to address the complex taxation issues associated with globalisation;**
- **2.5 remunerate employees at a level sufficient to attract and retain competent individuals.**

Relations with other Revenue authorities

19. Two distinctive features of international taxation are the need for revenue authorities to interact with each other and with taxpayers of other countries. Some of the rules in this area are set by tax treaties and international agreements while others result from the legislative and administrative framework of each country. Living up to those treaties and agreements, within the constraints set by domestic legislative and administrative frameworks, benefit taxpayers in many ways and greatly contributes to compliance for international taxation purposes.

20. The main goals of tax treaties are the avoidance of double taxation and prevention of fiscal evasion, removing key obstacles to the development of economic relations between countries. Tax treaties promote co-operation between tax authorities while Mutual Agreement Procedures provide a framework for treaty partners to make genuine efforts to reach an agreement on double taxation issues including Advance Pricing Arrangements. Tax treaties also increase certainty for the tax consequences of foreign investment.

21. Coupled with the desirability of treaty partners to reach mutual agreement on individual cases, international partners should be ready to make recommendations and provide assistance to policy makers to renegotiate aspects of the treaty that are causing difficulties. The changing pace of international economic life (e.g. the emergence of modern financial instruments) is such that in the future, revenue authorities will be looking for preparedness of international partners to make recommendations for renegotiating both technical and substantive issues.

22. Certain legal and administrative characteristics help ensure that good revenue authorities make good treaty partners.

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[4] See Staff and support processes, Chapter 4, Handbook for Tax Administrations, Inter-American Center of Tax Administrations (CIAT) 2000 [Ministry of Finance, The Netherlands]

Legal characteristics

23. Negotiating tax treaties ensures a workable international fiscal system and redress mechanisms for taxpayers from other countries. Tax treaties patterned along the OECD Model Tax Convention prevent discrimination against taxpayers from other countries and protect the confidentiality of taxpayer information. Good treaty partners do not discriminate between otherwise similarly situated taxpayers on the basis of nationality and safeguard the confidentiality of information about all taxpayers, foreign or domestic. These provisions apply not only to the imposition of taxes but also to administrative requirements connected with taxation.

24. Good tax treaty partners are not hostile to other countries' efforts to administer their tax laws. The level of co-operation that can be achieved between treaty partners is reduced significantly when revenue authorities are unable to secure and exchange information on banking and financial transactions as non-compliant taxpayers increasing use tax havens that do not divulge information on bank transactions, frustrating fiscal sovereignty.

3. Guidance - Legal characteristics

25. **Revenue authorities *are encouraged to*:**

3.1 apply the provisions of tax treaties in a fair and consistent manner;

3.2 promote the fair sharing of taxing rights in tax treaties and the development of domestic laws;

3.3 not promote or facilitate tax evasion or avoidance by residents of other countries;

3.4 improve access to bank and financial information for tax exchange purposes;

3.5 provide the same treatment and redress mechanisms to all otherwise similarly situated taxpayers regardless of their nationality;

3.6 treat the information obtained from tax treaty partners with the same or greater confidentiality protection as that required under domestic laws;

3.7 make recommendations and provide assistance to policy makers for the renegotiations of areas of mutual concern in existing tax treaties.

Administrative characteristics

26. Good tax treaty partners co-operate with other revenue authorities to prevent tax evasion and avoidance. In a globalise economy, the taxation of income on a world-wide basis while applying the residence principle is possible only if there is a full and efficient exchange of information between revenue authorities.

27. The information requested from tax treaty partners should be relevant to a specific liability covered by tax treaties, imply a significant tax liability or principle of law, be obtainable under domestic laws of both competent authorities, and be used only in a manner prescribed by law or treaty. The competent authority receiving a request should take the measures necessary to provide prompt assistance as if its own taxes were at stake.

28. In a mutual agreement procedure, good administrative practices include providing position papers with sufficient information to identify the basis on which adjustments have been made and restricting issues to major questions of facts and law.

29. Since tax treaties provide the main legal basis for the exchange of information, administrative arrangements are necessary to define the scope and contents of simultaneous audits and other assistance. Conformity with OECD guidelines on transfer pricing ensures a common basis for competent authorities to agree on double taxation issues.

4. Guidance - Administrative characteristics

30. **Revenue authorities *are encouraged to*:**

4.1 actively facilitate exchange of information with treaty partners in a timely fashion and provide feedback on results;

4.2 provide relevant information obtained in regular audit activities to treaty partners on a spontaneous basis;

4.3 request from tax treaty partners only information that is relevant, significant, obtainable and useable;

4.4 inform taxpayers on the mutual agreement procedure and the results of negotiations under the procedure;

4.5 support the arm's length principle and the OECD guidelines on transfer pricing.

Managing and Adapting to Changes

31. Good revenue authorities monitor changes in their business and legislative environment and adapt their practices accordingly. Within regard to the constraints set by their legislative and administrative framework, they participate actively in international tax forums where they exchange views on their administrative policies and enforcement initiatives and jointly address the common challenges they face.

32. Good revenue authorities recognise the impact of the increasing globalisation of the world economies and promote a common understanding of its implications on tax competition and the use of tax havens. While negotiating tax treaties and developing tax laws, they promote a fair sharing of taxing rights and endeavour to ensure proper interface between trade and taxation agreements in an increasingly integrated world economy.

5. Guidance - Managing and Adapting to Changes

33. **Revenue authorities *are encouraged to*:**

5.1 review administrative practices on an on-going basis and make recommendations and/or take action appropriate to changes in the domestic and international taxation environment such as the increasing globalisation of the world economy;

5.2 ensure a prompt and effective exchange of information on changes in tax laws and emerging avoidance practices;

5.3 support and participate actively at international tax forums to develop joint approaches to compliance and enforcement issues and set international standards;

5.4 manage issues relating to tax competition and tax havens by identifying risks and elaborating administrative strategies;

5.5 monitor compliance with domestic and international administrative standards and take corrective measures whenever necessary;

5.6 endeavour to ensure proper interface between trade and taxation agreements.

Conclusion

34. Differences in tax laws and administrations as well as the opportunities they create for tax avoidance and evasion point to the need for guidelines to help countries develop their tax systems. The attributes of a good revenue authority contained in this paper provide such guidelines. These should not be viewed as a minimum standard, but rather as administrative practices that contribute to domestic and international compliance.

Guidance Summary – Revenue authorities *are encouraged to*:

1. Relations with Taxpayers

1.1 apply tax laws in a fair, reliable and transparent manner;
1.2 outline and communicate to taxpayers their rights and obligations as well as the available complaint procedures and redress mechanisms;
1.3 consistently deliver quality information and treat inquiries, requests and appeals from taxpayers in an accurate and timely fashion;
1.4 provide an accessible and dependable information service on taxpayers rights and obligations with respect to the law;
1.5 ensure that compliance costs are kept at the minimum level necessary to achieve compliance with the tax laws;
1.6 where appropriate, give taxpayers opportunities to comment on changes to administrative policies and procedures;
1.7 use taxpayer information only to the extent permitted by law;
1.8 develop and maintain good working relationships with client groups and the wider community.

2. Relations with Employees

2.1 communicate and uphold high ethical standards in employees;
2.2 identify and resolve conflicts of interest between the public duties and private affairs of employees;
2.3 recruit and promote employees on the basis of merit and equal opportunity and protects them against arbitrary dismissal;
2.4 communicate and uphold high professional standards by providing effective training opportunities to employees to enable them to address the complex taxation issues associated with globalisation;
2.5 remunerate employees at a level sufficient to attract and retain competent individuals.

3. Legal characteristics

3.1 apply the provisions of tax treaties in a fair and consistent manner;
3.2 promote the fair sharing of taxing rights in tax treaties and the development of domestic laws;
3.3 not promote or facilitate tax evasion or avoidance by residents of other countries;
3.4 improve access to bank and financial information for tax exchange purposes;
3.5 provide the same treatment and redress mechanisms to all otherwise similarly situated taxpayers regardless of their nationality;
3.6 treat information obtained from tax treaty partners with the same or greater confidentiality protection as that required under domestic laws;
3.7 make recommendations and provide assistance to policy makers for the renegotiations of areas of mutual concern in existing tax treaties.

4. Administrative characteristics

4.1 actively facilitate exchange of information with treaty partners in a timely fashion and provides feedback on results;
4.2 provide information obtained in regular audit activities to treaty partners on a spontaneous basis;
4.3 request from tax treaty partners only information that is relevant, significant, obtainable and useable;
4.4 inform taxpayers on the mutual agreement procedure and the results of negotiations under the procedure;
4.5 support the arm’s length principle and the OECD guidelines on transfer pricing.

5. Managing and Adapting to Changes

5.1 review administrative practices on an on-going basis and make recommendations and/or take actions appropriate to changes in the domestic and international taxation environment such as the increasing globalisation of the world economy;
5.2 ensure a prompt and effective exchange of information on changes in tax laws and emerging avoidance practices;
5.3 support and participate actively at international tax forums to develop joint approaches to compliance and enforcement issues and set international standards;
5.4 manage issues relating to tax competition and tax havens by identifying risks and elaborating administrative strategies;
5.5 monitor compliance with domestic and international administrative standards and takes corrective measures whenever necessary;
5.6 endeavour to ensure proper interface between trade and taxation agreements.

History

June 1999: Initially released in June 1999 for comment as a Secretariat note, "Principles of Good Tax Administration" [DAFF/CFA(99)50] is one of the tax administration papers prepared for the OECD Committee of Fiscal Affairs Forum on Strategic Management (FSM).

Canada then took the lead in revising the note on behalf of the FSM, incorporating comments made by Luxembourg, Switzerland and France.

At its meeting in December 2000 the FSM Steering group agreed to the tax administration papers series being made available as public documents. This was endorsed by the CFA at their meeting in January 2001.

May 2001: The revised note is published as part of the "Tax Guidance Series" from the Centre for Tax Policy and Administration.

Compatibility

The principles in this document are compatible with those contained in:

- **GAP002 Taxpayer Rights and Obligations**
Centre for Tax Policy and Administration, OECD 2001

- **GAP003 Risk Management**
Centre for Tax Policy and Administration, OECD 2001

- **GAP004 Compliance Measurement**
Centre for Tax Policy and Administration, OECD 2001

- **Principles for Managing Ethics in the Public Service**
PUMA Policy Brief No 4. Public Management Committee (PUMA), OECD May 1998

- **Administrative Responsiveness and the Taxpayer**
Public Management Studies No 2., PUMA, OECD 1988

- **Minimum necessary attributes for a sound and effective tax administration**
A charter-document approved by the Inter-American Center of Tax Administrations/ Centro Interamericano de Administraciones Tributarias (CIAT) General Assembly held in the Dominican Republic on March 19, 1996
http://www.oecd.org/DAF/FSM/minimumatributesta_ciat.html

- **Handbook for Tax Administrations**
Inter-American Center of Tax Administrations/ Centro Interamericano de Administraciones Tributarias (CIAT) 2000 [Ministry of Finance, The Netherlands]

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