

# Slovak Republic- Behavioural insights letter campaign

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## **Sending letters improves tax compliance**

### **Taxation of real estate sales (letter campaign)**

Significant proportion of property sales evince potentially high net profit, albeit with no declared income on the side of a seller. Private individual is obliged to declare income when selling a property within five years from its acquisition. However, based on analysis of data from Slovak Real Estate Cadaster, only a third of identified sellers was tax compliant before an intervention. FASR in cooperation with Ministry of Finance prepared a letter campaign comprising behavioral experiment focused on improving awareness of real estate sales taxation and collection of personal income tax.

Letters were sent in February 2021, a month before due date for filling tax return for tax year 2020. Two groups of sellers were determined. First, non-declaring taxpayers, sold a property in 2016 – 2019. These were matched with tax revenue data and classified as “overdue”. Second, potential taxpayers, sold a property in 2020 and were expected to declare income of this sale in March 2021. Part of identified taxpayers was not sent any letter (control group). The others (tested group) received personalized letter containing their name and notification about the obligation to declare income of real estate sales. Moreover, wording of letters varied. This allowed to measure the effect of letter itself and also the effect of wording differentiated by behavioral modifications.

The results show the rate of declared income increased by 27 p.p. and 14 p.p. for non-declaring taxpayers and potential taxpayers respectively (in comparison with taxpayers with no letter received). The effect of selected behavioral modifications was negligible and statistically insignificant. The overall impact of letter campaign is additional 2.5 million EUR for state budget and 16 p.p. increase in the observed tax compliance at minimal costs for tax administration. Notification approach was performed in February 2022 again, with focus on property sales in 2021.

## **System of expert support for tax audits**

The system was put into operation in 2022 with the aim to support the management of tax audits and audit activities. It enables:

### **Central management of tax audits and onsite investigations**

Thanks to the central registration of all requests for tax audits, the complete life cycle of information is captured from its inclusion in the audit activity plan to the feedback from the actions carried out by the tax auditor.

### **Expert support for tax auditors**

The system provides automated support to tax auditors for the purpose of fast and procedurally correct execution of tax audits (including support for new or less experienced tax auditors), in particular:

- Providing detailed information about the tax entity from all available databases, including graphical outline of the chain fraud schemes if necessary
- A precisely defined recommended course of action for the tax auditor in the tax audit process (expert decision tree), including applicable legal norms, applicable case law in the form of sub-recommended tasks that the tax auditor is obliged to answer
- Alerts to changes in the audited entities or related audits, guarding of deadlines

### **Getting detailed structured feedback**

Conducting of tax audit activities is a source of data on the real activities of taxpayers. Obtaining structured feedback on the real state of play is of great benefit for subsequent analytical use in the risk analysis process, compared to findings in unstructured official records, minutes or tax audit reports.

### **Reports and statistics down to the level of individual findings from the recommended actions**

The manager staff gets a better overview of the activities and results of his audit department, each tax auditor's workload, their success rate in relation to commodities, types of fraud, etc. Financial administration as a whole gains more detailed insights into the audit activity, including a real-time view of the performance of the monitored indicators.