

A note from the COI Sponsors

Dear Colleagues, our world has changed rapidly. Across the globe COVID-19 has had sudden and profound impacts on society and the economy, calling for different ways of working by tax administrations, including moves to large scale remote working, and the taking on of significant new roles in the provision of government support. It is likely to have prolonged effects with, among other things, the possibility of additional waves of the virus, the need for continuing workplace adaptations, increases in bankruptcies and possible major swings in compliance behaviours. Behavioural insights (BI) can be a powerful tool in helping to shape responses and attitudes, something which will be crucial in supporting the economy, taxpayers and tax administration staff as we move into the recovery period. This is an important time for the BI network, which was formed to share ideas and be a network of support for each one of us, allowing us to pool knowledge and create synergies. In this edition, we synthesise information from you – our community – and other external resources. As you continue your BI journeys and develop new insights in this new environment, we encourage you to share your stories and ideas.

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Community Feedback: *Impacts & Opportunities for Behavioural Science in the COVID Era*

As our tax administrations have faced operational changes, new responsibilities, and uncertainty, it is understandable that there will be impacts to behavioural strategies and programs. In our community survey, we heard that while some plans and strategies are continuing to move forward, there have been some significant impacts to many plans and projects. Several community members reported needing to postpone or cancel the implementation of new behaviourally informed compliance strategies as well as research, training, and workshops. Some members also reported needing to revise planned meetings and workshops to be shorter and use video conferencing. With that comes challenges for participant engagement. Moving from interactive workshops to remote conferencing can make it difficult to sustain

enthusiasm, raising concerns for the resulting level of stakeholder buy-in.

While some regularly scheduled activities have been paused, the crisis created new opportunities to apply behavioural insights. Many countries utilised behavioural insights in their strategies and are leveraging their BI teams in crafting solutions to support taxpayers as well as employees and business operations. Responses referenced considering the cognitive/emotional state of clients in designing the delivery of the stimulus programs. In some instances, countries set up taxpayer economic recovery payments as defaults whereby taxpayers would automatically receive economic payments without having to take actions to request them. Community responses further highlighted the need for maintaining trust with

taxpayers and the application of behavioural insights to communications, both in internal communications and in those to external stakeholders. Applications include communications about taxpayer support measures. We heard that BI units are also being called upon to try to anticipate or study possible taxpayer behavioural responses to the pandemic, such as increased early filing to receive refunds or stimulus payments and emerging fraud or noncompliance. Further discussions arose around behavioural responses to reduced audits or changing audit and verification formats, such as greater use of paper-based or digital correspondence audits vs. in-person visits. One respondent mentioned securing funding for experimental surveys delving into the behavioural impacts of the crisis (assessing trust in

government, perceptions of fraud detection probability, and willingness to evade). In addition to new taxpayer-facing strategies, the implementation of new and expanded work-from-home arrangements is allowing for behavioural studies of employee responses to these arrangements. Some community members noted that they are advising leadership on internal nudges to promote social distancing and hygiene and assisting with resources to help employees with decisions on when to come into the office and when to work from home.

Your COI leadership team remains committed to the advancement of behavioural insights throughout tax administration and supporting you and your administration on this journey, even amidst unprecedented challenges. We thank you for your feedback on current challenges, priorities, and interests. To each of our members: As you have new successes, new challenges, and new insights; continue to share these with the COI and your peers. Behavioural scientists and applied practitioners can help shape the future of tax administration in reducing the tax gap and improving stakeholder experience, yet also hold important insights to inform responses to sudden crises. We are in this together.

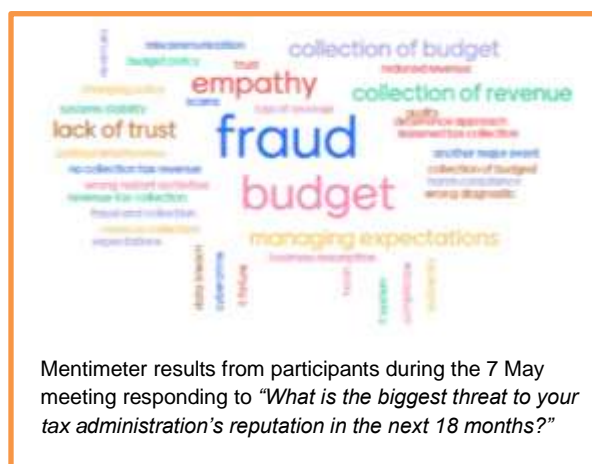
Reputational Risks and Opportunities for Building Trust

The OECD, FTA, and the FTA Enterprise Risk Management Community of Interest have been monitoring responses to the crisis while evaluating potential risks for agencies. FTA subsequently released [Privacy, disclosure and fraud risks related to COVID-19](#), now available on the OECD website. Additionally, COI members were invited to a COVID-19 Virtual Team meeting with the Enterprise Risk Management COI on this topic. Below is a summary of Reputational Risks and Opportunities as presented by the Canada Revenue Agency on 7 May.

In this virtual meeting, the presenters defined reputational risk as any event that could result in damaging stakeholders' trust and respect towards an organization. Positive perceptions of a tax administration's competence, effectiveness, credibility, authority, and professionalism all factor into that trust and respect, as do fair and transparent processes. The types of events that could impact reputational risk include IT security /system failures, employee misconduct, weak processes, poor communication, lack of fairness, poor service, and privacy and data breaches. Responses to the pandemic created new risks but also new opportunities for bolstering the reputation of tax administrations.

Numerous tax administrations have been involved with deploying benefits payments to taxpayers. In some instances, the desire and need for fast deployment of benefits came with implementation challenges that may not have been apparent to taxpayers. The perceived fairness of benefits and the potential for technological problems in the roll-out of these benefits poses further reputational risks. A system crash or data breach during the crisis could have a strong negative impact on reputation, particularly when it delays desperately needed financial support. Furthermore, the rapid rollout of digital solutions to communicate and deliver assistance could leave digitally challenged populations feeling vulnerable and left behind. Additionally, social distancing measures have impacted and continue to impact general service offerings even outside of these benefits programs. This raises questions as to how taxpayers will perceive the level, quality and speed of service. Concerns over scams and cyber security incidents are also heightened, and such incidents present a risk for reduced trust due to the loss of personal and financial information.

Weak processes, poor communication, and employee considerations also raise risks. The rapidly evolving nature of the tax space during the pandemic requires clear, consistent, and accessible messaging. For instance, has relevant information been effectively communicated to external stakeholders, such as how to apply for funding and when they will receive funding? Have decisions around new policies and protocols been effectively communicated to employees to ensure consistency? Are there procedures to identify and bring down any incorrect information during the crisis? Decisions about employee working conditions can have further ramifications for both employee and taxpayer sentiment. For example, how might leave-with-pay for government employees be perceived by private sector workers who are on leave-without-pay? Tax administrations also will need to balance desires to return to normal operations with the best interests of employees. Employees who feel they are rushed back to work before they feel safe to do so might become disgruntled



and turn to public forums to express their frustrations. On the other hand, employees and stakeholders with positive experiences can become advocates for the tax administration with supportive representation on social media and conversations with friends and family.

Despite the risks facing tax administrations, there also is a unique opportunity in the current environment to improve relationships with taxpayers. Taxpayer support measures along with an effective and efficient roll out of relief programs can improve taxpayer sentiment towards tax administrations. Taxpayers with positive experiences using

new digital or online channels may be more likely to use these channels in the future and support larger shifts to more self-service channels. Likewise, within tax administrations, there may be opportunities to promote digital transformation initiatives that may have been deprioritised before the crisis. Harnessing new modes of communication and streamlining interaction can leave tax administrations better positioned for ongoing collaboration with internal and external stakeholders with which they may not have traditionally interacted. Overall, tax administrations are advised to keep robust documentation that can support future analysis of decisions and provide lessons learned to inform future crisis response plans. An effective risk management plan can be critical to ensuring a positive reputation for the tax administration, which can further support voluntary compliance.



Taxpayer Support Measures in Response to the COVID-19 Pandemic

FTA surveyed tax administrations to understand measures taken in response to COVID-19 and compiled responses from more than 100 countries. Measures for individual taxpayers focused on reducing burdens and preventing hardship. Measures for the self-employed and businesses focused on alleviating cashflow problems and seeking to prevent escalating problems, such as laying off workers, being unable to pay suppliers, and closure or bankruptcy. The details of these measures vary by country and intended beneficiary, but generally fall into the following categories:

- 1) additional time for dealing with tax affairs, including
 - Extension of filing and tax payment deadlines
 - Remitting penalties and interest
 - Deferral of tax payments
 - Easier access to debt payment plans and extension of plan duration
 - Suspension of debt recovery
- 2) quicker refunds to taxpayers,
- 3) temporary changes in audit policies and ways to provide quicker tax certainty, and
- 4) enhanced taxpayer services (such as dedicated hotlines and longer hours for telephone centres) and communication initiatives.

Several considerations arose while implementing these measures. For example, tax administrations needed to weigh policy options, like deciding whether to focus measures on taxpayers or industries most affected by COVID-19 or to provide more universal benefits. Responses as of April showed more than 90% of responding countries had enacted measures to enhance business cashflow while more than a third implemented measures to support household cashflow. More than 85% had implemented measures to defer payments or extend tax filing deadlines.

Approximately a third of respondents had additional measures focused on the healthcare sector and distribution of critical medical supplies that could be used to fight COVID-19.

Business Continuity and Business Resumption

The onset of the pandemic initiated numerous quarantine measures that impacted tax administration operations and prompted the initiation of business continuity plans. Tax administrations began planning for various severity scenarios, reviewed governance arrangements for delegation and decision-making processes, identified critical and non-critical activities, and assessed critical vulnerabilities with risk management plans. Staff and taxpayer safety became a primary focus, and governments shifted toward work-from-home arrangements. This further necessitated training for new ways of working and staffing considerations, including potentially talking to essential staff about delaying planned retirement. Another critical need was communication with staff and taxpayers about changes in services and processes.

As countries resume operations, the OECD outlines several objectives for recovery planning:

- Maintaining decision-making processes to respond quickly to the possibility of setbacks in containing the virus, delivering support to raising revenue, or countering fraud.
- Joining up with other parts of government and engaging in two-way discussions with policymakers
- Developing a dedicated communication strategy to support recovery
- Maintaining the safety of staff and taxpayers
- Planning and prioritization of the steps towards normalization of administrative functions
- Logging of lessons learned

For more detail, see the OECD documents on Business Continuity and Business Resumption mentioned in the [Resources](#) section.

Supporting Taxpayers and Encouraging Voluntary Compliance Amidst A Crisis: *Perspectives from Professor Erich Kirchler and Nina Olson*

Erich Kirchler, Professor at the University of Vienna and renowned economic psychologist, and Nina Olson, Executive Director of the Center for Taxpayer Rights in the United States, presented their perspectives on the current crisis and strategies tax administrations can take. The authors wrote “COVID-19 outbreak, governmental measures and psychological impact on tax compliance” exclusively for the COI. Some excerpts and key points are included below.

Moments of national crisis often build solidarity and trust, yet reactions to crises – which can be seen from general crises and particularly the current pandemic - change over time. After weeks of restrictions and efforts to “flatten the curve,” fear subsided and reactions to the severe restrictions increased. In some instances, citizens and businesses – initially strictly abiding by the regulations - became reluctant to respect the severe regulations, started questioning the necessity of restrictions, and accused the government of ruining businesses and the economy. As experiences fade, hindsight biases will lead to reconstruction of past events to current realities and needs. Thus, individuals are likely to look retrospectively at austerity measures and sacrifices and will place judgments on the adequacy and fairness of these measures. If inequality increases or society judges the interventions as too harsh or inadequate, trust in government and public institutions is likely to decrease. For instance, abuses of state aid or raising taxes to pay for past stimulus could change how people feel about the prior stimulus. Nevertheless, there are clear approaches tax administrations can take that are rooted in the principles of building and sustaining trust. Prof. Kirchler and Ms. Olson provide several recommendations to tax administrations:

- **Communicate.** It is important to provide the population with clear information about support measures financed by tax money, about access to support, and to justify the measures and their (intended) impact as well as rights and obligations. Address misinformation and disinformation quickly and consistently. Communication about investments in public goods and the advantages of public goods for the society can help improve attitudes towards taxes and tax morale.
- **Be transparent.** Regulations, rights and duties have to be made transparent. Information only made available via the media and web is insufficient. It has to be ensured that the required information is easily available to citizens and businesses in need, is comprehensive and clearly understandable, and delivered via persons, entities, and channels that are credible and accessible. If the impression arises that it is not possible to get sufficient information, the impression of being disadvantaged spreads and distrust increases. It is therefore also necessary that the government hears from its citizens what is confusing to them, what questions have not been answered, what misinformation is out there. Not-knowing, missing justification and uncertainty breed distrust.
- **Keep bureaucracy simple.** This applies both to financial support and tax obligations. Simple rules which reduce time-consuming applications and declarations reinforce the impression that the authorities acted benevolently, empathetically and for the benefit of the individual and society. This increases procedural justice which is the basis of trust.
- **Provide service.** Service must be offered in the necessary quantity and be of high quality. Citizens need to be provided services personalised to their needs, especially for those who are critically vulnerable. Employees must also be instructed on the possibility of flexible application, and areas of action must be clear. In general, no rule can be applied sensibly to all cases. Instead of a plethora of rules with exceptions, principles of behaviour would help to minimise the space for interpretation and room for negotiation. Staff in public institutions must be available for personal interaction with the public. With the introduction of new benefits and rules with requirements that are not well known and when help is needed quickly, clear information and personal assistance from professionally trained employees is paramount. Person-to-person communication can be supported by digital information but cannot be replaced by it. Phone lines must be staffed.
- **Communicate social compliance norms.** Communicating that the majority is willing to cooperate and does not abuse support regulations (for example, short-time work, application for tax relief and public funds without authorization) is effective because cooperation will be established as the social norm, which serves as a guideline for people's behaviour. Measures need to be taken that strengthen citizens' and residents' identification with the cooperative community.
- **Employ controls.** During times of crisis, taxpayers may perceive audit probability to be very low due to lower capacity by the tax administration. Low subjective audit probability correlates strongly with tax avoidance and evasion. Financial losses weigh heavily and can further motivate people to take more risks and try to recoup losses. It can therefore be assumed that noncompliance will increase in those sectors where the financial losses are severe. Perceiving a neighbour to be engaging in evasion or taking advantage of public funds will stimulate others to imitate that behaviour. To prevent this from becoming the norm, controls have to be announced and targeted controls are necessary. To mitigate distrust stemming from controls, it is necessary to communicate that audits are a means to protect cooperative citizens from free riders.

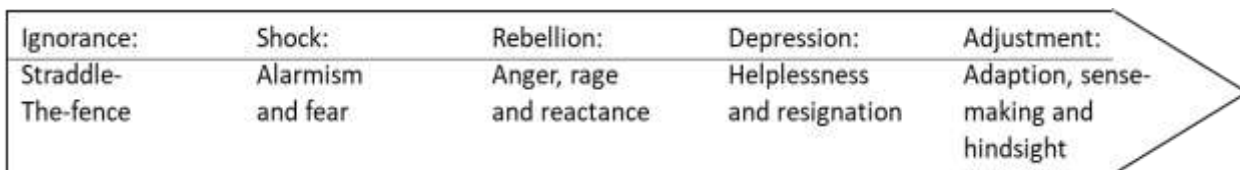
- **Target controls.** Coercive power (i.e., enforcement measures) can be a double-edged sword. When tax authorities engage in coercive measures precisely targeted to free riders who take advantage of cooperative citizens, feelings of satisfaction and being protected should be evoked. However, taxpayers may react with anger or fear if coercive power is perceived as being directed randomly at anyone and everyone or if coercive power appears disproportionately applied toward vulnerable or unsophisticated populations. Feelings of anger are especially likely to be evoked when honest taxpayers are audited and perceive they are being treated as criminals. Rather than spontaneously cooperating, angry taxpayers are assumed to deliberately consider the pros and cons of cooperation and evasion and choose their most profitable option.

These recommendations reinforce and build on the Enterprise Risk Management discussions on COVID-19 and are further grounded in a previous study by Gärling, Kirchler, Lewis, and van Raaij (2009).¹ In this study, the authors identified seven criteria upon which trust in (financial) institutions is based and which can serve to build, maintain, and restore trust:

1. Actors' competence is of significance.
2. Integrity is relevant and means that taxpayers are advised honestly and with empathy.
3. Transparency refers to openness as well as the use of clear terminology and language clients can understand. Transparency also means that rules and procedures are communicated appropriately, through channels that are accessible to and by all.
4. Benevolence on the part of institutions means that representatives of these institutions are able to view things from their clients' perspective.
5. Value congruence refers to a fit between the values held by institutions and taxpayers. The norms and values of all parties in the interaction should be congruent.
6. Reputation refers to a financial institution's positive image, which is critical for trust.
7. Stability of the institution. Fear of cracks in the bureaucratic infrastructure and worries that public institutions might not be able to navigate the crisis and its aftermath would fuel uncertainty and distrust.

As we look forward and consider what will occur in the "Adjustment" phase of this crisis, the authors ask: What will be the case once the Corona crisis has been overcome? Will we remember the goals of putting people's health above everything else and safeguarding jobs? Will we accept long-term behavioral modification as the coronavirus lingers and immunity builds over time?

Phases of Crises



¹Gärling, T., Kirchler, E., Lewis, A. & Van Raaij, F. (2009; published 2010). Psychology, financial decision making, and financial crises. *Psychological Science in the Public Interest*, 10(1), 1-47.

Community Feedback:

What would you find helpful from the COI in the coming year?

Many respondents called upon the COI to provide information on how behavioural insights could be used and is being used in the pandemic and other relevant resources. Specifically, there is interest in knowledge-sharing within the COI around:

- societal shifts and potential taxpayer behavioural changes,
- changing compliance patterns,
- considerations of whether new approaches should be taken for debtors whose debts arose during the outbreak,
- compliance changes and taxpayer experience with virtual/remote audits and services,
- the impact of the pandemic on attitudes toward government organizations,
- how to maintain trust, and
- workforce and government approaches to health.

Additionally, respondents communicated an interest in the application of behavioural insights (BI) in digitalisation efforts as well as general BI resources. Specifically, respondents mentioned the usefulness of providing best practices and a model for conducting a randomised control trial or behavioural pilot. Another item of interest was how COI members select problems or topics for BI interventions. There is continued interest in what interventions get used and the results of these interventions.

If you have any thoughts or requests that you would like to share with the COI, please do not hesitate to send us your ideas.

Resources

OECD Materials:

Policy Responses: Tax administration responses to COVID-19

<https://www.oecd.org/coronavirus/policy-responses/tax-administration-responses-to-covid-19-measures-taken-to-support-taxpayers/>

Business Continuity

https://read.oecd-ilibrary.org/view/?ref=126_126475-f3119ncvk6&title=Tax_administration_responses_to_Covid-19_business_continuity

Business Resumption

<http://www.oecd.org/coronavirus/policy-responses/tax-administration-responses-to-covid-19-recovery-period-planning-0ab5481d/>

Tax Administration: Privacy, disclosure and fraud risks related to COVID-19

<http://www.oecd.org/coronavirus/policy-responses/tax-administration-privacy-disclosure-and-fraud-risks-related-to-covid-19-950d8ed2/>

More resources from OECD's repository of COVID-19 resources

www.oecd.org/coronavirus

Are you interested in joining the BI COI?

Contact the FTA at fta@oecd.org

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