

FORUM ON TAX ADMINISTRATION: TAXPAYER SERVICES SUBGROUP

Information Note

Third Party Reporting Arrangements and Pre-filled Tax Returns: The Danish and Swedish Approaches

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ABOUT THIS DOCUMENT

This information note describes key features of the third party reporting arrangements in place in Denmark and Sweden to support the system of pre-filled income tax returns.

Background to the Forum on Tax Administration

Since its establishment in July 2002, the Forum on Tax Administration (FTA), a subsidiary body of the OECD's Committee on Fiscal Affairs (CFA), has operated with the broadly stated mandate

to develop effective responses to current administrative issues in a collaborative way, and engage in exploratory dialogue on the strategic issues that may emerge in the medium to long term.....

To carry out this mandate, the FTA's work is directly supported by two specialist Sub-groups—Compliance and Taxpayer Services—that each carry out a program of work agreed by member countries.

The Taxpayer Services Sub-group exists to provide a forum for members to share experiences and knowledge of approaches to taxpayer service delivery, in particular through the use of modern technology. To achieve this objective, the Subgroup's mandate calls for it to:

- 1) periodically monitor and report on trends in taxpayer service delivery, with a particular focus on the development of electronic/online services;
- 2) examine ways to promote the uptake and use of electronic services by revenue bodies;
- 3) examine options for cross-border administrative simplification and consistency; and
- 4) assist, as appropriate, other groups of the CFA. In early 2005, it was agreed that the growing use and sophistication of arrangements involving the use of pre-filled returns was a major development worthy of closer examination by the Subgroup.

Caveat

National revenue bodies face a varied environment within which to 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.

Inquiries and further information

Inquiries concerning any matters raised in this information note should be directed to Richard Highfield (CTPA Tax Administration and Consumption Taxes Division) at e-mail (Richard.highfield@oecd.org). Further information on the use of pre-filled tax return systems can also be found in the Forum's information note '*Using Third Party Reports to Assist Taxpayers Meet Their Return Filing Obligations—Country Experiences with the Use of Pre-populated Personal Tax Returns*' published in March 2006.

Summary

Governments in many OECD countries have stepped up their efforts in recent years to reduce the administrative burden on business and citizens resulting from Government regulations.¹ Nowhere has this been more important than in the area of taxation where studies in many countries have revealed the significant administrative burden, especially on business, resulting from tax regulations. Business, however, is not the only bearer of these burdens, with personal tax arrangements in many countries regarded as particularly complex and, as a result, a source of substantial administrative burden for citizens.

Over the last decade or so, revenue bodies in all of the Nordic region countries have been revolutionising their personal tax arrangements through the development of pre-filled tax return systems. As the name implies, a pre-filled tax return is one prepared by the revenue body for the taxpayer using third party information reports and other information at its disposal. By providing completed or largely completed tax returns for many of their taxpayers, revenue bodies can significantly simplify the process taxpayers must undertake to meet their tax return filing obligations, thereby substantially reducing their compliance costs.

In a note prepared by the FTA in 2006² it was observed that considerable progress had been made by Nordic region revenue bodies with their pre-filled tax return systems and that, as a result, citizens, revenue bodies and Governments were deriving substantial benefits. However, the note gave only a brief description of the role third party reporting arrangements play in the operation of these pre-filled tax return systems and did not address the more practical features of these arrangements in any detail.

The content of this note, which draws on the experience and achievements of revenue bodies in Denmark and Sweden, describes practical aspects of third party reporting arrangements that underpin their pre-filled tax return systems. The key points arising are as follows:

- The significant progress made with pre-filled tax return arrangements has benefited greatly from strong leadership, commitment and support at all levels of Government.
- Reporting obligations in the law should be sufficiently comprehensive and include major income and deduction items, with all reports to include a unique high integrity taxpayer identifier.
- Timely (ie. within one month of the end of the fiscal period) and accurate reporting on electronic media are essential requirements, enabling the preparation of pre-filled returns for taxpayers shortly after the end of the fiscal year.
- Adequate resources must be invested by the revenue body in educating and supporting third party reporting bodies, software developers, and other stakeholders in all aspects of the reporting system's requirements.
- Sufficient internal resources (eg. computer processing resources and data validation staff) must be made available by the revenue body to support the systematic and rapid processing of reports received.
- Considerable resources, effort and persistence are required over a fair period of time to establish a comprehensive system of pre-filled tax returns. However, the potential benefits to be realised, as evidenced by countries such as Denmark and Sweden, are enormous and clearly justify the investments required.

¹ For a more detailed description of country work in the area of measuring and reducing the administrative burden resulting from tax regulations see *'Programs to Reduce the Administrative Burden of Tax Regulations in Selected Countries'* (date to be inserted), also prepared by the Forum on Tax Administration.

² See *'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).

Third Party Reporting Arrangements and Pre-filled Tax Returns: The Danish and Swedish Approaches

Introduction

1. Governments in many OECD countries have stepped up their efforts in recent years to reduce the compliance costs/administrative burden (hereafter, referred to as 'administrative burden') of business and citizens resulting from the operation of Government regulations.³ Nowhere has this been more important than in the area of taxation where studies in many countries have revealed the significant compliance costs, especially on business, resulting from tax regulations. Business, however, is not the only bearer of these burdens, with personal tax arrangements in many countries regarded as excessively complex and, as a result, a major source of administrative burden on personal taxpayers.
2. In around 15 of 30 OECD countries the system of personal income tax in place generally requires all taxpayers to file an annual tax return.⁴ In many of these countries, this obligation on taxpayers, along with associated obligations such as complying with any related verification activity and paying assessed taxes, results in a significant administrative burden on taxpayers, given their numbers and the underlying complexity of personal tax legislation. With the present emphasis in many countries on burden reduction, particularly in the tax area, the personal tax system is a fairly obvious candidate for consideration of what might be done.
3. In a note prepared by the FTA and published in March 2006, a brief description was provided of the systems of pre-filled personal income tax returns operating in all Nordic region countries^{5,6}. It was indicated that in a number of these countries (e.g. Denmark, Norway, and Sweden) ***pre-filled tax return systems had become quite sophisticated, having evolved to the point where most personal income taxpayers were receiving a pre-filled return that was fully completed***, while for many other taxpayers little further action was required. As a result, there had been a dramatic reduction in the administrative burden on personal taxpayers, compared with the situation under the previous arrangements.
4. The FTA's note also indicated that a few other countries (e.g. Chile and Spain) had implemented systems involving some level of pre-filing, others had made a decision in principle to adopt the concept, while others were examining the feasibility of its adoption. Given the growing interest in this development and the emphasis being placed by Governments on administrative burden reduction the FTA decided in late-2006 that it would be useful to prepare a further note focusing on the third party reporting arrangements that underpin systems of pre-filled tax returns. This note is the result of that further work. Given the similarity of the systems in place, the

³ For a more detailed description of country work in the area of measuring and reducing the administrative burden resulting from tax regulations see *'Programs to Reduce the Administrative Burden of Tax Regulations in Selected Countries'*, also prepared by the Forum on Tax Administration.

⁴ In the other 15 member countries, the large majority of employee taxpayers are freed from return filing through the operation of withholding systems that require employers to calculate liabilities on a progressive basis (ie. known as 'cumulative' withholding). Interest income is generally subject to flat rate (either final or creditable) withholding regime.

⁵ See *'Information Note: Using Third Party Reports to Assist Taxpayers Meet Their Return Filing Obligations— Country Experiences with the Use of Pre-populated Personal Tax Returns'* Forum on Tax Administration (March 2006)

⁶ For the purpose of the FTA's work, the Nordic region countries include Denmark, Estonia, Finland, Iceland, Norway, and Sweden.

inquiries undertaken centred on two countries with considerable experience and achievements in the use of pre-filled return systems (i.e. Denmark and Sweden).

5. The Secretariat wishes to acknowledge the considerable assistance provided by officials of the Danish and Swedish revenue bodies in providing information for the preparation of this note.

Methodology and scope

6. To carry out this work, an interview guide was developed by the Secretariat and used to interview a range of officials in the Danish and Swedish revenue bodies.
7. Third party reporting systems, of course, depend to a large degree on the tax legislation in place and must be adjusted to changes in legislation. The objective has therefore been to gather sufficient information to give observers an overview over how these arrangements work in practice in the two countries interviewed, the progress achieved to date, critical success factors, and some of the lessons learned.

Overview of pre-filled personal tax return systems

8. Systems of pre-filled returns, as seen today in countries such as Denmark and Sweden, are the product of a simple idea but one with significant consequences. In contrast to the traditional approach of using third party reports to detect unreported income, as described in Box 1, third party reports are used in a pre-filing context to inform taxpayers of the information they require to meet their return filing obligations. In Nordic countries, this is done by way of a pre-filled tax return that is sent to each taxpayer. In other words, information is used to assist taxpayers (when they need it!) rather as an enforcement tool (after the event!). The consequences of this approach in terms of reduced administrative burden are very significant.

Box 1. The traditional approach to using third party reports in the personal tax system

The personal tax systems of most countries require prescribed third parties such as employers and financial institutions to report to the revenue body details of income paid (and, if applicable, taxes withheld) to individuals over the course of a fiscal year.

In countries that require all taxpayers to file an end-year tax return, third party reports have traditionally been used by the revenue body to check the accuracy of returns filed and to detect non-filers. Technology has greatly facilitated this process. However, given the large volumes of reports to be processed and the need for validation and matching with tax returns the normal practice has been to undertake these checking processes after the bulk of tax returns have been processed, that is, on a “post-assessment” basis.

In countries where these sorts of arrangements have been and are still being applied, the use of third party income reports has been highly effective in detecting unreported income and has led in the collection of substantial amounts of additional tax revenue. However, detecting tax non-compliance in this way results in additional work for revenue bodies as reported discrepancies have to be individually examined by revenue officials and, where appropriate, taxpayers’ assessments need to be amended. In practice, this verification work often takes place well after official “assessment” notices have been sent to taxpayers meaning that the overall cycle of activities required for any one fiscal year is quite lengthy (i.e. up to 3 years in elapsed time).

Post-assessment matching along the lines described also results in administrative costs for the revenue body and further administrative burden on taxpayers and/or their representatives. This approach to administration is also sometimes resented by taxpayers who had been under the impression that their tax obligations for the year concerned had already been finalised and/or that they should have been advised of the unreported income when the return was initially filed.

9. The key features of the pre-filled return systems operating in Denmark and Sweden are summarised hereunder and elaborated in the body of the report:

- The tax law prescribes a large variety of information in respect of income, deductions and assets of individuals that must be reported electronically by reporting bodies to the revenue body shortly after the end of the fiscal year; reporting bodies, as defined by the tax law, must record the unique identification number of individuals they have dealings with.
- Reports received by the revenue body are rapidly processed (i.e. validated and matched with tax records) and, allied with other information held by the revenue body, are used to generate a pre-filled return for each taxpayer.
- Pre-filled returns are sent to all taxpayers on paper; an electronic version can be accessed via the Internet, subject to appropriate security/privacy safeguards.
- For each taxpayer, the return discloses known income, deduction amounts and sources and other calculated amounts, and provides a preliminary calculation of tax payable. Known asset-related information is also reported to indicate the possibility of capital gains–related transactions.
- Taxpayers wishing to use their pre-filled return are obliged to examine it and, if appropriate, to provide additional information relevant to properly assessing their tax liabilities; additional information can be provided either electronically (using the return accessed via the Internet) or on paper.
- Taxpayers can advise acceptance of a pre-filled return by Internet, phone, SMS (Sweden) or on paper. In Denmark, taxpayers are not obligated to respond to a pre-filled return – a ‘no response’ is deemed to be acceptance of the return.
- Information provided by taxpayers is used to finalise the assessment of their tax liability, and all taxpayers receive advice of the final outcome. Where applicable, refunds of overpaid tax are credited automatically to taxpayers’ bank accounts.
- In Denmark, all taxpayers have a “digital folder” on the Internet enabling them to access copies of their returns, including related third party information reports, copies of receipts and tax settlements, and information on property. Sweden also provides taxpayers access through the Internet to their returns and third party information but not through a tax portal as in the case of Denmark.

In 2006, around 72% of individual taxpayers in Denmark received a return that could be accepted as ‘complete’. The corresponding figure in Sweden is estimated to have been between 60- 65%.

10. Table 1 below sets out some headline statistics for Denmark and Sweden that reflects the scope of, and degree of automation in, the third party reporting systems.

Table 1: Third party reports and pre-filled returns in 2006

Country	Total reports received (no.)	Reports in electronic form (%)	Individual taxpayers (no.)	Taxpayers receiving a pre-filled return	Pre-filled returns without adjustments
Denmark	67 mln.	99.4	4.6 mln.	100%	72%
Sweden	80 mln.	99.4	7.2 mln.	100%	60-65%

11. As can be gleaned from Table 1, revenue bodies in both countries receive a substantial volume of reports, virtually all in electronic form. Of the 80 million reports received in Sweden, almost two thirds are related to capital income, while the balance largely concerns reports on salary and pensions. In Denmark, 11 million reports relate to salaries, 6-7 million reports to union fees, 10 million reports are on pension income, and 30-35 million reports to capital income. The comprehensiveness of the information reported and its electronic form enables the revenue bodies to provide all individual taxpayers with a pre-filled tax return. While these reporting arrangements do not include details of income from self-employment and rental properties they are, nevertheless, quite comprehensive. In 2006, around 72% of individual taxpayers in Denmark received a return that could be accepted as 'complete'. The corresponding figure in Sweden is estimated to have been between 60-65%.

And use of pre-filled personal tax systems is growing rapidly

12. While this note focuses on aspects of the pre-filled personal tax return systems operating in Denmark and Sweden, it is relevant to note that these systems are growing significantly in popularity, no doubt as a result of the significant benefits they deliver for taxpayers. Annex 1 (Table 3) provides a short summary of latest known developments.

I. Tax return filing requirements—past, present and future

13. In Denmark, the filing of a tax return by all taxpayers has been mandatory since 1946. A simplified tax return for ordinary taxpayers was introduced in 1982 and the initial version of pre-filled tax return in 1988. New legislation was put in place in 1988 permitting taxpayers to forgo making a response where they found the pre-filled information to be correct and adequate—known as “silent acceptance”. Since 1994, a “self-key” function has been available for filing the tax return by voice response or Internet. In 2003, the personal tax file was launched along with the capability for taxpayers to undertake on-line tax settlements.
14. In Sweden, filing a tax return has been mandatory since 1903. The first really simplified tax return was introduced in 1987 and in 1995 the first version of the pre-filled tax return was made available for some personal taxpayers. In the period 1996 to 2002 further refinements were made, culminating with the introduction of a second version of the pre-filled tax return in 2003. Today, emphasis is on encouraging taxpayers to use electronic filing facilities (Internet, phone, SMS). A proposal is being developed to enable a means of “silent acceptance” of pre-filled data in the tax return, as in Denmark, but some legal obstacles remain to be overcome before this can be a reality.
15. Behind these successful attempts to simplify the tax declaration process lies a general strategic goal for the public sector, namely to make it more user-friendly and less costly through modernisation and simplification of rules and procedures. The Danish service-driven approach has gone through several phases, commencing with the objective of making life easier and friendlier for taxpayers by adopting an approach of ‘less control and increased service’. The ‘service orientation’ has thereafter been extended and refined to the point of establishing a fully service-oriented organisation seeing its primary task as giving taxpayers complete transparency and control, and real time, one stop services in their home. Today, there is a strong consensus at the political level that the revenue body’s strategy of pre-filled returns—embodying the so-called “no touch” concept—is the right approach, notwithstanding the need for comprehensive third party reporting. It is this consensus that has helped garner support from time to time for legislative changes concerning changed/ new reporting requirements.
16. In Denmark’s case, the process towards a pre-filled tax return system was also driven by technology starting with what to do with mainframes and distributed IT systems, continuing with the aspiration to be at the forefront of digitalisation and then gradually constructing and implementing a service oriented architecture.
17. Even after electronic filing became a reality, thereby making filing more convenient for taxpayers compared to filing on paper, the view of the Danish revenue agency was that e-filing is only the second best filing solution. The vision is that the final assessment can be calculated for all citizens by electronically-reported data from third parties, and that the citizen use self help electronic services. Ultimately, the goal is the tax return free society where most citizens do not have to worry about their tax return, since all relevant assessable incomes and tax deductions are dealt with automatically by the tax system itself.

II. Description of third party reporting obligations

18. The effectiveness of pre-filled return systems fundamentally depends on the scope of the underlying third party reporting arrangements in place and the timeliness of reporting to the revenue body. The availability of a comprehensive range of information on taxpayers' incomes, deductions and other details relevant to their tax affairs (e.g. sales of assets) provides the essential data required by the revenue body to systematically "build" each taxpayer's tax return. A secondary but, nevertheless, highly important feature of these reporting obligations is the timeliness of the reporting to the revenue body as this enables pre-filled returns to be prepared and sent for taxpayers shortly after the end of the fiscal year.
19. As described in this part, both Denmark and Sweden have made considerable progress in establishing comprehensive third party reporting systems and in achieving an acceptable time cycle for all of the activities required to deliver a pre-filled tax return to each taxpayer.

Specific parties that have an obligation to report

20. The Danish pre-filled tax return system is defined in Chapter II of the Tax Inspection Act. Liable companies and public and private institutions paying salaries to a workforce employed on a regular basis are obliged to report the salary payments to the revenue body. In both countries, employers must report on salaries, including clearly defined fringe benefits. Fringe benefits in both countries include items such as the value of company car and other benefits (e.g. housing (both domestic and foreign secondary homes), yachts, phones, television licences, home computers and employer loans). The same parties are also obliged to report fees paid for services rendered by persons who, under the law, are not self-employed but in the nature of dependent contractors, such as freelance journalists.
21. Obligations for the reporting of interest income of taxpayers, and interest payments by them in respect of home mortgages, are also extensive and cover the following Danish companies and institutions:
 - Banks paying or receiving interest on deposits, bonds and loans;
 - Building societies and other holders of mortgages;
 - Stockbrokers, banks and others dealing in shares and unit trusts;
 - Companies providing deferred payments to their customers;
 - Companies providing loans and savings to their employees;
 - Lawyers for some accounts; and
 - Any entity accumulating and paying interest on damage claims.
22. In Sweden, reporting obligations covering interest income are quite similar to those in Denmark. An additional requirement is that physical persons running a business are obliged to report interest in the cases where the interest is related to the business income and expenditures.
23. Pension funds and banks in both countries must report details of pension insurance contributions and payments into pension savings accounts. In Denmark, private pension agreements must also be reported, as must employer-related pension schemes even though the payments involved are subject to tax withholdings.
24. In Denmark, fees to secure unemployment benefits and fees covering the trade and political engagement of the union must be reported by the union. Also fees paid to

professional clubs related to a trade or a specific firm must be reported. Insurance firms that offer private schemes to secure additional unemployment benefits are obliged to report the fees paid as a result of that kind of arrangement. A recent development imposes an obligation on charitable organisations to report details of gifts received to the revenue body, thereby enabling the revenue to pre-fill the return with gift deduction-related information in appropriate cases. In Sweden, it is mandatory for the unions to report union membership fees and contributions to the unemployment fund.

25. Revenue bodies in both countries also receive data on real property and public company shareholdings of taxpayers, enabling potential capital gains situations to be flagged within the pre-filled return. (NB: For this purpose, information such as gross sales of real estate and financial securities and number of units sold and sales income are reported, matched to tax records through the unique citizen number that is a mandatory feature of all reporting requirements). In these situations, taxpayers choosing to use the pre-filled return are required to compute and report any net capital gain by way of an adjustment to their pre-filled return.
26. In short, all major categories of income are caught with the exception of income from self-employment and rental properties. In the area of deductions, reporting obligations typically extend to pension contributions, union fees, unemployment insurance, and interest on home mortgages.

The reporting frequency

27. In Sweden, all reporting bodies must supply requisite reports by 31 January, one month after the end of the relevant fiscal period. Swedish officials advised that in 2006 all 80 million third party reports had been received and registered by 10 February, the date for sending reminders to overdue reporting bodies. They indicated that reporting bodies can advise corrections and additions anytime after the legislated deadline but ideally they should be made before the computer preparation of pre-filled returns - around 5 March of each fiscal year— or before other processes are conducted that also make use of information reports (e.g. the final tax statement).

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28. In Denmark, all reporting bodies must supply requisite reports by 20 January, around 3 weeks after the end of the relevant fiscal period. However, the revenue body receives corrections of data once a week until April and once every fortnight until the beginning of October. In the salary reporting system the reporting frequency is even higher. The Danish revenue body estimates that 98-99% of the corrections are received before 15 February of each fiscal year.

The use of pre-established standard information reporting schemes

29. In Sweden, all information reporting schemes (some 25 overall) are standardised, based on a similar template but taking account of the different data reporting requirements placed on individual reporting bodies (e.g. employers must report different data items for each employee to say, the data items a bank is required to report for each investor). Similarly, in Denmark all reporting schemes are pre-defined by the revenue body.

30. In both countries, the detailed content of the reports for each of the different information obligations is specified by the central tax administration. In practice, close co-operation takes place between the revenue bodies and the reporting parties to prevent and deal quickly with any problems occurring in relation to changed information reporting requirements.

Identifying new third parties with reporting obligations

31. Revenue officials in both countries reported the existence of administrative procedures to facilitate the identification of new reporting bodies and those bodies whose obligations may have changed as a result of changes to the law.
32. When an entity first registers with the revenue body it must indicate the nature of its business and types of activities it will be conducting. Such information enables the revenue body to establish the nature of the reporting obligations that are likely to be relevant to the entity and, as a result, what information/ guidance must be provided concerning its reporting responsibilities.
33. In the event of legislative changes that vary reporting obligations or introduce new reporting requirements, the revenue bodies use their registers of the population of reporting bodies to inform them of the specific changes. This is normally done by written correspondence, electronic mail and/ or via communications organised through the various trade and professional associations.
34. Where an entity changes its business activities and, as a result, assumes new or changed reporting obligations, the entity itself must establish its requirements under the law vis-à-vis its new business activities and take steps to voluntarily comply with its obligations. Entities in such circumstances can, of course, make approaches to the revenue body to get official guidance on their responsibilities.

Specific programs for the largest providers of third party information

35. Officials in both countries confirmed that a large amount of published material is made available to assist reporting bodies meet their obligations. Special steps are taken in respect of the largest providers of third party reports.
36. The Danish revenue body's interaction with the largest companies, banks, pension funds and trade unions—approximately 100 suppliers— is based on the provision of comprehensive information and close co-operation. An extensive amount of information is published on the Internet regarding the various reporting schemes, and provides detailed technical guidance in relation to specific reporting requirements. Information is also forwarded to associations representing banks and pension funds when changes to schemes and procedures are introduced as well as to the suppliers of data.
37. The Swedish revenue body adopts a similar approach with the largest providers and, in addition, holds an annual meeting with the largest companies in June every year to explain changes in legislation and reporting schemes for the coming fiscal year (that is, some 18 months before reports will have to be provided. The primary aim of these meetings is to ensure that these third parties have sufficient time to prepare their systems for the following fiscal year.
38. Officials in both countries emphasised the critical importance of building good relations and personal contacts within the group of larger suppliers as this contributes enormously to the smooth functioning of the overall system (e.g. particularly concerning the timeliness and accuracy of reporting).

The role of software developers in the reporting system

39. Private sector software developers play a key role in supporting reporting system arrangements in both countries.
40. In Denmark, reporting software programs are developed by external software suppliers in close co-operation with expert officials in the central tax administration. In the case of new legislation which demands a change in one or more of the different systems the software suppliers are consulted in order to estimate the costs of changing and developing the existing systems. The systems are physically placed at the software suppliers as the running and maintenance are solely performed by the suppliers. In case of problems, suppliers inform the revenue body and the appropriate means to solve them are suggested and then decided. The manual validation of reported data is handled by the revenue body.
41. In Sweden, software developers are important partners in ensuring effective reporting outcomes. Good co-operation has been established with businesses developing wage reporting systems for employers, pension funds and others. The reporting of capital income is basically done with the use of in-house developed systems, especially in the case of banks and stockbrokers. The Swedish revenue body has made a program freely available for delivering third party information for the last 10 years. This service is used mainly by small companies with only a few employees and charities, and occasionally by larger reporting bodies needing to make corrections. The software package can be ordered or downloaded from the revenue body's web site.

Assisting newly-registered businesses with their reporting obligations

42. Educating new businesses on their reporting obligations forms part of the introductory meetings and service visits offered by the revenue bodies of both countries. Specialised tools are also offered to non-professional reporting bodies in the form of detailed specifications prepared by the revenue agencies for the standard programs on a personal computer or by down-loading a revenue developed program, free of charge, suitable for delivering third party information.

Monitoring compliance with reporting obligations and penalties for non-compliance

43. Both revenue bodies administer inspection programs to monitor that reporting bodies are complying with their obligations. This monitoring activity is undertaken by way of in-office examinations and field inspections. In-office examinations are made of information held by the revenue body to establish whether reports are consistent and appear credible, while field inspections are made to test the quality and completeness of the reports provided. Revenue officials could not provide data on the number and results of this work and the impression gained was that these programs are relatively minor in scale and intensity given the very high levels of compliance being achieved in all aspects of the reporting arrangements after many years of operation and close attention from the revenue bodies.
44. Penalties play a very minor role in the administration of the reporting system, emphasis very much being placed on establishing mutual trust and the willingness of the revenue bodies to find practical solutions to reporting issues and problems.

45. The Swedish legislation does not contain any specific penalties for non-reporting by third parties. The major reason for this is that it has always been seen as being in third parties' own interest to report correctly since, otherwise, they will face complaints from their clients, who might otherwise will move their business elsewhere. This rationale is especially relevant to the reporting of deductible expenses but since the major reporting systems report simultaneously on taxable incomes and deductible expenses they are regarded as also capturing the incomes in a reliable way.
46. The Danish legislation provides for the imposition of penalties in the form of a daily fine of approximately €60 until each outstanding third party report is received. Officials indicated that this provision is rarely used and a fine cannot be imposed when there is not an amount of tax to be collected at the same time. Daily fines have to be notified to the offending reporting body and are remitted if the report is received before the assessment is finalised.

III. Content of information reports

47. As already highlighted, the regime of reporting obligations must be sufficiently broad so as to encompass the main categories of income and deductions. In addition, the level of data required for each and every report made to the revenue body must itself be sufficiently comprehensive to achieve two important objectives:
- Taxpayers require a detailed ‘line by line’ understanding of the underlying information that has been used to “build” their pre-filled return to be able to either confirm its completeness or identify what may be missing.
 - Similarly, the revenue body’s general obligation under the laws to properly determine each taxpayer’s liability requires it also to have detailed information.
48. To achieve these objectives in practice, a revenue body must prepare fairly detailed data requirements and ensure they can be satisfied fully and accurately by all reporting bodies (and their agents).

Data reporting requirements

49. Revenue bodies in both countries require broadly similar data from reporting bodies in their information reports, along the lines shown in Table 2.

Table 2. Illustrative content of information reports /1

Data items that must be reported with information reports	Income-related items	Deduction-related items	Asset-related items
Taxpayer identity data (i.e. name, address, and identification number)	•	•	•
Payer identity data (i.e. name, address and identification number)	•	•	
Type of payment made or received	•	•	
Amount of payment received by taxpayer	•		
Amount of tax withheld from income	•		
Amount of payment made by taxpayer		•	
Bank interest account details	•		
Period of employment	•		
Date payment received or made	•	•	
Asset purchase price			•
Asset sale price			•
Date of asset sale			•

/1. An indicative, not definitive, summary for illustrative purposes only

The use of taxpayer identifiers

50. In both countries, all third party reports must contain a taxpayer’s identification number (i.e. the citizen identification number). The supplier of third party information is also obliged to provide its unique taxpayer number for each individual report. Under the laws in both countries, any individual wanting to establish an economic relationship with a third party must provide the taxpayer’s identification number in order to create the relationship.

Developments with the use of third party reports

51. The vast majority of information reports relate directly to items of income and deduction that can be mirrored in each pre-filled return. However, there is potential to do more and there have been recent developments in both countries to increase the value of the data reported.
52. In Denmark, the revenue body introduced from year 2006 a procedure whereby it calculates a taxpayer's entitlement to tax-deductible expenses for travel to and from work using data reported by employers.⁷ The calculated amount of deduction is shown in the pre-filled return. Officials advised that this procedure was developed as this deduction item had been the major reason for taxpayer-advised adjustments to pre-filled returns. The effectiveness of this procedure is not yet known, although it is acknowledged that it is unlikely to satisfy taxpayers who change addresses and/or their employer during the fiscal year.
53. The Swedish revenue body is testing the feasibility of calculating capital gains from the sales of securities such as shares and bonds, and using this information in its pre-filled returns.

⁷ The system uses knowledge of the location of each taxpayer's residence and where they are employed to compute an estimate of the distance travelled and the associated work travel deduction entitlement.

IV. Reporting methods and timeframes

54. The timely preparation of pre-filled returns by a revenue body for its taxpayers relies significantly on its ability to receive and rapidly capture very large volumes of reports provided by reporting bodies shortly after the end of the fiscal year. The almost universal use of electronic reporting is critical to achieving this outcome.

Description of the use of different reporting channels

55. As indicated in Table 1, both revenue bodies receive very few reports on paper, around 0.6% of the total reports received.
56. In Denmark, reports are received through a large variety of reporting media. These are: 1) tape (3480 cassettes); 2) CDs; 3) floppy disk (3 1/4"); 4) streamer; 5) ftp-internet connection by fixed lines offered to the largest suppliers; and 6) paper (for small suppliers and corrections). The majority of the data files are handled only by the data suppliers, though a minor part of the fees from trade unions and salaries on disks is received by the revenue body and transferred to the data suppliers by a fixed line for further processing into readable data. The big suppliers of third party information usually deliver on tape or disks. Over 90% are received in this way.
57. In Sweden, reporting can be made using diskettes, ZIP-discs, CD, Internet, DVD, cassettes and paper reports. The conversion of the data files to readable information has been outsourced to a private company. From 2006 it became possible to deliver information through the Internet, in addition to the free software product mentioned in paragraph 41. Officials recently advised that the tax agency is proposing the development of a new tax portal to facilitate the handling of wage statements and withholding taxes. In brief, it will be a centralised facility for the administration of wages and include a broad range of functionality (e.g. payment of wages, withholding of taxes, filing of statements and payment of social contributions).

Procedures for converting paper reports into electronic documents

58. In Denmark, paper reports are transformed to files in TELE-applications and are screened as any other "tape". This means that the reports are keyed into specially developed systems by a revenue body employee and collected to a data file similar to the ones delivered by any other reporting body. No fields are validated manually when converting the paper schemes since the data must be received without transformation or interpretation but this of course makes it necessary to validate electronically later on to ensure that no data fields are in a wrong format. In Sweden almost exclusively manual registration is used for the less than 1 percent of the reports received on paper. All information is captured and registered on the revenue body's database. It is planned to replace the system of manual registration with electronic scanning within the next 3-4 years or so.
59. The due date for reporting for a fiscal year in Denmark is 20 January, around 3 weeks after the end of the fiscal period. Corrections made before 15 February can be incorporated in the pre-filled tax return. Further corrections can be made until 15 October. The due date for reporting in Sweden for a fiscal year is end-January, one month after the end of the fiscal period. The deadline for any corrections that can be reflected in a pre-filled tax return is set at 1 March.
60. Changes to any previous fiscal year data cannot be made electronically in any of the two countries.

V. Processing of reported information

61. The timely preparation of pre-filled returns by a revenue body for its taxpayers also relies significantly on its internal capability to rapidly process all reports received, including the correction of error situations. The use of electronic reporting which contributes to the quality of the data entering the processing system, coupled with a large investment in IT processing capacity and resources for corrective work, all contribute to achieving this outcome.

The distinctive roles in the processing system

62. The processing of reported information consists of several distinctive stages. First, specified data must be collected from reporting bodies and stored. Second, the data must be converted to readable information. Third, the quality of the information must be assessed and in situations of invalid data, procedures for correction must be implemented. Finally, the third party information must be incorporated as line items in the pre-filled tax return.
63. The required data for any reporting template is extracted from the accounting material of the reporting body. Each reporting body must undertake the accumulation of data and forward it to the revenue body on its own initiative. Revenue bodies do not take part in the actual processing of the data done by reporting bodies and/or their data processing suppliers. The data suppliers must extract the files to a required structure since revenue bodies do not have the capacity to reformat reports not satisfying the specified technical requirements.

Description of the reporting process

64. The processing of information received from reporting bodies and data processing services suppliers can be outlined as follows:
- Delivery of information within certain deadlines that meets well defined technical requirements.
 - Mechanical screening and manual handling of results from screening.
 - Processing of corrections.
65. In both countries, reporting bodies receive reasonably detailed and comprehensive information on paper and electronically regarding reporting requirements. This information contains both descriptions of contents of the report as well as when and how the reports should be made available to the revenue body. Checklists and alerts on common reporting mistakes are also part of the information provided. Procedures for correcting mistakes are described. In Sweden this information is made available to reporting bodies in June the year well prior to when reports are required. More details on the reporting process are to be found below.
66. In Sweden, comprehensive work descriptions are sent to local tax offices explaining how to deal with reports from reporting bodies and describing various types of errors that can arise. These work descriptions give clear guidance on where to look for errors and the relative importance of the different errors but it is left to local managers to decide how to allocate staff to the different tasks (e.g. double reporting, wrong identification number, mis-coding etc).

Validation of reported information

67. In Denmark, the validation procedure is carried out centrally, except for reports on salaries and pensions wages which are handled at the regional level. In Sweden, most

of the validation work is done at local tax offices, except for reports of the 20-25 biggest suppliers of data, which are processed and validated at headquarters. In Sweden, approximately 5-7% of the reports contain some kind of error that requires attention. (Comment: This proportion of errors looks quite high but officials have indicated in many cases it is due to the same error having been made repeatedly by large reporting bodies.)

68. In Denmark, when disks or CDs are damaged in the mail or are not readable due to incorrect formatting or the like, the revenue body requests a further copy by phone. When it is discovered at the initial preparation before processing on the mainframe that a disk, a CD or a tape is evidently in a wrong format or has some kind of systematic error (e.g. missing or wrong indication of fiscal year in each record), a further copy is requested by phone.
69. In Sweden, all parties making electronic deliveries receive a confirmation through ordinary mail, with an exception for those delivering by Internet who receive an electronic confirmation. The confirmation says that the information has been received and read. If the received data are not readable the CD or a similar reporting media are returned to the supplier with an indication of the type of error detected in the reporting media. Although the file is accepted as readable, the Swedish tax agency can still hold back some third party reports in the so-called balance register (Comment: Officials advise that these are relatively few in number and are only referred to the waiting room (see para. 74) if likely to be completely wrong.)
70. If in the process of screening rejections occur for a certain group of the records contained in the file (e.g. incompatible “tax-code” and another field in the record), this is dealt with in one of three different ways by the Danish revenue body:
 - (i) If the file is accepted the valid records are filed to registers. Invalid records are printed on a paper list which is forwarded to the supplier.
 - (ii) If rejected records containing a systematic mistake are large in number the revenue body will contact the supplier by phone and ask them of their preferences as a list on paper often will be useless. Instead - based on the information from the conversation on the phone - the supplier will track and correct the errors in the dataset and redeliver the entire batch while the tax agency rejects the first delivery.
 - (iii) Other (major) suppliers receive the list of errors on a tape and in specially developed programs they are able to correct and generate a correct delivery from this tape and forward it to the tax agency. The first file is then accepted, of course leaving out the bad records when filing to registers.
71. A minor proportion of records is rejected due to a variation of errors. The valid records are filed to registers and the suppliers notified with detailed descriptions of each failed record on a paper list or tape.
72. Technical screening and validation take place on every field of data by specially developed programs. The actual place of validation depends on the type of channel. For instance for tapes, disk, CD or streamer after the screening has taken place results are displayed to the revenue body on its TELE system. Here an overall view is presented for the individual files and counts and sums to compare with the result of previous years are also presented.
73. In the first group of TELE-pictures is contained a serial of pictures displaying the result from the screening of each file with the default status “screened”. Status can be

74. changed to “accepted”, “discharged” or “redeliver”. The status discharged or redeliver deletes the file from the log containing the screened. An overall description and count of errors and examples of the different count of errors are shown, advising formally correct records but with unusual data, like a very large payment to a pension scheme with limited opportunity for deduction. A second group of TELE-pictures providing counts and sums of previous years for comparison is another tool for sorting out prima facie “suspicious” reports for further scrutiny.
75. The Danish revenue body has concluded that these systems allow for sound evaluation of the reported information before filing to registers. It allows:
- Technical and formal validation of every file and data-field including cross-checking between fields when relevant
 - Efficient manual handling of results and ability to change from overall view of large files to selected parts as well as detailed views of counts and sums to the level of the tax code
 - Ability to compare reports across years and track missing reports or newcomers as well as the change of EDP-supplier by a third party
 - Receives comments and remarks to share between the tax agency staff and EDP suppliers; no personal records on paper are necessary for eliminating risks of mistakes due to communication failure
 - Contains database with immediate contacts to the users and third parties to the different systems
76. In Sweden, reports containing suspected errors are recorded in a so-called “waiting room” established according to a selection of criteria where they are screened for attention. These criteria are related to the number of erroneous reports contained in batch consisting of more than 20 reports from a third party. Too many errors temporarily hinder the batch from entering the third party report register. Examples of possible errors are double reporting of information, reuse of the information sent last year or that all tax identification numbers are wrong. No batch is allowed to stay in the waiting room for more than a very short period and in principle the waiting room should be emptied every day by the staff dedicated to this task.

Reports used to control/monitor reporting of requested information

77. In Denmark, all reports are screened by specially developed programs. The result of the technical screening is presented to the tax employee in the so-called TELE pictures. The applications allow the employee to accept or discharge a delivery and it also represents different possibilities to compare the given report with last year’s reports. Finally the system can generate list on the screen of expected but missing reports. In Sweden the waiting room has a similar function, cf. paragraph 47.

VI. Presenting tax return information to taxpayers

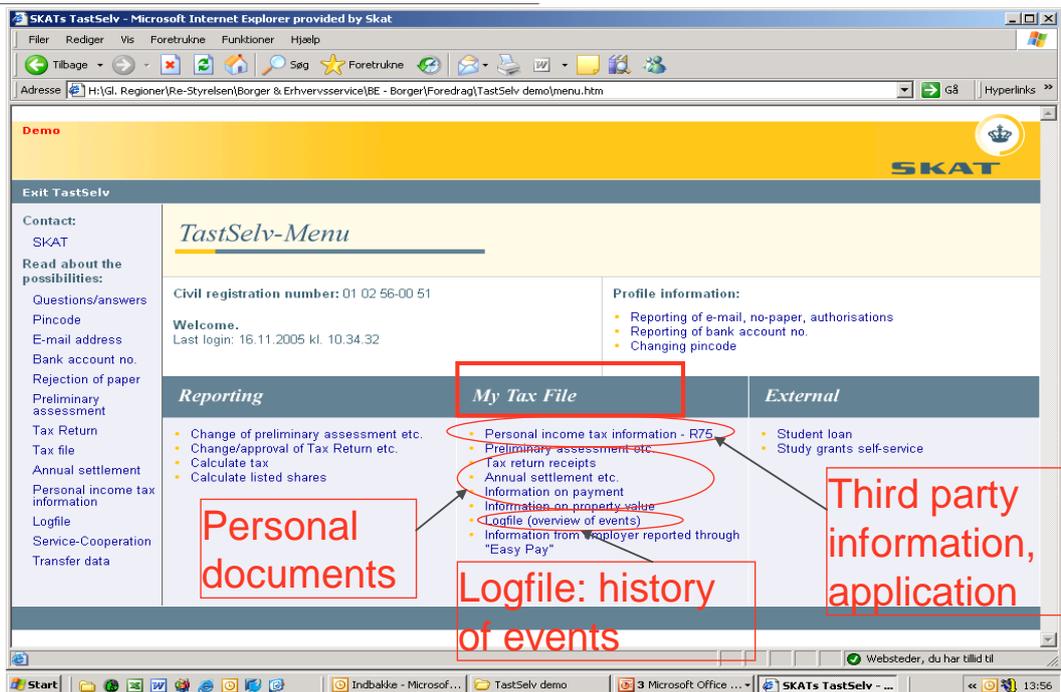
78. In Denmark, the declared policy is one of transparency and reuse of data. In practical terms this means that taxpayers should be given full access to their own data, since in reality they belong to the taxpayer and the revenue body only uses them for tax calculation purposes. Taxpayers' ownership of data gives them the right to provide these data to third parties such as banks, or to authorise a third party (accountant, lawyer etc.) to access his/her data in part or entirely.
79. The Danish personal tax file accessed via the Internet has four parts (see Figure 1):
- 1) *Logfile*: A history of all interactions with the e-tax system;
 - 2) *Reported data*: Personal tax information reported by all third parties;
 - 3) *Personal documents*: preliminary assessments/tax deduction card: annual settlements; and
 - 4) *Calculated data or applications*: personal property value tax; personal real estate (size, construction etc.); arrears/debt top public institutions.

Figure 1. Denmark: Screen menu for pre-filled return users



Transparency:

Taxpayers access to own information and documents



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80. In Sweden, the taxpayer is not given direct access to third part information. However, they can access their tax return through the Internet and thereby have access to all third party reports used to pre-fill the tax return as well as their tax payments through withholding or otherwise.

VII. Maintaining and improving the system

81. Revenue officials in both countries emphasised that the advanced state of their systems has been achieved through a rigorous and systematic program of actions sustained over a long period of time. For the immediate future, emphasis will be given to the following areas:

- **Accounting for new legislation:** Attention will continue to be given to ensuring that the requirements of the system are properly assessed “up front” in the tax policy/ legislation development process to avoid or minimise downstream negative consequences. This entails making an assessment at the point of deciding changes to the tax law of the impact of the effects of the new policy/ amended law on administrative systems. Success in this respect enables such changes to be readily incorporated into the annual system changes.
- **Obtaining user feedback:** Up to now the Danish revenue agency has not conducted any user surveys, although impression of revenue officials is that the systems are reasonably well adapted to user preferences. The reporting systems on the Internet will be reorganised during 2008 in a new portal and thereafter user surveys will be conducted on a regular basis.

The Swedish revenue body will continue with its emphasis on consultation approach given the value it has delivered to date. Its strategic ambition is to make the reporting system simpler and cheaper for the third parties. Meetings will continue to be held on a regular basis with representatives of the banks, stockbrokers, and software developers etc., to get their feedback and ideas for improvements.

- **Incorporating technology requirements and enhancements:** Both revenue agencies will continue working closely with their IT architects in developing new reporting arrangements and refinements, as well as identifying opportunities for enhancements resulting from new technology.
- **Increasing electronic reporting and filing:** Although considerable progress has been made with the use of electronic reporting by reporting bodies, both revenue bodies will continue their efforts to encourage use of electronic reporting by smaller reporters still using paper reporting mechanisms.

Cost lowering initiatives both absolutely and relative to paper filing have been important contributors to the take-up of electronic filing of both reports and returns. The current reporting systems on the Internet have been built up during the past years and the number of systems has grown as a consequence of the revenue agency’s stated goal that reporting should be done electronically.

The Danish advice to countries planning to establish a pre-filled tax return system is to consider carefully whether it is sufficient to offer only a digital pre-filled tax return to the taxpayer or whether receiving paper version should also be offered. It is not recommended to implement system where the taxpayers have to apply for tax relief, a better solution, when possible is to deliver the tax relief automatically through the pre-filling system instead.

- **Fostering trust:** Trust in the tax administration is seen as the primary reason for confidence in the third party reporting systems. A definite advantage has been that the systems were implemented in a time where public policy was less contested than today. Also a low degree of corruption and transparency have fostered trust in the system.

VIII. Conclusions

82. The information collected during this review of the third party reporting arrangements that underpin the systems of pre-filled returns in Denmark and Sweden confirms that considerable progress has been made in both countries and that these systems are at an advanced state of maturity.
83. From the information gathered it seems fairly clear that this progress results largely from two factors:
 - 1) a strong, trusting and co-operative relationship between the suppliers of third party information and the revenue body; and
 - 2) efficient use of new technological opportunities as they occur, in particular taking advantage of the increased dissemination of the use of information technology and the Internet amongst the suppliers of third party information. This has made it possible to include many minor providers of information into the third party reporting system in an efficient way.
84. In neither country it seems to be the case that the reporting system has become less burdensome through simplifications of the tax legislation. However, there are some signs indicating that it is probably not realistic to include new, major groups of third parties into the reporting system, given the increasing awareness of the compliance costs incurred by such systems and especially for small suppliers of information.
85. Another challenge for the third party reporting system is that in an increasingly global world where citizens are increasingly crossing national borders to find work and make investments, more taxpayers will be required to make amendments to their tax return since third party reports from other jurisdictions are often not available before the deadline of pre-filing, if at all. This may put some strain on the pre-filled tax return system in a not too distant future.

Annex 1

Table 3. Update on use of pre-filled personal tax returns by national revenue bodies

Country	Year started	Description of developments and current situation concerning use of pre-filled tax returns
Australia	2003	Very limited pre-filing application available for personal e-filers during 2004 to 2006 years. Greatly expanded application available as part of e-filing capability from 2007, but volume of information available still well short of potential. Pre-filled information also provided to tax professionals via the Tax Agents' portal. Both services show a high level of acceptance.
Belgium	2006	Limited web-based application covering employment and wage income implemented continuously from 2006. System expanded in 2007, covering more taxpayers and incorporating data from banks and insurance companies.
Chile	2002	System progressively enhanced since its introduction and covers employee and pensioner type taxpayers. System encompasses a very comprehensive array of income items and a more limited suite of deduction items
Denmark	1988	System progressively enhanced since its introduction and now extends to all personal taxpayers and encompasses a very comprehensive array of income and deduction items.
Estonia	2001	System progressively enhanced since its introduction and now extends to all personal taxpayers and encompasses a comprehensive array of income and deduction items.
Finland	1995	System progressively enhanced since its introduction and now extends to all personal taxpayers and encompasses a comprehensive array of income and deduction items. (System awarded first prize by Prime Minister for best Finnish practice in the field of information society for the category "Effectiveness and Productivity" in 2006.)
France	2006	Pilot test in 2005 followed by national implementation in 2006 for employee and pension taxpayers. For 2007, some 100 million employment & pension reports were available for pre-filing. Further expansion envisaged (e.g. capital income) in coming years, subject to feasibility studies.
Iceland	2000	System progressively enhanced since its introduction and now extends to all personal taxpayers and encompasses a fair array of income and a more limited coverage of deductions items.
Netherlands	2009	Feasibility tested and proven in 2007; system to commence in 2009 with progressive enhancements planned in following years.
Norway	1998	System progressively enhanced since its introduction and now includes all personal taxpayers, excluding the self-employed, and encompasses a very comprehensive array of income and deduction items. Self-employed taxpayers will be included in 2008.
Portugal	2007	Internet-based return filing system with pre-filing capability implemented in 2007 and encompassing employment and pension income.
Spain	2003	System progressively enhanced since introduction and covers largely employee and investor taxpayers, and encompasses a comprehensive set of income items and a more limited range of deductions.
Sweden	1995	System progressively enhanced since its introduction and now extends to all personal taxpayers and encompasses a very comprehensive array of income and deduction items. Extension of concept to business taxpayers is being explored.